



EUROPEAN CENTRAL BANK

EUROSYSTEM

## FINAL MONTHLY REPORT ON THE EUROSISTEM'S COVERED BOND PURCHASE PROGRAMME

### JUNE 2010

The total value of all covered bonds purchased by the Eurosystem since the inception of the covered bond purchase programme (CBPP) on 2 July 2009 reached the announced nominal amount of €60 billion<sup>1</sup> exactly on 30 June 2010, thereby marking the completion of the programme.<sup>2</sup> In total, 422 different bonds were purchased, 27% in the primary market and the remaining 73% in the secondary market. The Eurosystem mainly purchased covered bonds with maturities of three to seven years, which resulted in an average modified duration of 4.12 for the portfolio, as of June 2010. The Eurosystem intends to hold the purchased covered bonds until maturity.

Over the last three months, the Eurosystem has been lending some of the covered bonds held in its CBPP portfolio, responding to demand from Eurosystem counterparties who wished to borrow such covered bonds against eligible collateral. This lending activity will continue.

From 1 June to 30 June 2010, the Eurosystem purchased eligible covered bonds with a total nominal value of €5,600 million under the CBPP. Of this total, €2,046 million was accounted for by purchases in the primary market and the remaining €3,554 million by purchases in the secondary market.<sup>3</sup> In June, activity in the covered bond market again picked up significantly in comparison with the previous month, especially in the primary market, possibly also reflecting the fact that volatility in the euro area sovereign debt markets had receded somewhat. The primary market for covered bonds saw 23 eligible new issues and 4 tap issues last month, resulting in a total volume of new CBPP-eligible covered bonds in the order of around €21 billion, from six euro area countries. Issuance amounts in June 2010

were above those of June 2009. Alongside further new issues in Germany and France, which had been the only jurisdictions to issue such bonds in May, issuers headquartered in Italy, Finland, Austria and the Netherlands also returned to the market. Primary markets in the other euro area countries remained inactive.

Overall, over the last 12 months to 30 June 2010, there were 148 new CBPP-eligible covered bonds issued and 48 tap issuances of already outstanding CBPP-eligible covered bonds. The total amount of these issues reached around €150 billion. Since the announcement of the CBPP, one new covered bond jurisdiction, namely Greece, saw its first publicly placed covered bond; and, overall, 24 inaugural issuers entered the covered bond market in various euro area countries. Some national markets, such as that in Italy, saw a significant increase in the number of issuers and outstanding amounts, and thus a deepening and broadening of their covered bond market.

The downward pressure on secondary market turnover and prices faced by covered bonds in May and the first days of June 2010 receded

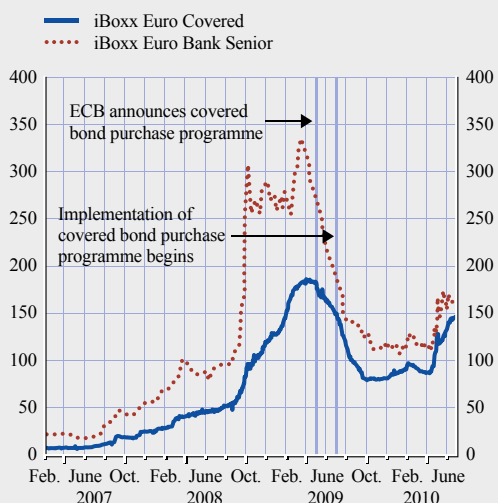
<sup>1</sup> The total amount of purchases settled within the CBPP provided €61,118 million of liquidity in the money market, according to the ECB's liquidity analysis. The difference between the latter amount and the nominal amount of EUR 60 billion of purchased bonds mainly reflects differences between purchase price and par. It should be noted that at the time of purchase, many covered bonds, in particular the ones that were issued some time ago, had a market yield to maturity below the percentage of the coupon of the bond. The purchase prices of those bonds were therefore higher than par, i.e. those bonds traded at a value above their nominal amount.

<sup>2</sup> 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).

<sup>3</sup> The total amount of purchases settled since 1 June 2010 provided €6,343 million of liquidity in the money market, according to the ECB's liquidity analysis.

## iBoxx spreads against swaps

(basis points)



Source: Markit.

during the rest of last month, and trading activity in the secondary market again turned out to be somewhat higher and more balanced in the last few weeks. The strong issuance activity in the primary market did not put significant extra pressure on secondary markets spreads, and new issuances were absorbed quite well. Overall, the spreads of euro area covered bonds over swap rates again increased slightly in June, while senior unsecured bond spreads tightened somewhat in comparison with the levels recorded at the end of May (see the chart above).

As a consequence of the completion of the CBPP, this is the last such monthly report.

## 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.

**Modified duration:** the approximate percentage change in a bond's price for a 100 basis point change in yield, assuming that the bond's expected cash flows do not change when the yield changes.

**Nominal amount:** the amount on which the issuer pays interest, and which has to be repaid at the end.

**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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ISSN 1831-5054 (online)