



Recent developments in euro area bond markets

ECB Bond Market Contact Group

9 July 2013

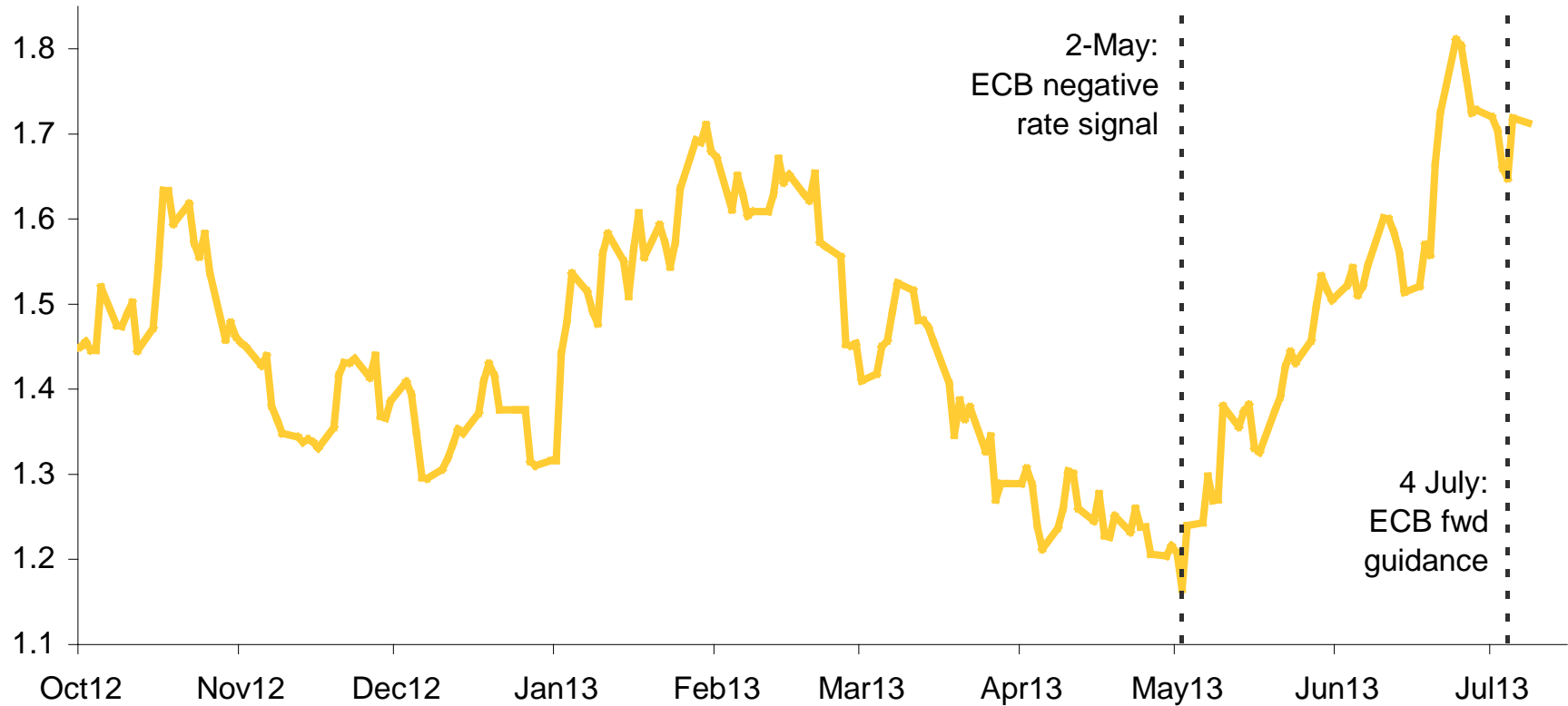
Christoph Rieger, Head of Interest Rate Strategy, +49 69 136 87664

5 Key themes

- (1) Fed tapering talk becomes main driver of asset valuations - and challenge for ECB
 - (2) Significant shift in EMU correlations
 - (3) ECB Liquidity fears add to higher € yields
 - (4) New issue performance turns sour, Portuguese and Slovenian yields reach highs for the year
 - (5) Confirmation of bail-in rules with limited spread impact
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2 May: The turning point for outright markets

