EUROPEAN CENTRAL BANK

EUROSYSTEM

MONTHLY REPORT ON THE EUROSYSTEM'S COVERED BOND PURCHASE PROGRAMME

JANUARY 2010

From 1 January to 29 January 2010, the Eurosystem purchased eligible covered bonds with a total nominal value of €5,559 million under its covered bond purchase programme (CBPP).[1] Of this total, €2,187 million was accounted for by purchases in the primary market and the remaining €3,372 million by purchases in the secondary market.[2] The total nominal value of all covered bonds purchased by the Eurosystem since the programme was first started stood at €33,823 million on 29 January 2010.

Overall, activity in the covered bond market picked up significantly again in January, following a seasonal slowdown in December, which had been widely anticipated.

The primary market started strongly into the year, with CBPP-eligible covered bonds worth €22 billion being issued in January, especially in the first two weeks of the month. The bonds were issued in France, Germany, the Netherlands, Portugal and Spain. Among them were some inaugural covered bonds. The majority of new covered bonds continued to be issued in the five to seven-year maturity segment. Investor demand remained solid on the primary market, as indicated by the degree of over-subscription and the pricing spreads realised at issuance. However, investors continued to be rather selective, preferring certain issuers over others. The widening of spreads between euro area government bond yields also contributed to a general widening of covered bond spreads in the respective countries, which resulted in somewhat less buoyant primary market activity towards the end of January.

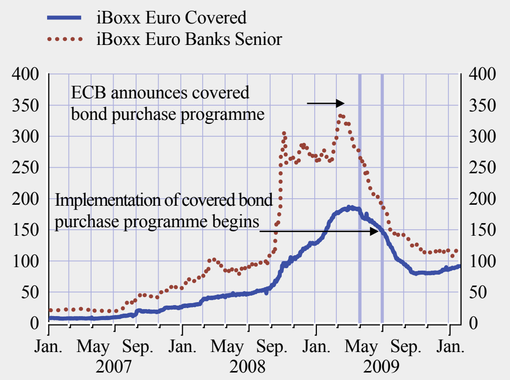
Activity in the secondary market was described as moderate by market participants, with investors mainly focusing on new issues. Recently placed covered bonds showed a mixed performance in the secondary market. While some covered bonds are now trading at lower spreads than at issuance, other segments of the market continued to suffer from pressures on the sellers' side, as well as from tight pricing in the primary market, resulting in wider spreads. Overall, euro area covered bond spreads have increased moderately since the beginning of the year, with the national markets, where government bonds suffered most, also underperforming in terms of covered bond spreads. At the same time, the spreads of senior unsecured bank bonds against swap rates tightened marginally in comparison with those recorded at the end of December (see the chart below).

1 Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), available at http://www.ecb.europa.eu/ecb/legal/pdf/l_17520090704en00180019.pdf.

2 These figures include transactions concluded but not yet settled during the period from 1 January to 29 January 2010. The total amount of purchases settled on or before 29 January 2010 provided €4,749 million of liquidity in the money market, according to the ECB's liquidity analysis.

iBoxx spreads against swaps

(basis points)



Source: Markit.

GLOSSARY OF TECHNICAL TERMS AND EXPRESSIONS

Bid-offer spread: the difference between the price or yield at which a market-maker is willing to buy a given asset and that at which he is willing to sell it.

Covered bond spread: the spread between the yield of a covered bond and the rate quoted for a euro interest rate swap contract with a similar maturity date.

Cover pool: a set of collateral on which the investor in a covered bond has a prior claim in the event of the failure of the issuer of the covered bond.

Eligible covered bond: a covered bond that fulfils the conditions specified in the Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16).

iBoxx indices: commonly used indices that track the movement of spreads in several bond markets versus interest swap rates. They are compiled by a subsidiary of the financial information services company Markit. The iBoxx Euro Covered index is an indicator of the difference in the yield on a basket of euro-denominated covered bonds and interest rate swaps with a similar maturity, while the iBoxx Euro Bank Senior index is an indicator of the difference in the yield on a basket of senior unsecured bank bonds and interest rate swaps with a similar maturity. The iBoxx Euro Other Sub-Sovereigns Guaranteed Financials index is an indicator of the difference between the yield on a basket of euro-denominated bank bonds with a government guarantee and interest rate swaps with a similar maturity.

Inaugural covered bond: the first covered bond ever to be issued by an institution.

Interest rate swap: a contract between two parties to exchange one stream of interest payments for another, over a set period of time. The most commonly traded and most liquid interest rate swaps are contracts under which parties exchange fixed-rate payments for floating-rate payments based on the LIBOR or EURIBOR, the interest rate at which a prime bank is willing to lend short-term funds to another prime bank.

Senior unsecured bank bond: a bond that is issued by a bank, is not secured by a cover pool, but represents a claim on the issuer's assets and income that is prior or superior to the junior bonds issued by the same entity.

Tap: the reopening of an existing bond that allows the issue size to be increased, thereby potentially improving the secondary market liquidity on that bond.

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