



EUROPEAN CENTRAL BANK

EUROSYSTEM

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

### AUGUST 2009

On 6 July 2009 the Eurosystem commenced with the implementation of the covered bond purchase programme, under which it intended to purchase eligible covered bonds, with a targeted nominal amount of €60 billion.<sup>1</sup>

In the period from 1 August 2009 to 28 August 2009, the Eurosystem purchased eligible covered bonds with a total nominal value of €4,397 million under this programme. Of this total, €243 million was accounted for by purchases in the primary market and the remaining €4,154 million by purchases in the secondary market.<sup>2</sup>

Overall, activity in the covered bond market was relatively quiet in August, as is traditionally the case during the summer.

In the primary market, very few new bonds were issued, and almost exclusively through the re-opening of existing securities (the so-called “taps”). Issuance of new bonds only resumed in the very last days of August.

Also in the secondary market, trading activity remained relatively low. Nonetheless, investors seem increasingly to be using the significant tightening of covered bond spreads witnessed over the last few months, which is not distributed equally across maturities and issuers, to substitute relatively expensive covered bonds with cheaper ones. This led to a more balanced trading flow in the second half of August.

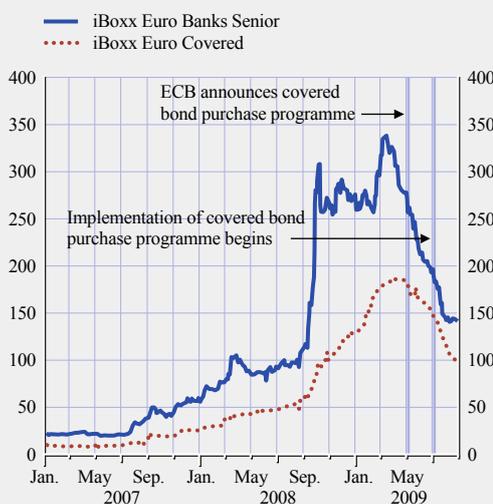
The tightening of spreads and associated appreciation of covered bond prices allowed issuers to refinance at more favourable terms. The covered bond market recovery has

continued to have a more pronounced impact on issuers with wider spreads, thus leading to some reductions in the differences between the various covered bond segments. The tightening of spreads (see the chart below) persisted in unsecured bank bonds as well, but covered bonds seem to have fared better in August. This reflects the increased confidence of investors in this type of product, as well as the ongoing demand from the covered bond purchase programme.

- 1 Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), [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 as at 28 August. The total amount of purchases settled on or before 28 August provided € 4.553 billion of liquidity in the money market in the context of the ECB's liquidity analysis.

#### iBoxx spreads against swaps

(basis points)



Source: Markit.

ECB

## NOTE TO EDITORS – GLOSSARY OF TECHNICAL TERMS AND EXPRESSIONS

**Eligible covered bonds** are covered bonds that fulfil 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).

**Inaugural covered bonds** are the first covered bonds ever to be issued by an institution.

**Covered bond spreads** are the spreads between the yield of a covered bond and the rates quoted for euro interest rate swap contracts with a similar maturity date.

**Interest rate swap** is 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.

**Iboxx indices** are 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.

**Bid-offer spread** is the spread between the prices or yields at which a market maker is willing to buy or to sell a certain asset.

**Senior unsecured bank bonds** are bonds issued by a bank, which are not secured by a cover pool, but which have a prior or superior claim on the issuer's assets and income than the other junior bonds issued by the same entity.

**Cover pool** is a set of collateral on which the investor in a covered bond has a prior claim in the event of a failure of the issuer of the covered bond.

**Tap** is the reopening of an existing bond that allows the issue size to be increased, and thus improves the liquidity on that bond.

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