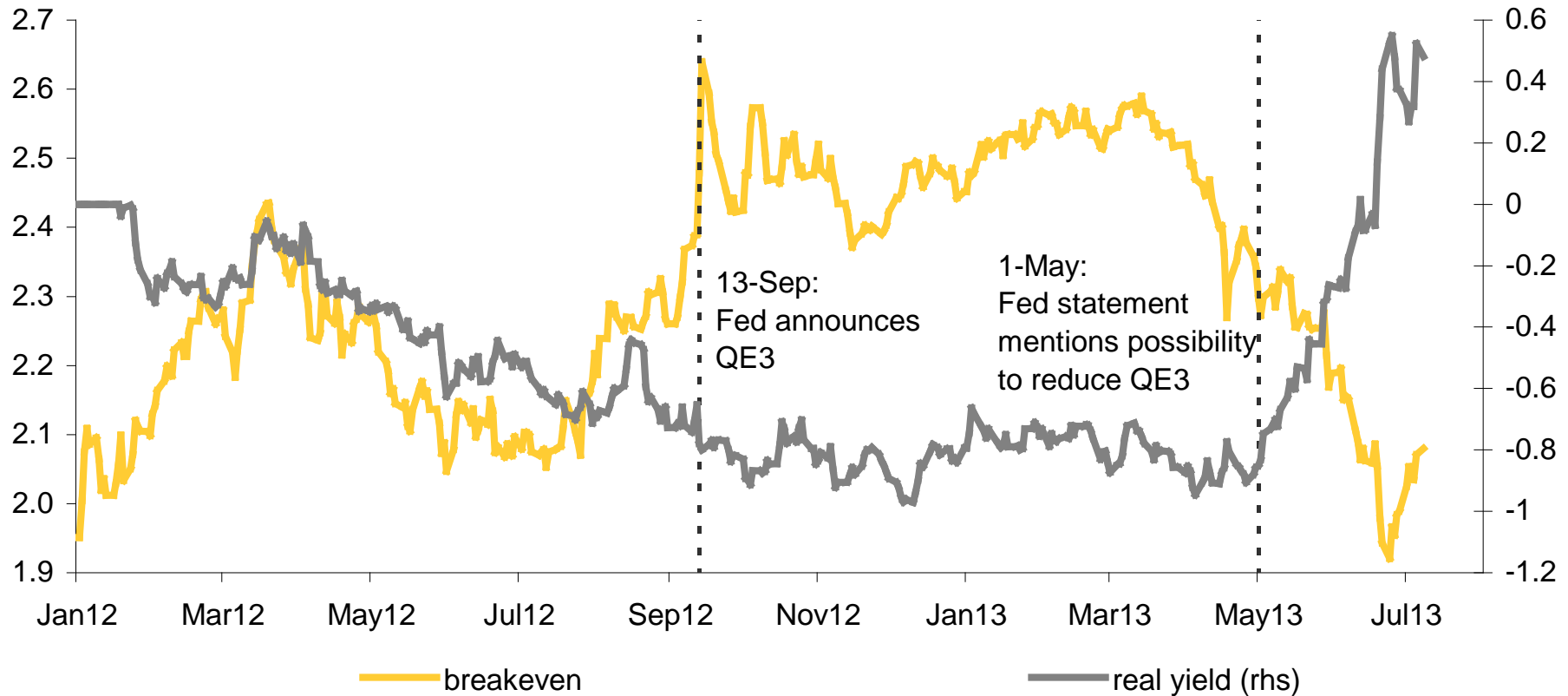
10y Bund yield in %



Source: Commerzbank Research

The anatomy of the sell-off: breakevens collapse, real yields surge

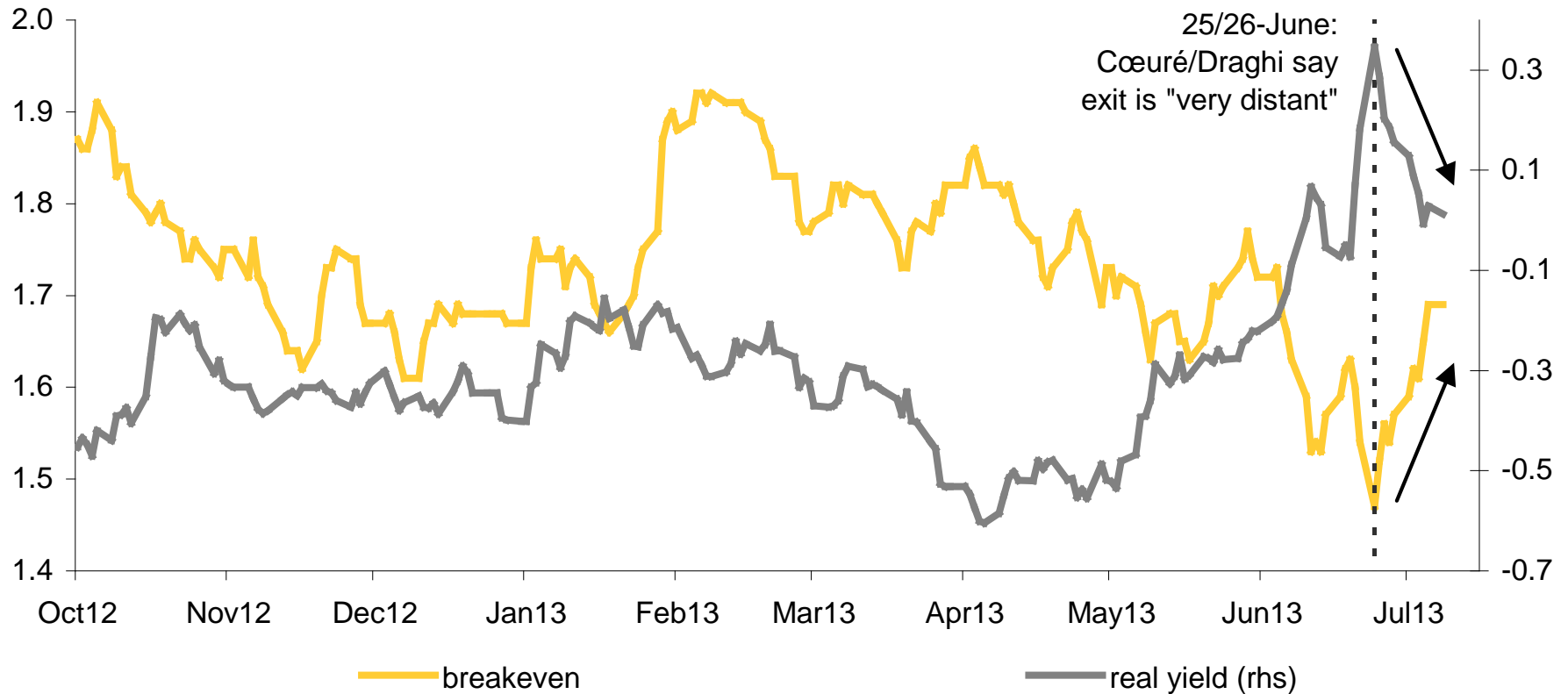
10y UST breakeven inflation and TIPS Jan22 real yield in %



Source: Commerzbank Research

