



Demand for sovereign bonds: The importance of diversity

ECB Bond Market Contact Group

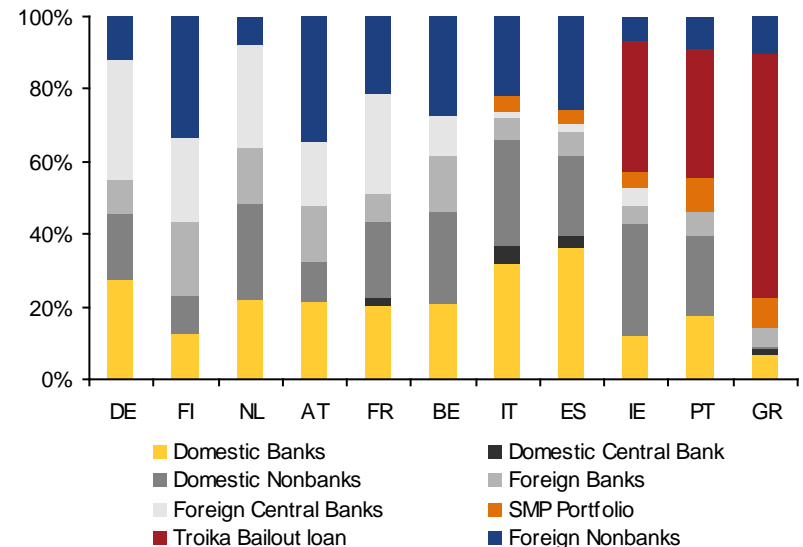
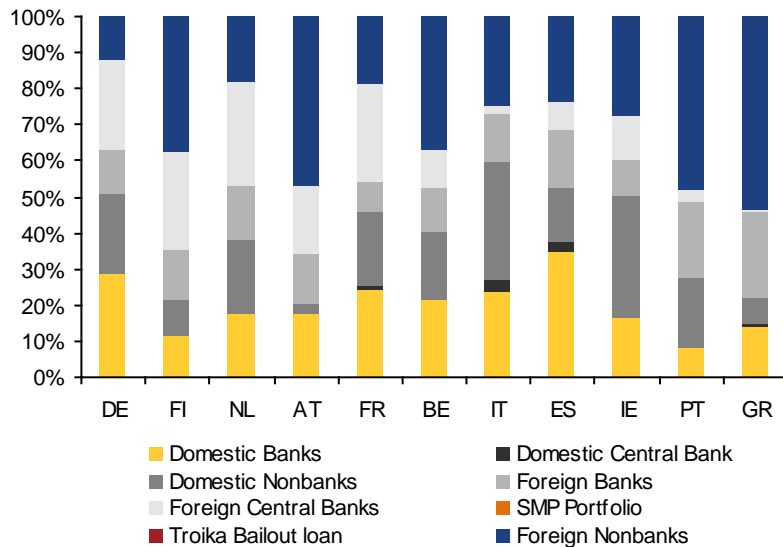
1 July 2014

Key themes

- (1) Core: Investor base remarkably stable even as the safe-haven bid subsides
 - (2) Spain & Italy: Bank dependence eases as foreign and domestic institutional investors step in
 - (3) (Ex-)Program countries: Easy exit as risk sentiment offsets demand constraints
 - (4) Japanese buying: Core/periphery rotation limited so far
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What a difference a crisis makes

