

EuroSTOXX 50 Banks Exposed

Trade Idea

25 February 2013

Summary

- Banks make up over 10% of the EuroSTOXX 50, outperforming the index year to date (average +4.87% unweighted, index is -0.22%)
- Given the cyclical nature of Bank returns, and the specific focus on them in the post-credit crunch investment climate, they remain vulnerable to sharp swings in sentiment
- If banks start to come under selling pressure over the next few weeks then the broader index will also come under pressure
- The announcement on 22 Feb 2013 that only 61.1 bn euros of the 2nd three-year loan will be repaid on 27 Feb disappointed analysts as they had expected more than 122 bn euros
- Investors who think that Banks may fall and drag the index lower may consider using the Boost EURO STOXX 50 3x Short Daily ETP in order to hedge downside risk or to achieve positive returns if the index does fall

Macro Outlook:

Banks have been very sensitive to changes in investor sentiment during the post-credit crunch market as they are at the centre of the need for recapitalisations, bailouts and government/central bank programmes to ensure that they return to lending practices that support the broader economy. The ECB has propped up the banks in the EuroSTOXX 50 during the recovery period but while the broader index based in 2009 many of the banks continued to fall and based in 2012. The bank's share price recovery in the latter part of 2012, and early 2013, outperformed the index and leaves them vulnerable to significant pullbacks if sentiment turns negative again. A warning signal could be the pace of bank repayments of their Long Term Refinancing Operation loans. The announcement on 22 February 2013 that only 61.1 bn euros of the 2nd three-year loan will be repaid on 27 Feb. disappointed analysts as they had expected an early repayment of more than 122 bn euros. Banks had exceeded repayment estimates in the first round of early repayments last month, and it could be that 'those that could, did' and the wheat will be separated from the chaff over the coming weeks. As Banks make up over 10% of the index weighting, any significant fall in these shares would be expected to drag the index lower.

Technical Outlook:

