



EUROPEAN CENTRAL BANK

EUROSYSTEM

## MONTHLY REPORT ON THE EUROSYSTEM'S COVERED BOND PURCHASE PROGRAMME

### APRIL 2010

From 1 April to 30 April 2010, the Eurosystem purchased eligible covered bonds with a total nominal value of €5,218 million under its covered bond purchase programme (CBPP).<sup>1</sup> Of this total, €1,535 million was accounted for by purchases in the primary market and the remaining €3,683 million by purchases in the secondary market.<sup>2</sup> The total nominal value of all covered bonds purchased by the Eurosystem since the programme was first started stood at €50,116 million on 30 April 2010.<sup>3</sup>

Activity in the covered bond market remained strong after the Easter break, while being affected by a further widening of spreads between euro area government bond yields.

Following the strongest first quarter on record in terms of covered bond issuance, activity in the primary market was robust when it resumed after the Easter break. Covered bonds were issued in Germany, France, Spain and Italy, and included two inaugural issues as well as some tap issues. In total, the volume of new issues of CBPP-eligible covered bonds amounted to around €11 billion in April. Primary market activity, however, slowed during the second half of April, as sovereign credit concerns exerted further influence on covered bond markets.

Once again, developments in the euro area government bond markets also heavily influenced activity in the secondary market for covered bonds, resulting in increased risk aversion towards those covered bond markets that were affected most severely by sovereign credit uncertainties. Notwithstanding, the new covered bonds issued in April generally performed well in the secondary market and

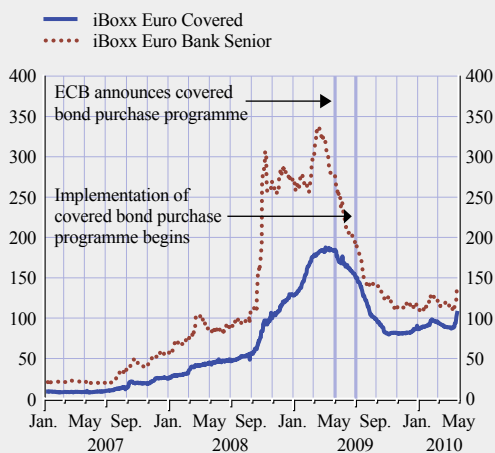
their spreads were trading at or slightly below issuance levels by the end of the month.

Overall, spreads of euro area covered bonds and senior unsecured bonds against swap rates have increased, in particular during the second half of April, compared with those recorded at the end 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](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 April to 30 April 2010. The total amount of purchases settled on or before 30 April 2010 provided €5,962 million of liquidity in the money market, according to the ECB's liquidity analysis.
- 3 Over the last two months the Eurosystem has also lent some of the covered bonds held in its CBPP portfolio, responding to demand from Eurosystem counterparties wishing to borrow such covered bonds.

#### 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.

© European Central Bank, 2010

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)