From: Richard Kahn <[redacted]>
Sent: Monday, April 3, 2017 8:58 PM
To: jeffrey E.
Subject: European Banks & 2 Dutch Banks Paul recommended ING & ABN

Richard =ahn
HBRK Associates Inc.
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New York, NY 10022
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Begin forwarded message:

From: =/b>"Ens, Amanda" <[redacted]>

Subject: =/b>RE: European =anks

Date: =/b>April 3, 2017 at 2:43:06 PM =DT

To: =/b>"'Richard Kahn'" <[redacted]>

Rich,

ING has an =DR, ticker ING, that trades US hours.

ING July =1st $15 calls cost $0.85 indicatively ($14.95 =ef)

ING July 21st =15/$17 call spread costs $0.75 indicatively ($14.95 ref)

I prefer buying the call outright vs =he call spread.

I can price =BN with Europe in the morning if you're interested.

Regards,

Amanda

From: =ns, Amanda
Sent: Monday, April 03, 2017 11:41 AM
To: 'Richard Kahn' <[redacted]>
Subject: European Banks

Rich,

If the other bank =as ING, it's one of our top picks. We generally like owning =anks via optionality (calls or call spreads) into the French elections =rom a risk-reward perspective and then owning outright thereafter. And =iven how you and Jeffrey have more flexibility (you don't answer to =utside investors), since Le Pen seems a low risk, you might be willing =o be more aggressive. Investors are underweight Europe overall and =ithin Europe, underweight European banks. Very low interest from US institutional client base in Europe right now – =ndicating they do not own it or if they own it, they don't own =nough.

We also like the =utch insurance & investment management company NN Group.

Please let me know =f you'd prefer to look at individual names or a basket/index =nd if you prefer options over buying outright, I can send some ideas =cross.

In a =utshell

EUROPEAN BANKS: MOMENTUM SHIFT. RATES TO ZERO = 25% UPLIFT =O PROFITS?
The Rates markets have aggressively re-priced the ECB =utlook: now 12.5bp rate rises priced for 12 months. We =stimate as much as 25% upside for sector profits on a rates move back =o zero. GDP is better, volumes are picking up, markets are stronger; =anks are leveraged macro plays. 2% annual loan growth is low, but three-month =nnualized is approaching 3%. Momentum is finally happening. Stock =arkets at long term highs, credit spreads tight, European Composite =acro Indicator has moved up, earnings revisions are positive. The =utlook for Euro banks is better than it's been for several =ears. Yet on our work, it's still a top-3 =nderweight sector in Europe. The big caveat is margin pressure. Buys ==ING, KBC, Intesa, SocGen, Erste, =KIR. Caution on Spanish banks given valuation, risks around NPAs. More positive Italians post capital raisings: Buy =nicredit. Recently hosted CEOs of both Intesa & Unicredit. Derivs =dea = SX7E Jun 135/145 call spread. Separately, ask for our =autious view on UK Banks.

Regarding rates sensitivity

While the EURIBOR spot rates remain low....... Expectations =or forward rates EURIBOR rates are moving (see EUR EONIA 1Y1Y chart below on the right).

Spot EURIBOR vs EUR EONIA1Y1Y moving =igher &nb=p;

We=have been getting more incoming on earnings sensitivity on a bank by bank basis =o higher EUR spot rates / 100bp parallel shift in the EUR =urve....this is what our Ali Ryan + the European banks team =ddressed last week in the attached report

Most geared (liquid) banks to EUR rates are: =ommerzbank, Intesa, Deutsche Bank, Caixabank, Unicredit.

More on the European Banks thesis from mid-March

Global =quities
MEGA – Europe

ECB Rate Debate is Shifting -> 25% Upside to Bank =rofits -> SX7E breaking higher

What's the trade?

Ø SX7E Apr 130 calls or consider

Ø SX7E Jun 135/145 call spread

Ø Research top sector picks: ING, KBC, =ntesa, SocGen, Erste, BKIR. Spec Sales Email will follow shortly.

MEGA Framework:

1. Latest ECB comments suggest there is a =istinct possibility of a depo rate rise (moving less negative) before QE ends. Nowotny's comments last =ight follow the leaks after the ECB meeting to that effect. Our =conomists don't expect rate hikes this year and think the =atural path is first QE stops, then rates go up very slowly (see rsch note). However, the pressure on the ECB =s rising and the hawks are driving the debate.

2. Rates markets have aggressively =e-priced the rates outlook over the past two weeks. As of last night, about 10bp rate rises were =riced over 12 months – expect this to increase further when =arkets open. Our preferred proxy of ECB rates expectations, 1y1y Eonia =orwards, have surged almost 20bp since the start of the month.

Market has aggressively =e-priced ECB Outlook -> 1y1y Eonia Forwards have surged

3. Low rates have been a key structural =rag on European bank profitability, as our bank analysts have pointed out repeatedly. They see a strong =arnings recovery likely in the system when policy rates move: as much =s 25% on sector profits for a move back to zero, as they point out in their latest note. GDP is better, volumes are picking up, markets =re stronger; banks are leveraged macro plays.