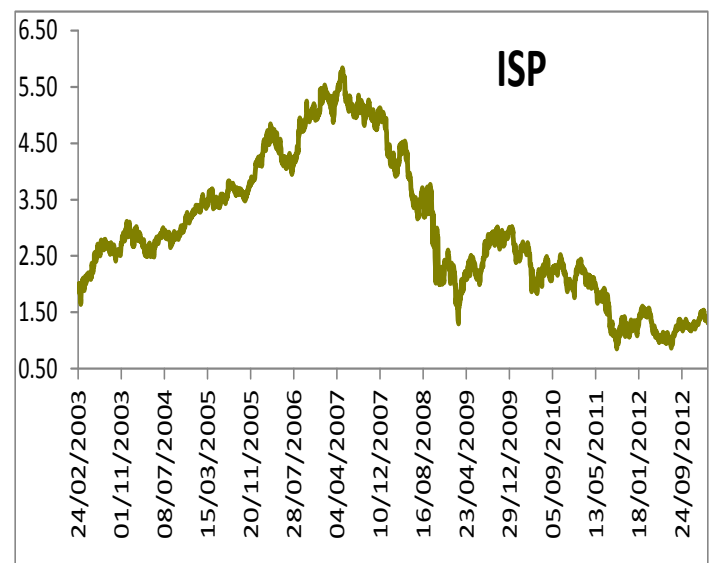
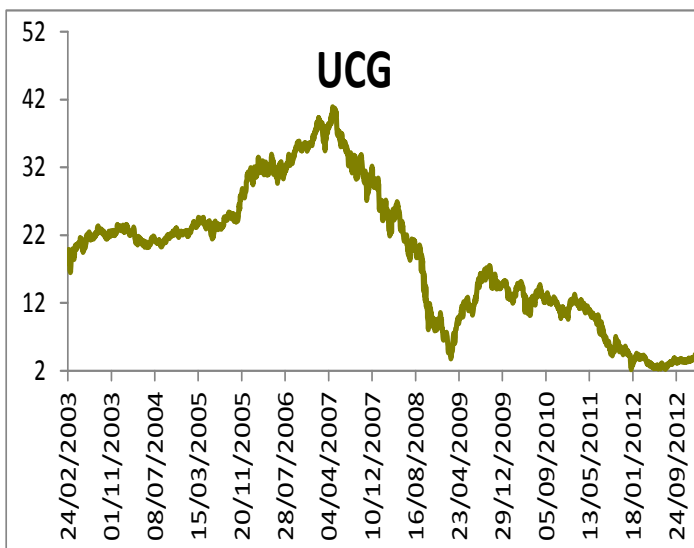
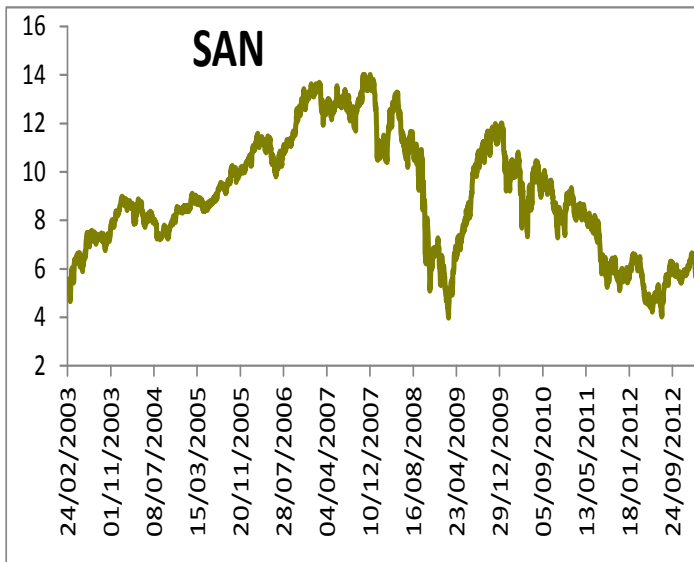
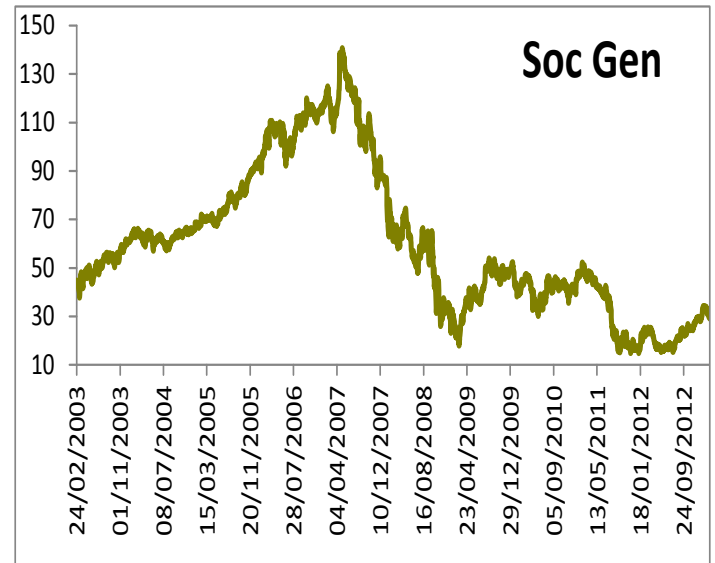
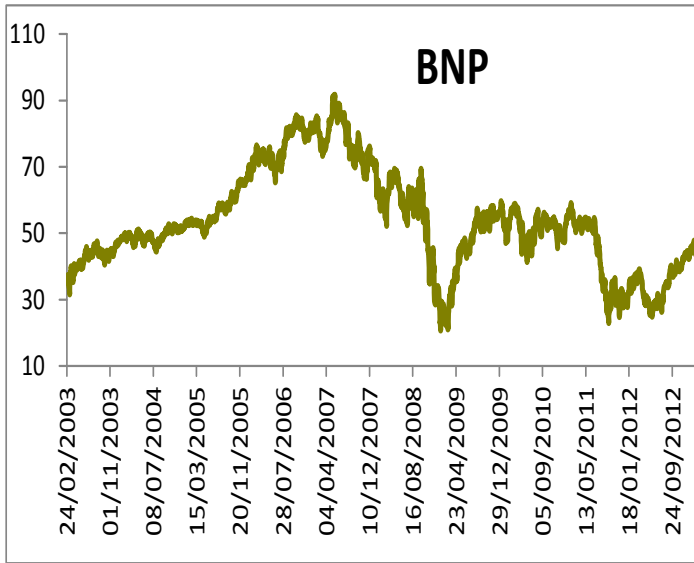
For the EuroSTOXX 50 itself the pressure below 2600 area support last week is undermining the bullish start to the year and opens up the risk of a fall to the 250-day moving average at 2446. Further slippage to chart support at 2400 may follow, and there is some risk for a bigger pullback to 2320/2300 and lower over the coming months. A recovery above 2670/2685 area resistance will reduce some of the very short term bear risk seen in the index and leave another probe of 2754.80 open. For investors who need to maintain a neutral weighting) buying the Boost EURO STOXX 50 3x Short Daily ETP offers a leveraged product that may produce a positive return if the index continues to fall.



