From 5 October 2009 to 30 October 2009, eligible covered bonds with a total nominal value of €4,180 million were purchased by the Eurosystem under its covered bond purchase programme.1 Of this total, €1,294 million was accounted for by purchases in the primary market and the remaining €2,886 million by purchases in the secondary market.2 On 30 October 2009 the total nominal value of all covered bonds purchased by the Eurosystem since the beginning of the programme stood at €21,036 million.

In comparison to the previous month, the covered bond market consolidated in October, which was reflected in both primary and secondary markets.

Although activity in the primary market continued unabated in several euro area countries (Italy, Spain, Germany, France, Portugal and the Netherlands), in aggregate there were fewer new issuances and the degree of oversubscription of order books has moderated relative to September. While inaugural bonds still generated strong demand, a few deals from traditional issuers came out at the lower end of the indicated issuance size or were priced at a somewhat wider spread than initially foreseen.

In the secondary market, bid-offer spreads remained at fairly wide levels. Trading activities were reported to be driven by the reshuffling of portfolios reflecting investors’ perceptions on relative prices of different covered bonds. Overall, covered bond spreads traded in a narrow range during the period under review. The market was still digesting the heavy supply of covered bonds from September, and some investors also appeared to take profits on several previous positions. While some recently issued covered bonds are trading at wider spreads in the secondary market compared with those at issuance, spreads stabilised in almost all euro area countries, with a tendency to converge across the various segments of the covered bond market.

In contrast to the stabilisation of the overall spread level of covered bonds, spreads of senior unsecured bank bonds continued to tighten during October (see the chart on the following page).

---


2 These figures include transactions concluded but not yet settled as at 30 October. The total amount of purchases settled on or before 30 October provided €4.552 million of liquidity in the money market in the context of the ECB’s liquidity analysis.
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 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.

© European Central Bank, 2009

Address:
Kaiserstrasse 29
60311 Frankfurt am Main
Germany

Postal address:
Postfach 16 03 19
60066 Frankfurt am Main
Germany

Telephone: +49 69 1344 0
Website: http://www.ecb.europa.eu
Fax: +49 69 1344 6000

All rights reserved. Reproduction for educational and non-commercial purpose is permitted provided that the source is acknowledged.

ISSN 1831-5054 (online)