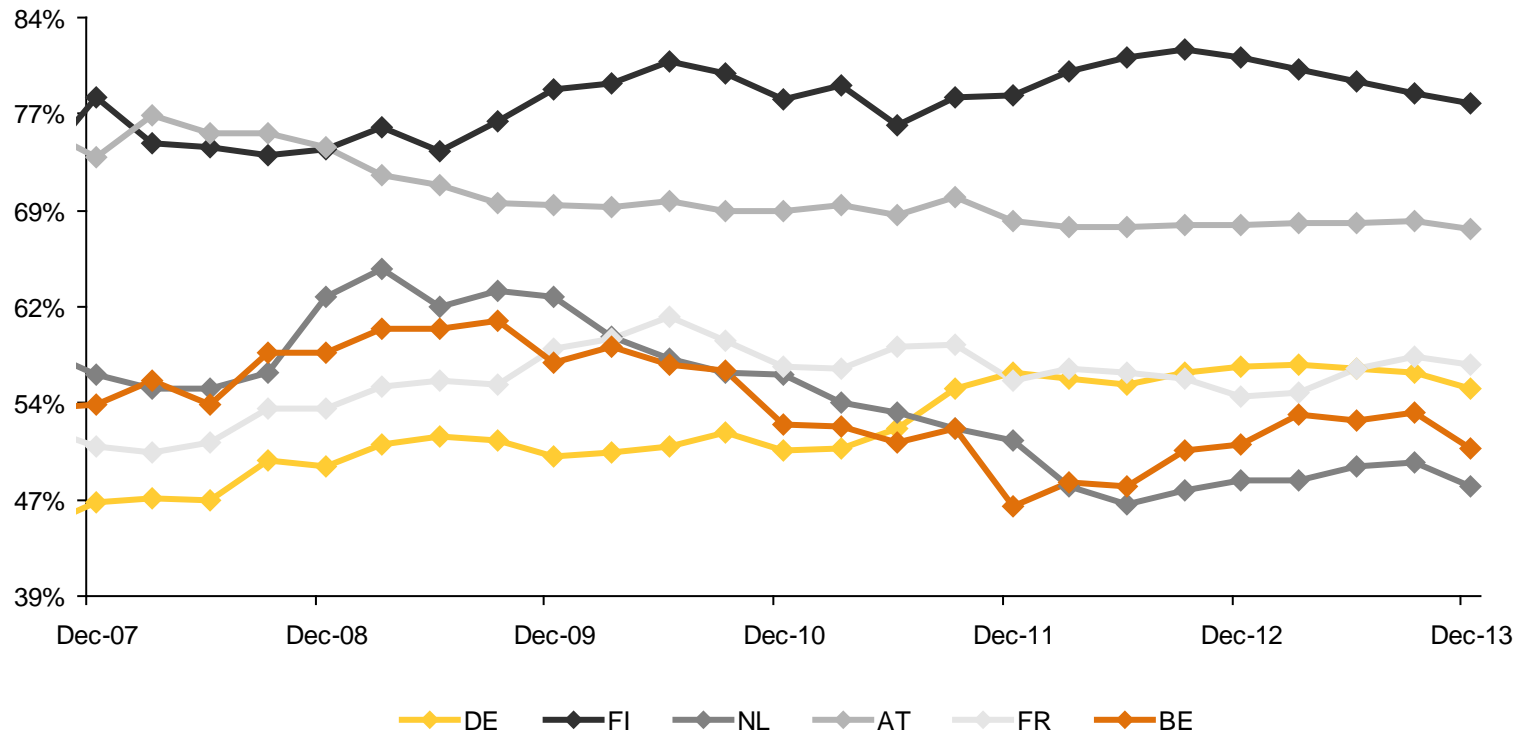
Public debt holdings* in % of total outstanding, end of Q4-2008 (left) and Q4-2013 (right)



Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt

Core: Investor base remarkably stable through the crisis

Foreign holdings of public debt*, in % of total outstanding

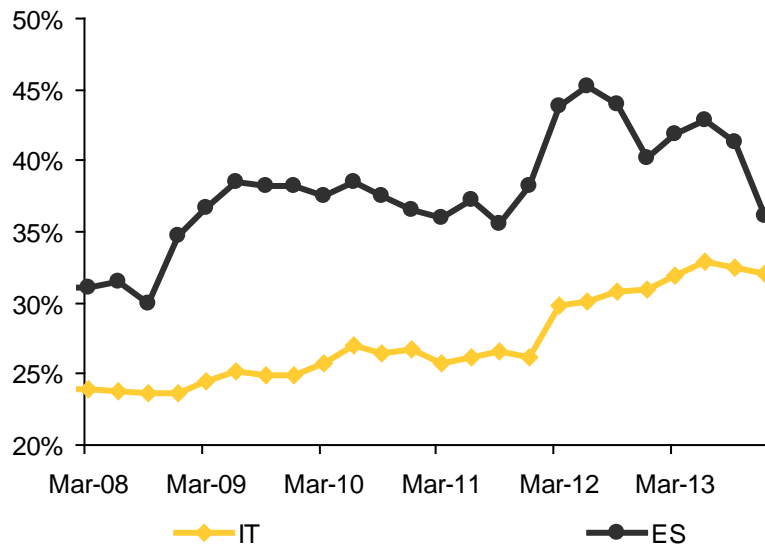


Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt

Spain & Italy: Bank dependence eases...

