Demand for sovereign bonds: The importance of diversity

ECB Bond Market Contact Group
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Key themes

(1) Core: Investor base remarkably stable even as the safe-haven bid subsides

(2) Spain & Italy: Bank dependence eases as foreign and domestic institutional investors step in

(3) (Ex-)Program countries: Easy exit as risk sentiment offsets demand constraints

(4) Japanese buying: Core/periphery rotation limited so far
What a difference a crisis makes

Public debt holdings* in % of total outstanding, end of Q4-2008 (left) and Q4-2013 (right)

Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt
Core: Investor base remarkably stable through the crisis

Foreign holdings of public debt*, in % of total outstanding

Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt
Spain & Italy: Bank dependence eases...

No longer the only buyer in town
Domestic banks’ public debt* holdings, in % of total outstanding

... also after the AQR cut-off date
Net buying of domestic govies, in € bn

Source: Commerzbank Research, ECB, Eurostat, *) refers to Maastricht general government debt
... as foreign investors return and domestic institutionals step in

Foreign public debt* holdings, in % of total outstanding

Domestic institutional holdings

Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt
Intra-EMU bank holdings remain depressed as regulation favours home bias

EMU bank holdings of non-domestic EMU public debt, in % of total outstanding; foreign bank holdings of Spanish and Italian public debt (average),
(Ex-)Program countries: Easy exit despite demand constraints

Public debt* holdings, in % of total outstanding

Ireland
- Domestic Inst., 27.9%
- Domestic Banks, 12.1%
- Other, 18.2%
- Troika Loans + SMP, 41.8%

Portugal
- Domestic Banks, 18.1%
- Domestic Inst., 19.1%
- Other, 17.4%
- Troika Loans + SMP, 45.4%

Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt
Japanese buying: Facts vs fiction

Japanese net buying of foreign bonds (trn Yen)

Source: Commerzbank Research, Bank of Japan
Discussion points

• How will regulatory changes (e.g. risk weighting) impact demand for sovereign bonds?

• How can intra-EMU bank buying be revived?

• Will foreign investors continue their return to peripheral markets?

• How will global central bank divergence impact EGB demand?

• How can Ireland, Portugal and Greece achieve a more robust investor structure?
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Commerzbank Corporates & Markets
Frankfurt
Commerzbank AG
DLZ - Gebäude 2, Händlerhaus
Mainzer Landstraße 153
60327 Frankfurt
Tel: + 49 69 136 21200

Commerzbank AG London Branch
PO BOX 52715
30 Gresham Street
London, EC2P 2XY
Tel: + 44 207 623 8000

New York
Commerz Markets LLC
2 World Financial Center
31st floor
New York,
NY 10020-1050
Tel: + 1 212 703 4000

Singapore Branch
Commerzbank AG
71 Robinson Road, #12-01
Singapore 068895
Tel: +65 631 10000

Hong Kong Branch
Commerzbank AG
29/F, Two IFC 8
Finance Street Central
Hong Kong
Tel: +852 3988 0988