Similar picture in Europe: Market pricing (global) monetary policy shift

German 10y breakeven inflation and DBR Apr23 real yield in %

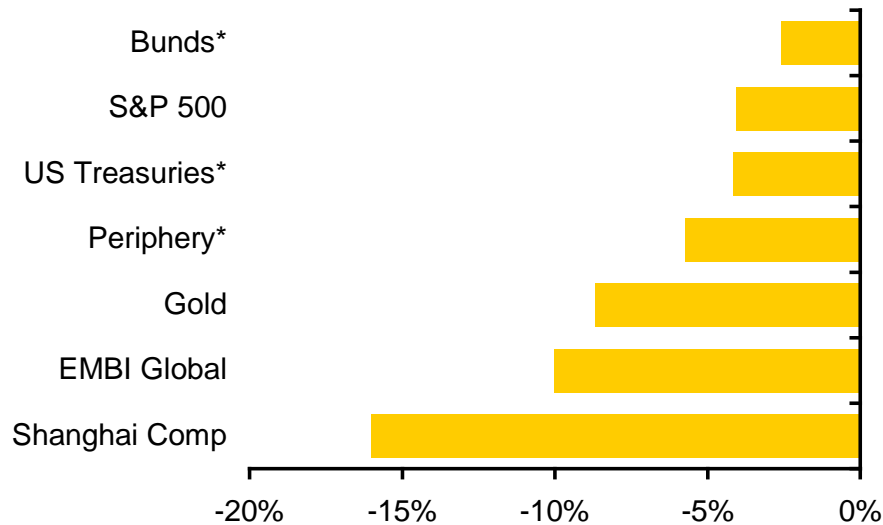


Source: Commerzbank Research

Unwind of global carry trade across all asset classes

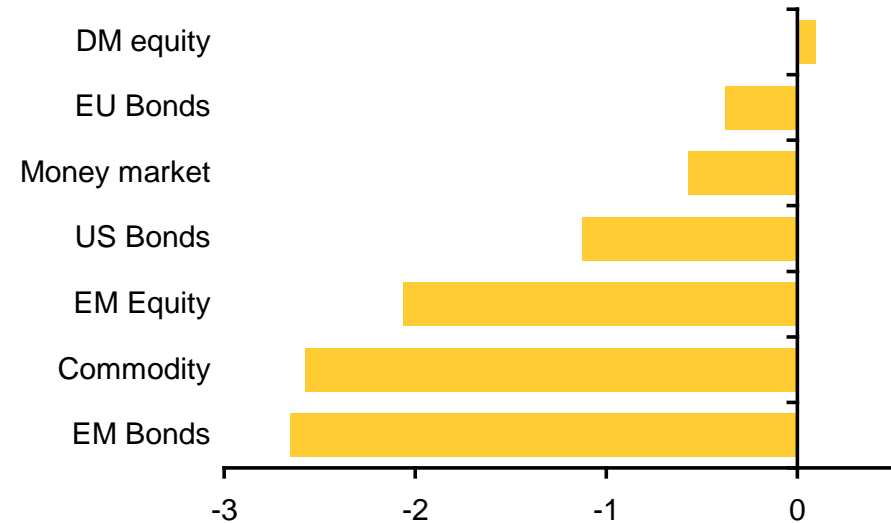
Nowhere to hide!

