From 2 to 27 November 2009, the Eurosystem purchased eligible covered bonds with a total nominal value of €4,513 million under its covered bond purchase programme (CBPP).\(^1\) Of this total, €1,553 million was accounted for by purchases in the primary market and the remaining €2,960 million by purchases in the secondary market.\(^2\) The total nominal value of all covered bonds purchased by the Eurosystem since the beginning of the programme stood at €25,548 million on 27 November 2009.

Overall, activity in the covered bond market sustained the pace observed in the previous reporting period.

The primary market continued to see new covered bond issues from several euro area countries. Three bonds had an issuance volume exceeding €1 billion (compared with one in October and seven in September), while most issues were sized between €0.5 and €1 billion. The total issuance volume of CBPP-eligible covered bonds remained almost unchanged from October at approximately €10 billion, compared with around €20 billion in September. The majority of the new covered bonds were issued with five years to maturity or less, while in October a number of securities with longer maturities (i.e. between six and twelve years to maturity) were issued.

In the secondary market, the range of bid-offer spreads remained broadly unchanged. Turnover tended to decline over the course of the month, reflecting the approaching year-end. On average, euro area covered bond spreads remained broadly unchanged for the second month. As regards spread developments by maturity, the five-year segment of the covered bond market underperformed due to the above-mentioned concentration in supply, while in particular longer-dated covered bonds continued to be perceived as expensive owing to sustained short positions held by various investors and a lack of supply.

In the course of November, the spreads of senior unsecured bank bonds stabilised (see the chart below).

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2. These figures include transactions concluded but not yet settled during the period from 2 November to 27 November 2009. The total amount of purchases settled on or before 27 November provided €4,627 million of liquidity in the money market according to the ECB’s liquidity analysis.

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**iBoxx spreads against swaps**

(basis points)

<table>
<thead>
<tr>
<th>Date</th>
<th>iBoxx Euro Covered</th>
<th>iBoxx Euro Banks Senior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 2007</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>May 2007</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td>Sep. 2007</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Jan. 2008</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>May 2008</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>Sep. 2008</td>
<td>350</td>
<td>350</td>
</tr>
<tr>
<td>Jan. 2009</td>
<td>400</td>
<td>400</td>
</tr>
</tbody>
</table>

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.

**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.