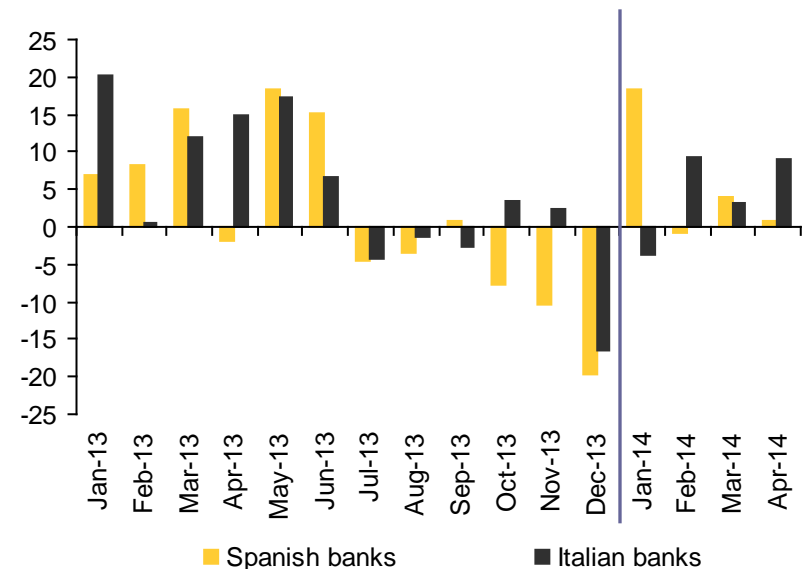
No longer the only buyer in town

Domestic banks' public debt* holdings, in % of total outstanding



... also after the AQR cut-off date

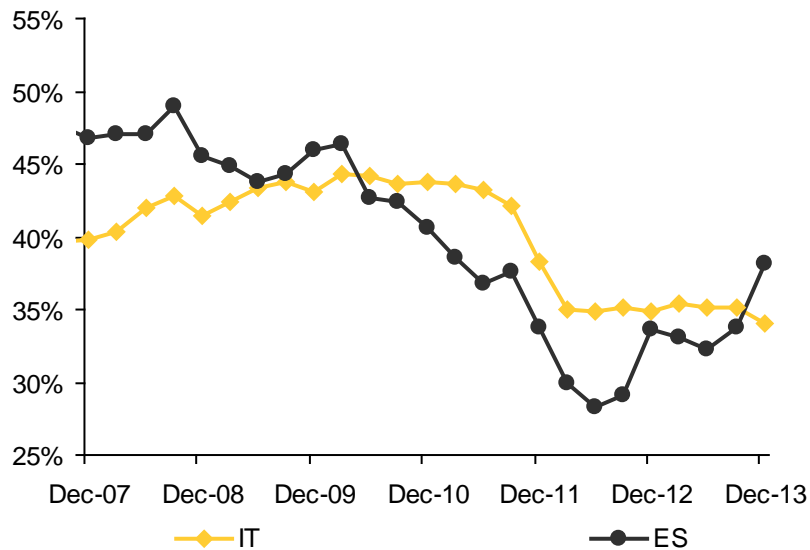
Net buying of domestic govies, in € bn



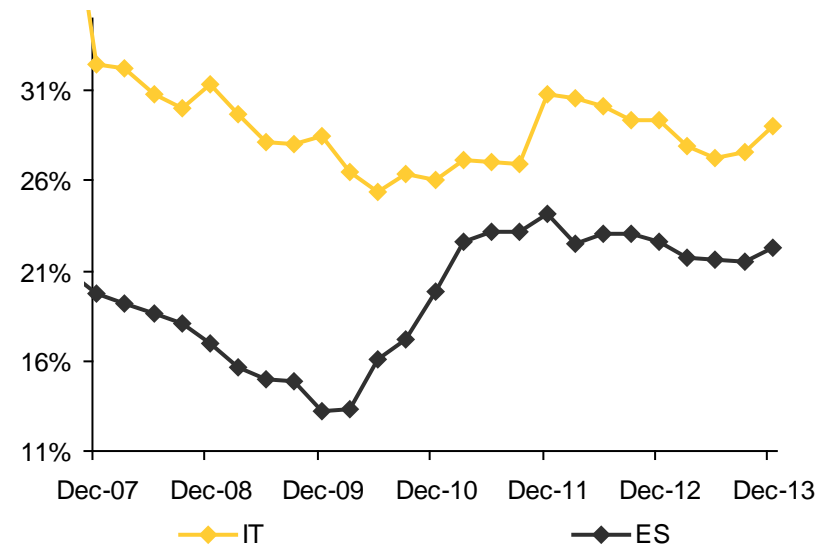
Source: Commerzbank Research, ECB, Eurostat, *) refers to Maastricht general government debt

