Primary Market developments
H1 2022
- EUR Public Sector -

Bond Market Contact Group
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Increased:
• geopolitical risks caused by the war in Ukraine
• supply chain issues due to war and lockdowns in China
• energy prices
• Inflation

CBs are stopping QE and start hiking rates
• Bear flattening with inverted curve at the long end
• 10y swap 215bp up,
• Flight to quality AND liquidity -> decoupling of EGB and SSA market

Source: Bloomberg
What do investors say?

• Secondary market liquidity dropped
• Flight to quality AND liquidity
• Sweetspot at the long end moved to 15y
• Positive yields make short end more attractive for non-EA CBs
• Long end above 2% attractive for some real money investors
Primary Market
Funding Progress

- By end of May 2022, around 45% of sovereign funding raised
- Progress slightly behind last year (because of markets?)
Volumes and Maturities

• Reduced activity in the long end in Q2
• Slight shift to shorter maturities in Q2
Oversubscription

- Reduced deal sizes and shorter maturities kept oversubscription solid
- HF much less active in primary market

Oversubscription 2022 ytd (>EUR3bn) (+ latest EFSF) Source: HSBC + own research
New Issue Premium

• Despite reduced deal sizes and shorter maturities, NIP tends to increase

• lower quality of screen-prices in less liquid markets increase „optical“ NIP
For discussion
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• Is the decoupling EGB / SSA market also impacted by reduced QE (relative share of SSA purchases was higher compared to EGB)?

• Is dealer capacity sufficient for a market with still high volumes of supply yet without QE net-purchases? (market volume has grown, QE so far compensated)

• By end of May 2022 only around 50% of public sector funding was raised, still with some QE support. The remaining 50% need to be raised without QE net-purchases, what are the consequences for spreads, curve, yields?
Thank you