In the period from 30 November to 31 December 2009, the Eurosystem purchased eligible covered bonds with a total nominal value of €2,716 million under its covered bond purchase programme (CBPP). Of this total, €340 million was accounted for by purchases in the primary market and the remaining €2,376 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 €28,264 million on 31 December 2009.

In December, activity in the covered bond market was fairly subdued, as is traditionally the case owing to the holiday season and the approaching year-end.

The primary market was virtually dormant. Only one new ten-year bond was issued and two previously placed covered bonds were tapped, resulting in a total issuance volume of just €1.5 billion CBPP-eligible covered bonds during December. Notwithstanding, and again in line with seasonal issuance patterns, substantial primary market activity is expected to resume in January 2010, with some issuers already signalling their intention to issue new covered bonds.

In the secondary market, bid-offer spreads widened somewhat in comparison with previous weeks, on the back of volatile euro area government bond markets and reduced covered bond market liquidity towards the end of the year. Reasonable trading flows were, however, reported for some jurisdictions. A few segments of the covered bond market experienced moderate sell-side pressure, as rating actions related to covered bonds by S&P and Moody’s exerted a differentiated market impact on the various market segments. The downgrading of Greece’s sovereign rating also contributed to the widening of covered bond spreads.

Euro area covered bond spreads increased moderately over the last few weeks of the year, except for short-dated maturities where spreads remained more or less unchanged. The spreads of senior unsecured bank bonds against swap rates remained broadly unchanged compared with those recorded at the end of November (see the chart below).

2 These figures include transactions concluded but not yet settled during the period from 30 November to 31 December 2009. The total amount of purchases settled on or before 31 December provided €2,972 million of liquidity in the money market according to the ECB’s liquidity analysis.
### 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.

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