4. Positioning in the banks remains very =nderweight as Laila Razak highlights in her latest update - still the 3rd =trongest underweight in Europe. In aggregate, shorts across the sector =itting well below the wider SXXP average (SX7P = 1.75% vs. =XXP = 2.6%). Single stock wise, the biggest shorts (both relative and outright) still sit across the periphery with many of the Spanish =ames / rate sensitive plays (e.g. like CBK) seeing their shorts =itting close to their 12 month highs, according to Laila.

Banks remains amongst top-3 =nderweight sectors in Europe (Laila Razak)

Source: BofAML Equity Financing

5. European banks have now broken out of =he 2-year downtrend vs US banks. And last but not least, a boost to bank profits is =xactly what Europe needs to close what is still a major gap in =rofitability vs the US and Japan at an index level. Relative to the =re-crisis peak, S&P profits are up 20%, SX5E profits down 50%.

EU/US Banks Ratio breaking out (Sasha Diklich)

Mind the Gap – SPX, =KY and SX5E EPS rel to 2008 Peak

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And an update from =ate March – basically just saying to use pullbacks as a buying =pportunity

Global =quities
MEGA – Europe

ECB Sources today are =ommenting that markets have over-interpreted the March Meeting in =eference to the trajectory of rates – the market has taken this =s negative for EURUSD + SX7E and positive for EUR Rates

In our MEGA Trade =ortfolio we are long SX7E + EURUSD for higher EUR Rates so thought an =pdate necessary

4 points we would make -

1. Ralf Preusser =akes the point that this is a further indication of the rift between =he hawks and doves and therefore makes June a more heated meeting.. in =tself the headlines have told you nothing new - Praet yesterday was even more =xplicit than this

2. Rich Wilson =ur front end trader makes the point some of the schatz (2y) and bobl =5y) strength may be related to quarter end buying and movement on =eadlines more a symptom of short term positioning... if anything we have seen =ccounts trying to fade the move from here (looking for ways to play a =ate hike at better levels)

3. Given the clear =isagreement within the ECB and how quickly the market will move to =aking June as a live meeting on a benign French Election outcome - we =till think the larger moves are still for SX7E higher, EURUSD + EUR rates higher =lbeit the path will not be linear

4. We do not expect =he EURUSD /EUR Rates/SX7E HIGHER as entirely one way because -

(a) If Brexit/US Election =rading Patterns are correct there is likely to be a 'cross =sset panic' moment (10-20 trading days before the 2nd round)

(b) ECB market commentary =n rates likely to be 2 way into the June Meeting given disagreement =ighlighted above

Therefore we view today as an adding opportunity to our core =iew of SX7E higher, EURUSD higher, EUR Rates Higher

From: BofAML-Alastair Ryan, Michael Helsby [mailto:feedback@mlresearch.ml.com]
Sent: Monday, March 27, 2017 1:24 PM
Subject: European Banks Strategy: Rate sensivity: a =ottom up analysis - Europe - 13pp

Global Research

European Banks Strategy

Rate sensivity: a bottom up =nalysis

Industry Overview

Equity | 27 =arch 2017

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Key takeaways

· A bottom-up analysis shows Commerz, Permanent TSB and Banco =PM are most sensitive to rising EUR short rates

· We see the first ECB hike in 2019, months later than market =ricing. It is a long wait for the gains from higher rates

· Supervisory pressure on problem assets and valuations make =ates only a part of the picture. Buys: Intesa, ING, SocGen, =KIR

FULL REPORT

Sensitivity by bank: a weaker start =akes higher gearing

In this report, we discuss the rate sensitivity by =ank in Europe. It complements Eyes on the prize, but mind the floor 17 March =017, which looked at the strong positive earnings =earing in the system of as much as 25% on profits for a move back in ECB rates to zero. =/span>

Top five all have depressed starting =oints

Bank disclosures vary widely and are not =omparable. We have had to make significant assumptions to seek to make them like for like. We =hen cut the figures in several directions: how much sensitivity there =s for a 100bp move in euro rates (Chart 6 <x-msg://104/#Exhibit_Label_a8627>); relative to the assets of the bank =Chart 7 <x-msg://104/#Exhibit_Label_de6f1>) and then the same 100bp analysis for all =nterest rates (Chart 8 <x-msg://104/#Exhibit_Label_74b8a> , Chart = <x-msg://104/#Exhibit_Label_8cc52>). Table = <x-msg://104/#Exhibit_Label_10fad> summarises the banks that have the greatest combined level of =ensitivities.

But euro rates stable until =019

The levels of sensitivity do not map closely to =ur Buy-rated banks; indeed several of the most positively geared are Underperform-rated =Commerzbank, Popular, Deutsche). This reflects a mixture of company specific issues including elevated =roblem assets; or low profitability even in a higher-rate environment. =aluations are also important: Commerz is valued 50% above the industry =n 2017 PE, with no dividend. But as discussed in Eyes on the prize, it also reflects that we do not expect euro area =ates to rise for a considerable time. The market is pricing a more-than 70% likelihood of a rate hike within 12 months, =hile we see 2019 as a more likely date for the first move in short =ates.

Buys more balanced

As such, we retain our preference for banks with a =etter balance of current earnings and distributions, which also have material upside =hen rates do eventually rise. Buy-rated banks include Intesa; SocGen; =ordea; ING and Erste.

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Read the research report for complete information =ncluding important disclosures and analyst certification(s).

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