



EUROPEAN CENTRAL BANK

EUROSYSTEM

MONTHLY REPORT ON THE EUROSYSTEM'S COVERED BOND PURCHASE PROGRAMME

MARCH 2010

From 1 March to 31 March 2010, the Eurosystem purchased eligible covered bonds with a total nominal value of €5,921 million under its covered bond purchase programme (CBPP).¹ Of this total, €2,114 million was accounted for by purchases in the primary market and the remaining €3,807 million by purchases in the secondary market.² The total nominal value of all covered bonds purchased by the Eurosystem since the programme was first started stood at €44,898 million on 31 March 2010.

In March, activity in the covered bond market picked up considerably, especially in the primary segment, as sovereign credit concerns diminished somewhat and swap spreads declined.

In the primary market, after a relatively quiet February, when activity was restricted to just a few countries, March saw new covered bonds issued in Germany, Spain, France, Luxembourg, the Netherlands, Austria, Portugal and Finland, with substantial issuance also in non-euro area countries. Moreover, the recovery in government bond markets improved refinancing conditions for covered bond issuers. With 25 new covered bond issues in the euro area, including six taps, the volume of new issuance of CBPP-eligible covered bonds, mainly with maturities of between three and seven years, amounted to €19 billion. Overall, the new issues were well received, despite the abundant supply, which was concentrated towards the end of the month.

Activity in the secondary market was relatively quiet over the last weeks of the reporting period, as investors seemed to focus on new issues, which, in the secondary market, traded around or slightly below the spreads at issuance.

Bid-offer spreads remained broadly unchanged. Overall, euro area covered bond spreads decreased compared with their levels at the end of February, with those national covered bond markets that suffered most from sovereign credit concerns now outperforming others.

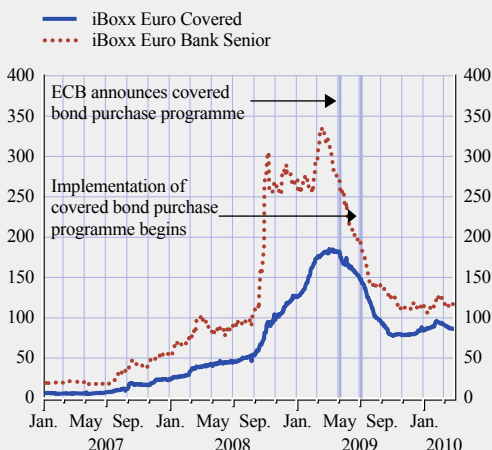
The spreads of senior unsecured bank bonds against swap rates also decreased moderately in comparison with those recorded at the beginning of March (see the chart below).

1 Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), available at http://www.ecb.europa.eu/ecb/legal/pdf/l_17520090704en00180019.pdf.

2 These figures include transactions concluded but not yet settled during the period from 1 March to 31 March 2010. The total amount of purchases settled between 1 and 31 March 2010 provided €5,536 million of liquidity in the money market, according to the ECB's liquidity analysis.

iBoxx spreads against swaps

(basis points)



Source: Markit.

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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