*Data courtesy of Bloomberg and Reuters

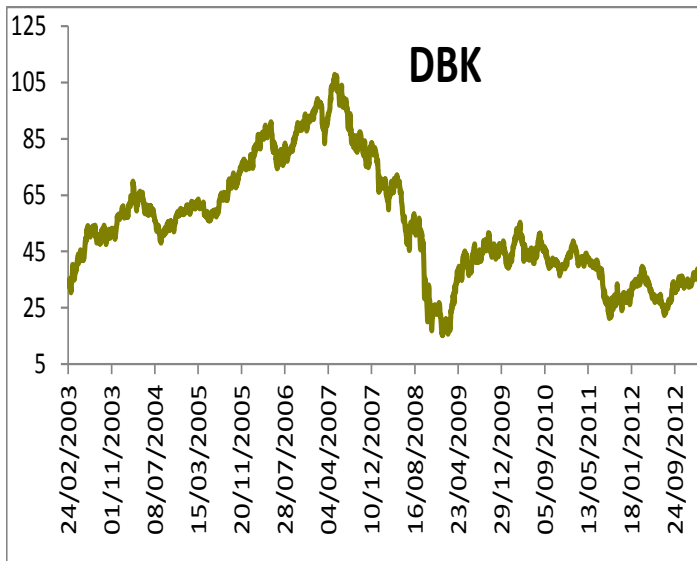
* Source: Boost, Bloomberg. The prices used for the returns are primary market closing prices from Oct 18th 2012 to Feb 22nd 2013, and are given in the base currency of each index. The returns may rely in part on back-tested prices prior to the inception of some ETPs. Past performance and back-tested performance are not indicators of future performance. Back-tested prices are those which precede Dec 4th 2012 for ETPs referencing the FTSE 100, Dec 7th for the DAX, Dec 10th for EURO STOXX 50, Russell 100 or NASDAQ-100, and Dec 17th for the commodities.

** Calculated as annualised standard deviation over the past 3 months of daily returns (some of which are based on back-tested prices).



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	Last	YTD Pct. Chge	12-month Pct. Chge
Deutsche Bank	35.47	7.65	6.39
Soc Gen	29.82	5.22	29.65
BNP Paribas	43.63	2.45	20.19
BBVA	7.57	8.75	11.79
Banco Santander	5.85	-4.16	-7.04
Intesa Sanpaolo	1.35	3.46	-7.11
UniCredit	4.10	10.74	7.72
DJ EuroSTOXX 50	2630.05	-0.22	4.21

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