Selected Q2 performance since Bernanke testimony on 22 May in %



But where is all the money going?

Q2 Fund flows since 22 May in % of AuM



* Total performance in 7-10y bucket, Periphery is volume-weighted performance of Italy, Spain, Ireland, Portugal.

Source: EPFR, iBoxx, Commerzbank Research

From 3-speed EMU government bond market...

Performance correlation for iBoxx € Sovereign indices (7-10y maturities), **February 2013**

Performance	DE	FI	NL	AT	FR	BE	IT	ES	IE	PT
Germany	100%	98%	90%	95%	89%	83%	-29%	-34%	-21%	-2%
Finland	98%	100%	91%	97%	92%	88%	-19%	-24%	-11%	10%
Netherlands	90%	91%	100%	93%	89%	85%	-12%	-16%	-14%	10%
Austria	95%	97%	93%	100%	96%	91%	-14%	-21%	-12%	11%
France	89%	92%	89%	96%	100%	92%	-1%	-3%	3%	26%
Belgium	83%	88%	85%	91%	92%	100%	16%	12%	3%	20%
Italy	-29%	-19%	-12%	-14%	-1%	16%	100%	93%	52%	49%
Spain	-34%	-24%	-16%	-21%	-3%	12%	93%	100%	60%	48%
Ireland	-21%	-11%	-14%	-12%	3%	3%	52%	60%	100%	20%
Portugal	-2%	10%	10%	11%	26%	20%	49%	48%	20%	100%

Source: Commerzbank Research, iBoxx

... towards 'we're all rates again!'

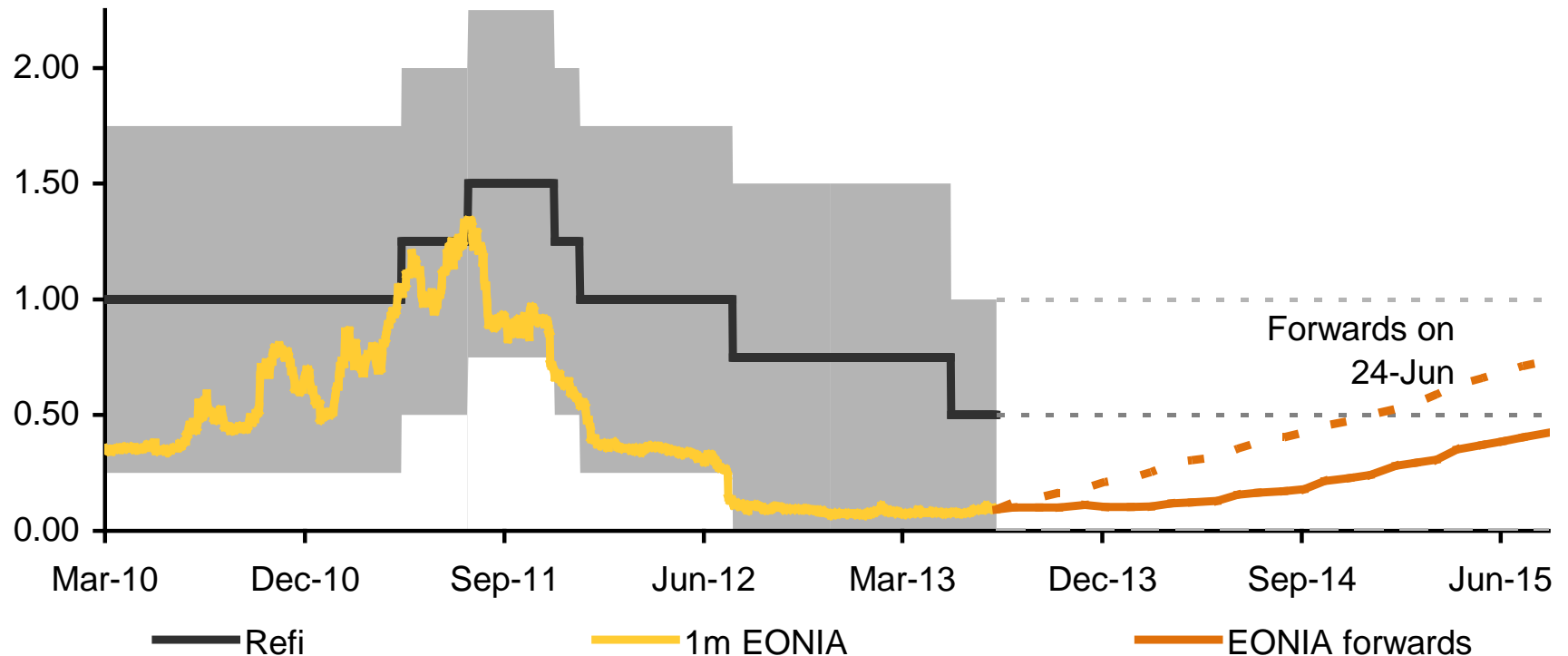
Performance correlation for iBoxx € Sovereign indices (7-10y maturities), **June 2013**

