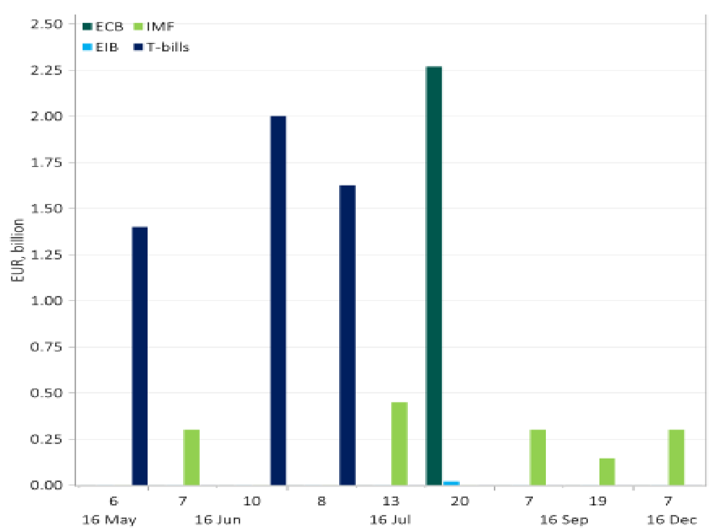
Greek Déjà Vu

April 18, 2016

Tensions between the IMF, Greece and its eurozone creditors are once again coming to the fore. The IMF does not consider the economic programme agreed between Greece and its eurozone creditors is sustainable without debt relief. The Greek government is accusing the IMF of standing in the way of agreement on a new 'bail-out' programme by demanding additional spending cuts. And eurozone creditor countries, notably Germany, remain opposed to 'hair-cutting' its claims on Greece. Without agreement on a new programme and disbursement of additional funds, the Greek government will struggle to meet debt repayments to the IMF and ECB totalling more than €3 billion, due in June and July.

Exhibit 1
Greece Debt Payments Over Rest of 2016



Source: IMF, Bloomberg: data at 15 April 2016

The last-ditch agreement that prevented Greece from sliding out of the eurozone in July of last year — 'Grexit' — included up to €86 billion in new loans from the European Stability Mechanism (ESM) of which some €21 billion have been disbursed. It was also agreed that, following the first review of the programme — scheduled for completion in December 2015 but not yet concluded — creditors will consider debt relief (maturity extension and even lower interest rates) and the IMF will decide whether to provide new loans to Greece.

Jeroen Dijsselbloem says he expects political agreement on the first review at the 22 April or 24 May meetings of the Eurogroup finance ministers. However, recent comments by IMF Managing Director Christine Lagarde underscore the IMF's scepticism that Greece can meet its fiscal targets without substantial debt relief, difficult to achieve without a 'haircut' on principal that has been ruled out by eurozone creditors. The consensus is that a deal will be reached to provide Greece with new loans before the €2.7bn repayment of Greek bonds held by the ECB and other eurozone national central banks due on 20 July, in part because of Greece's pivotal role in addressing the European refugee crisis. Were the IMF to provide financial support under a new programme, the ECB could even start to buy Greek government bonds under its QE programme. Yet the recent history of three-way negotiations between Greece, its eurozone creditors and the IMF is one of delay and brinkmanship.

The risk that the UK may vote to exit the European Union — 'Brexit' — is the current focus of attention of European policymakers and markets, but investors should not wholly discount re-emergence of 'Grexit' in what may prove to be a 'hot' European summer.

FOR INSTITUTIONAL INVESTOR USE ONLY. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be construed as an offer to buy or sell any financial instruments. It is not our intention to state, indicate or imply in any manner that current or past results are indicative of future profitability or expectations. The views expressed herein are those of BlueBay Asset Management LLP as of 4.18.16. Views are subject to change at any time based on market or other conditions.

BlueBay Asset Management LLP is an SEC registered investment adviser and is registered with the National Futures Association as a commodity pool operator and commodity trading advisor. The registrations should not be interpreted as an endorsement by the licensing and registering authorities identified.

RBC Global Asset Management (U.S.) Inc. is a federally registered investment adviser founded in 1983. RBC Global Asset Management (RBC GAM) is the asset management division of Royal Bank of Canada (RBC) which includes RBC Global Asset Management (U.S.) Inc., RBC Global Asset Management Inc., RBC Global Asset Management (UK) Limited, RBC Alternative Asset Management Inc., BlueBay Asset Management LLP and BlueBay Asset Management USA LLC, which are separate, but affiliated corporate entities. ®/™ Trademark(s) of Royal Bank of Canada. Used under license. © 2016 RBC Global Asset Management (U.S.) Inc.

RBC Global Asset Management

RBC Global Asset Management (U.S.) Inc.
Minneapolis | Boston | Chicago
800.553.2143 | **us.rbcgam.com**