

Drachma in Europe, again

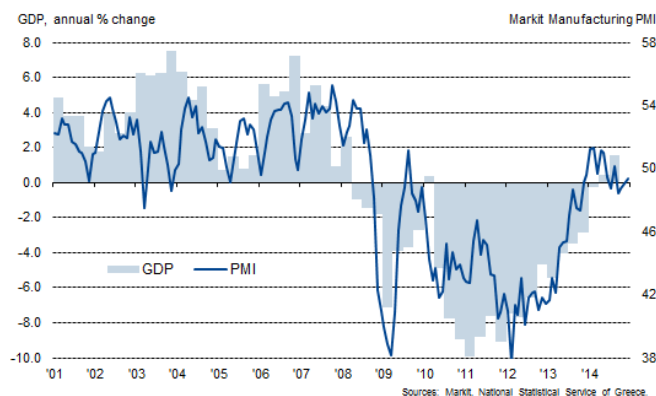
The upcoming Greek election, which looks set to bring the anti-austerity party Syriza to power, has reignited the Grexit debate amid an increasingly fragile period for the eurozone in the wake of slumping oil prices and prospects of ECB stimulus.

- Snap election on the 25th January has markets debating potential impact of Grexit
- Greek CDS spreads have increased 49% since the beginning of December 2014
- ETF investors continued to pull out of Greek exposed funds in the last weeks of 2014

Eurozone weakness

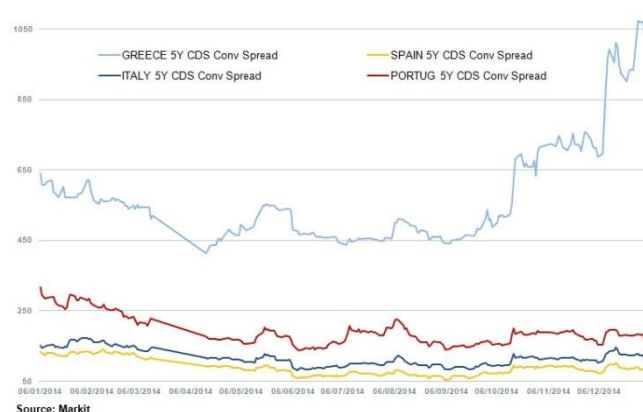
Markets have continued to watch the spectacular decline in oil prices, but the immediate focus in Europe has turned to Greece. The country is viewing the eurozone within increasing scrutiny, meanwhile speculation regarding monetary stimulus in the eurozone compounds investor fears over a Greek [exit](#); bringing back fears of [contagion](#).

Markit PMI data accurately indicated an improvement in the Greek economy in early 2014, the first major upturn since 2007. GDP data later picked up accordingly. Towards the end of 2014, however, the PMI has signaled a renewed downturn. This is ahead of the elections this month which could take the fiscal future of the nation on a different path



Greek public debt has surged above [170%](#) of GDP, and radical left wing party Syriza [looks set to win](#) the January elections with its calls for anti-austerity measures and debt pardons.

With the populist movement gaining public support on promises of debt re-structuring and cuts to austerity measures, credit markets are pointing to the increased likelihood of a major credit event occurring.



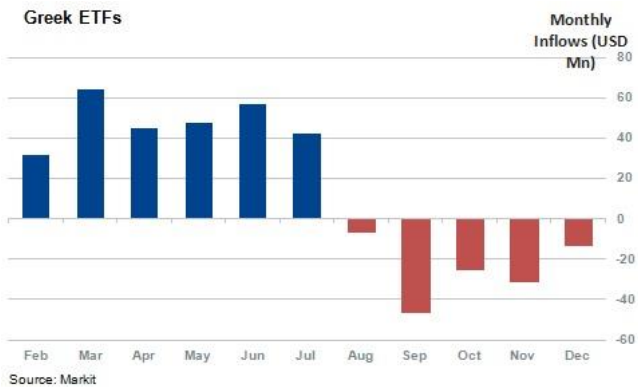
CDS spreads for the country have increased by an alarming 49%, from 736bps in the first week of December 2014 to 1100bps as of the 5th January 2015. On January 6th 2014, spreads were 72% lower at 639bps compared to current highs of 1100bps.

However, it appears that fears over contagion in other markets have not yet emerged, as other 'PIGS' nations' CDS spreads have not moved in response to Greece's recent woes.

Regional ETF fund flow

As highlighted in early [December](#), Greek ETF investors were quick to withdraw investments

from funds exposed to the region as net monthly inflows reversed and outflows were witnessed from August, right up until the end of 2014.



These recent outflows ended 11 consecutive quarters of inflows into Greek ETFs. Total Greek ETF AUM peaked in April 2014 at \$723m. At the start of 2015, AUM is down 52% at \$345m, with a precipitous month expected ahead.

In context, Greece represents a small fraction of ETF AUM exposed to eurozone countries with a total of four available products to investors.

Total eurozone AUM at the beginning of 2015 stood at \$112bn and while AUM in Greece halved in 2014, total AUM in the Eurozone is currently only 7% shy of all-time highs reached in April 2014.

Relte Stephen Schutte

Analyst

Markit

Tel: +44 207 064 6447

Email: relte.schutte@markit.com

For further information, please visit www.markit.com

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