Performance	DE	NL	FI	AT	FR	BE	IT	ES	IE	PT
Germany	100%	97%	95%	94%	94%	89%	65%	59%	50%	38%
Netherlands	97%	100%	99%	97%	97%	94%	74%	70%	62%	52%
Finland	95%	99%	100%	98%	96%	94%	72%	69%	66%	56%
Austria	94%	97%	98%	100%	98%	98%	76%	72%	64%	60%
France	94%	97%	96%	98%	100%	97%	77%	73%	67%	60%
Belgium	89%	94%	94%	98%	97%	100%	76%	74%	65%	64%
Italy	65%	74%	72%	76%	77%	76%	100%	93%	64%	72%
Spain	59%	70%	69%	72%	73%	74%	93%	100%	73%	81%
Ireland	50%	62%	66%	64%	67%	65%	64%	73%	100%	91%
Portugal	38%	52%	56%	60%	60%	64%	72%	81%	91%	100%

Source: Commerzbank Research, iBoxx

Liquidity fears add to 'passive monetary tightening'...

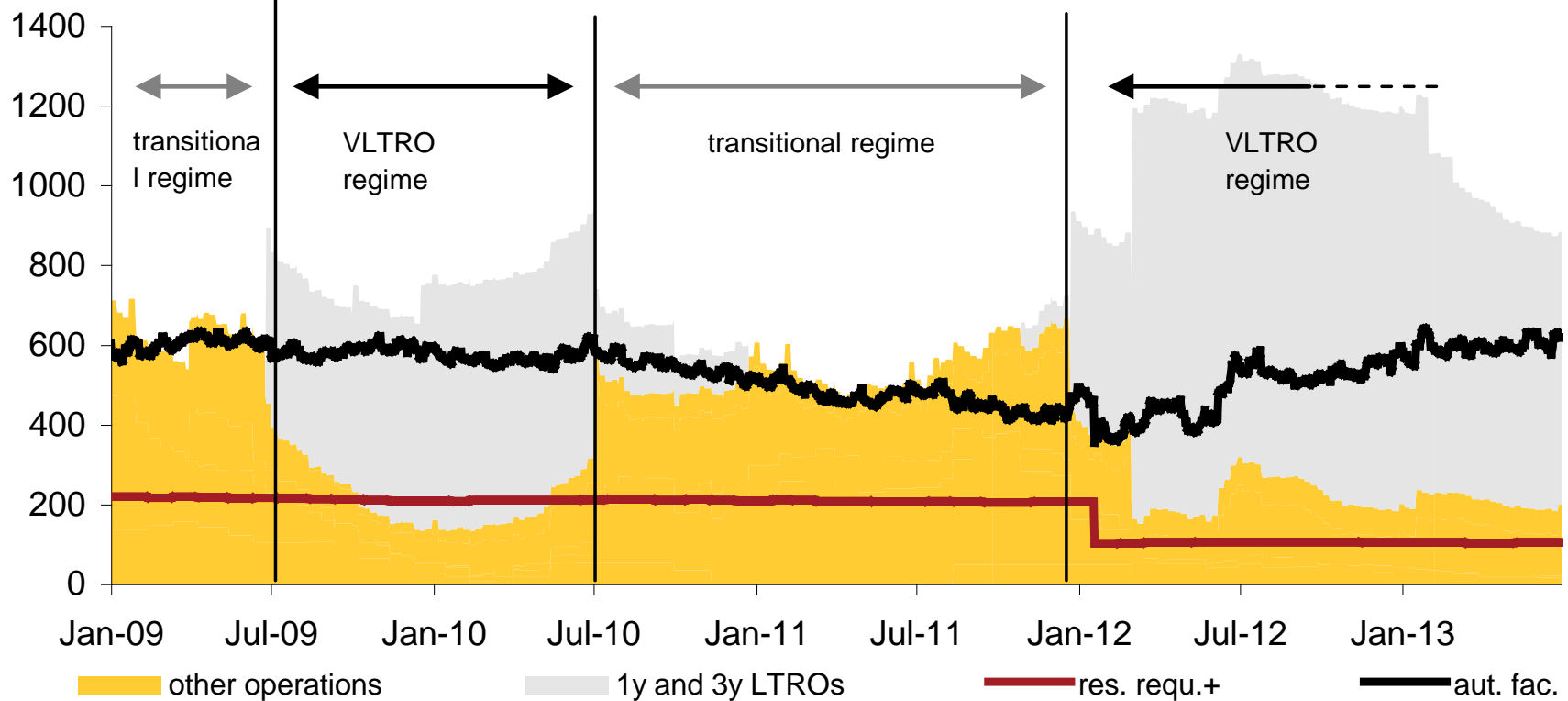
ECB and market rates in pre-ECB %



Source: Commerzbank Research

... as excess liquidity is evaporating

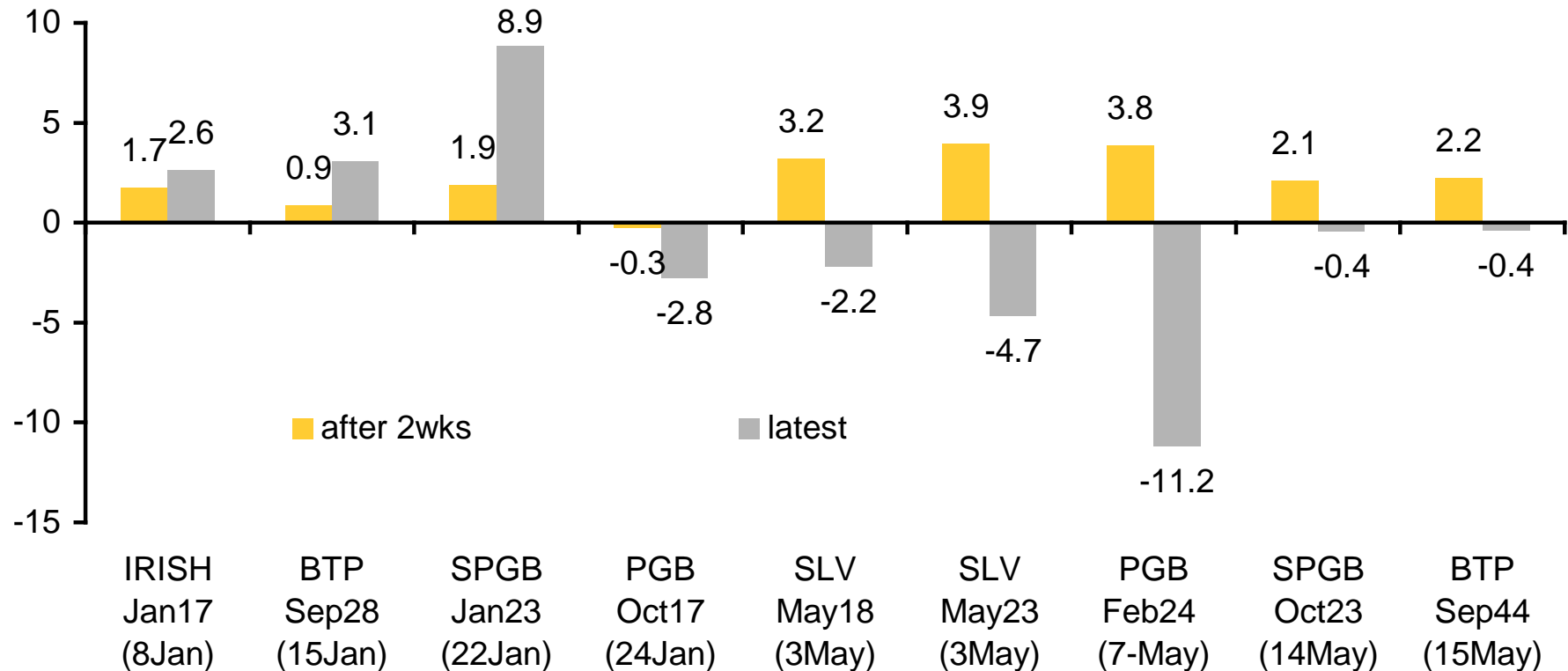
ECB outstanding open market operations and liquidity needs in € bn



