MONTHLY REPORT ON THE EUROSYSTEM'S COVERED BOND PURCHASE PROGRAMME

SEPTEMBER 2009

In the context of its covered bond purchase programme, which started on 6 July 2009, the Eurosystem purchased, during the period from 31 August 2009 to 2 October 2009, eligible covered bonds with a total nominal value of €7,374 million. Of this total, €1,581 million was accounted for by purchases in the primary market and the remaining €5,793 million by purchases in the secondary market. The total nominal value of all covered bonds purchased by the Eurosystem since the beginning of the programme stood at €16,856 million on 2 October 2009.

Overall, activity in the covered bond market picked up in September, after the summer break.

In the primary market, new bonds were issued in Germany, Ireland, Greece, Spain, France, Italy, the Netherlands, Austria and Portugal. Both traditional issuers returning to the market and issuers launching inaugural bonds were involved in the issuance activity. Reflecting strong demand from investors, new issues were quickly subscribed after books were opened and they performed well in the secondary market. Some newly issued bonds were also in demand in the repo market.

The revitalisation of the secondary market continued, although still at fairly wide bid-offer spreads. This was partly due to some continued reallocation of investors’ portfolios, where bonds perceived as relatively expensive have been substituted for others perceived as relatively cheap, or shorter maturity bonds have been replaced by new issues or longer maturity bonds.

Covered bond spreads continued to narrow, albeit at a slower pace, allowing issuers to refinance themselves at more favourable terms and reflecting the increasing confidence of investors in this instrument. The recovery of the covered bond market has continued to have a more pronounced impact on issuers, whose covered bonds are characterised by wider spreads, leading to some reductions in the differences between the various local covered bond markets. In some local markets, spreads for certain issuers are now back at levels similar to those prevailing at the beginning of September 2008. The tightening of spreads also continued in senior unsecured bank bonds (see the chart below).

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2 These figures include transactions concluded but not yet settled during the period 31 August – 2 October. The total amount of purchases settled during this period provided €6,794 million of liquidity in the money market in the context of the ECB’s liquidity analysis.
3 The term “investors” refers to investing entities excluding market-makers. Market-makers normally act as a “buffer” in the market by absorbing investors’ excess supply of bonds or supplying their excess demand for them.

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iBoxx spreads against swaps

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<th>iBoxx Euro Covered</th>
<th>iBoxx Euro Banks Senior</th>
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Source: Markit.
NOTE TO EDITORS – 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.


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 prior or superior claim on the issuer’s assets and income than 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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