Source: Commerzbank Research

New issue performance languishing

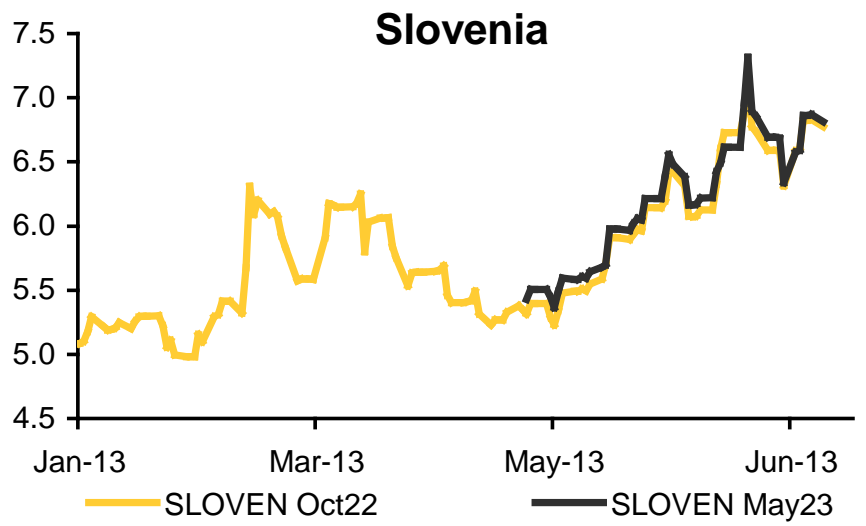
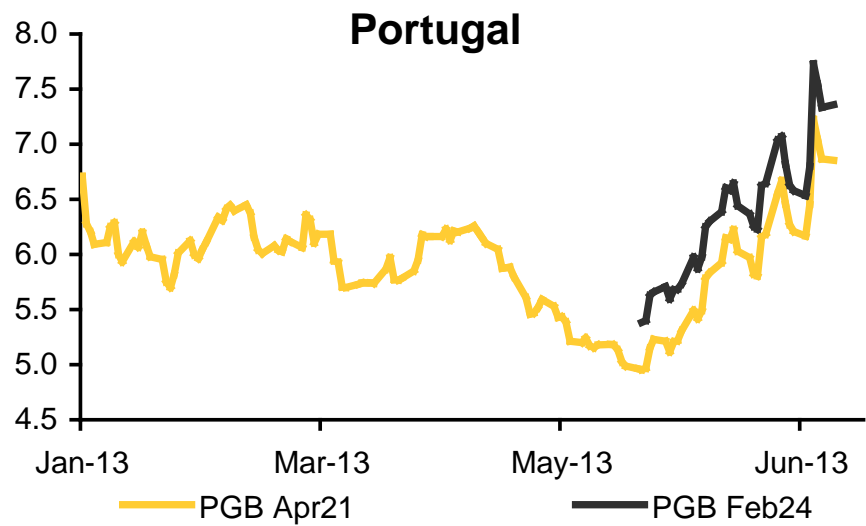
Total performance of peripheral euro area sovereign syndications this year in %



Source: Commerzbank Research

Yields in high-yielders reach new highs

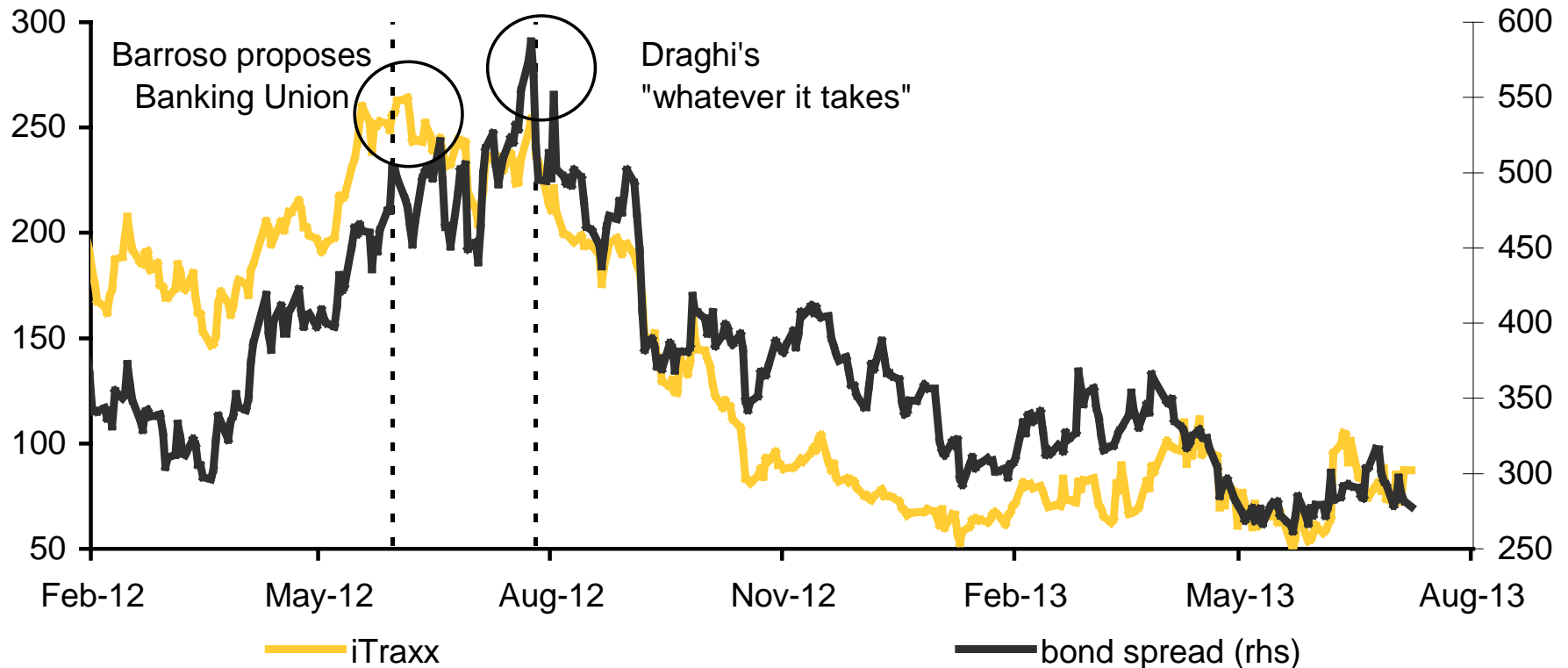
8-10y yields in %



Source: Commerzbank Research

Banking Union: Putting a vision into practice...

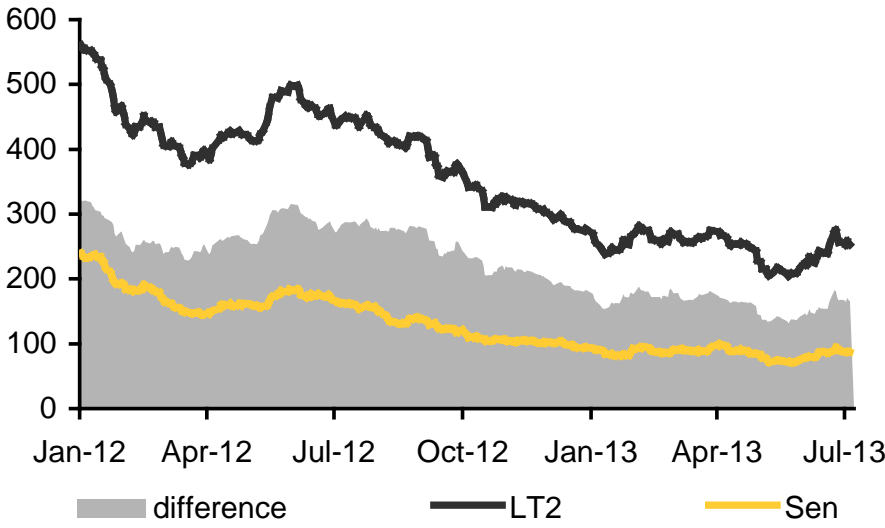
5y iTraxx Senior Financials and average 10y spread of Italy/Spain over Germany in bp



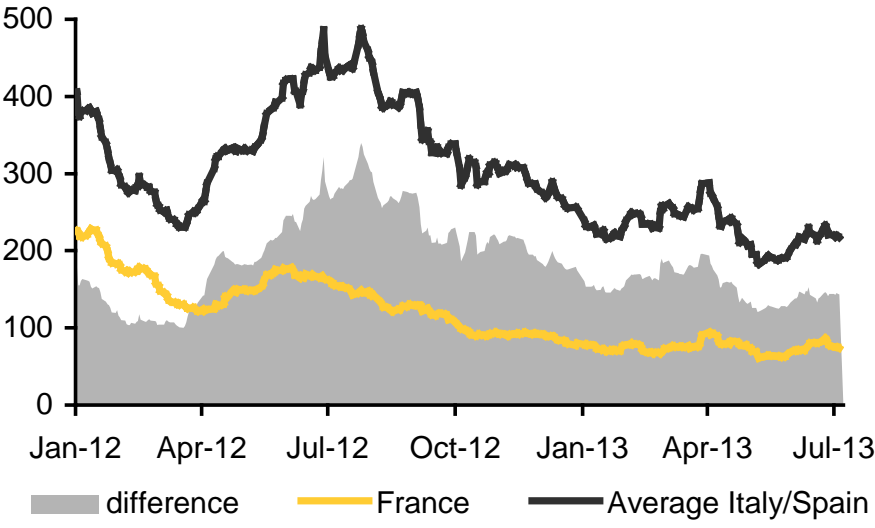
Source: Commerzbank Research

Banking Union: Confirmation of bail-in rules with little spread impact

iBoxx senior financials and Lower Tier 2 asset swap spreads in bp



iBoxx senior financials asset swap spreads in bp



Source: iBoxx, Commerzbank Research

Discussion points

- Will the ECB's forward guidance succeed in countering Fed-induced bearish spread widening in EMU sovereigns?
 - How can market access be restored for Portugal?
 - Banking Union agreements: “revolutionary”, “major step” or insufficient?
 - Bund-Länder Anleihe: a template for European common issuance?
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