... as foreign investors return and domestic institutionals step in

Foreign public debt* holdings, in % of total outstanding



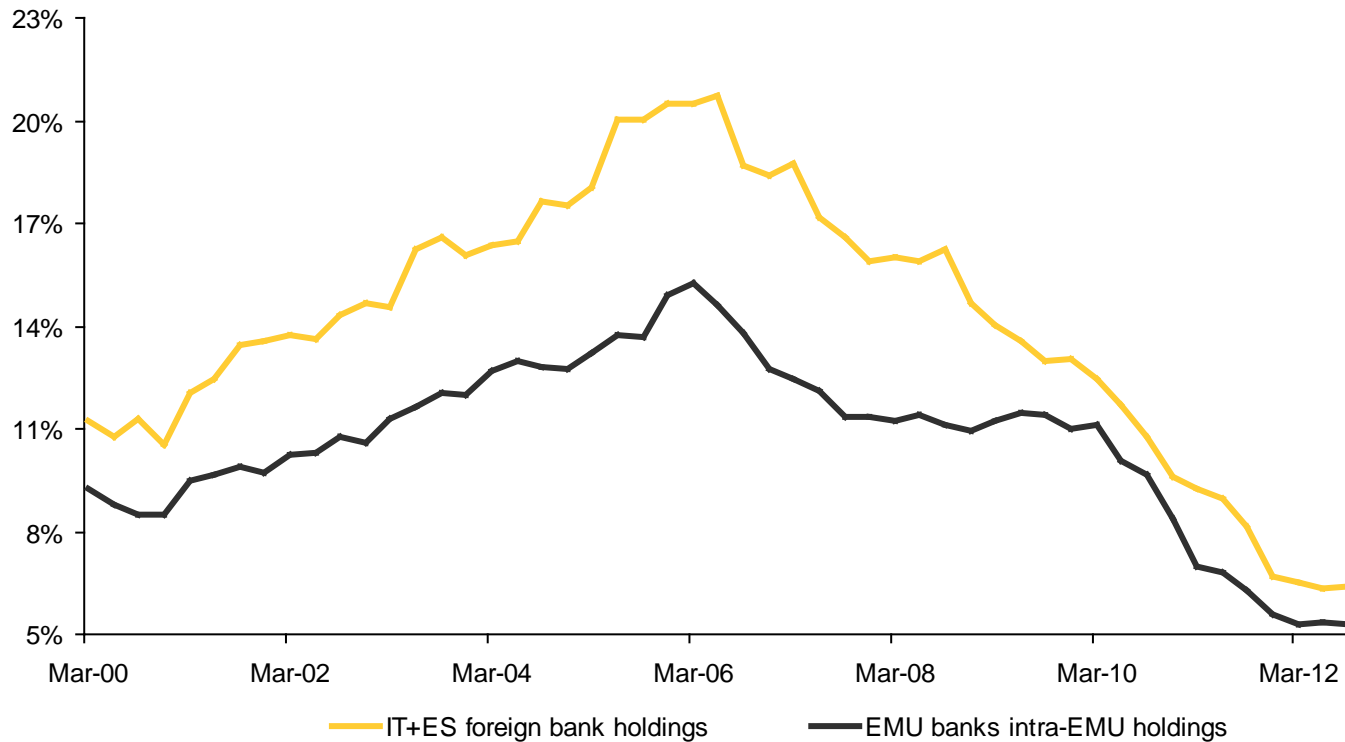
Domestic institutional holdings



Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt

Intra-EMU bank holdings remain depressed as regulation favours home bias

EMU bank holdings of non-domestic EMU public debt, in % of total outstanding; foreign bank holdings of Spanish and Italian public debt (average),

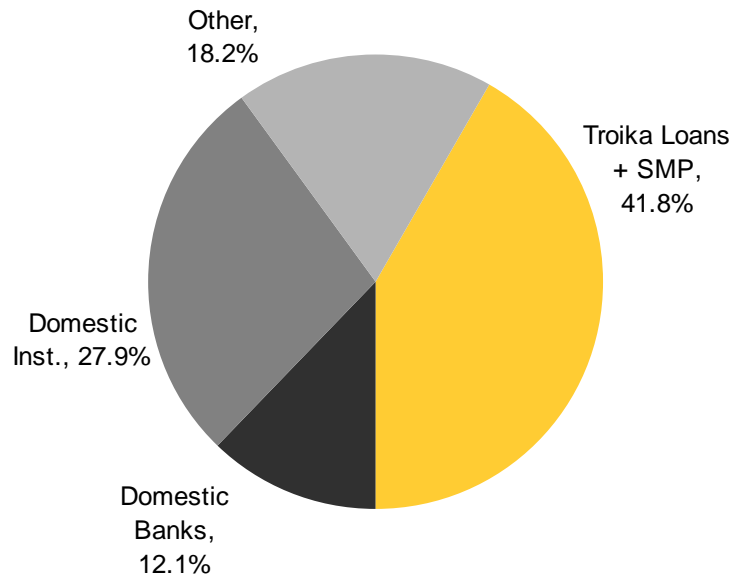


Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt

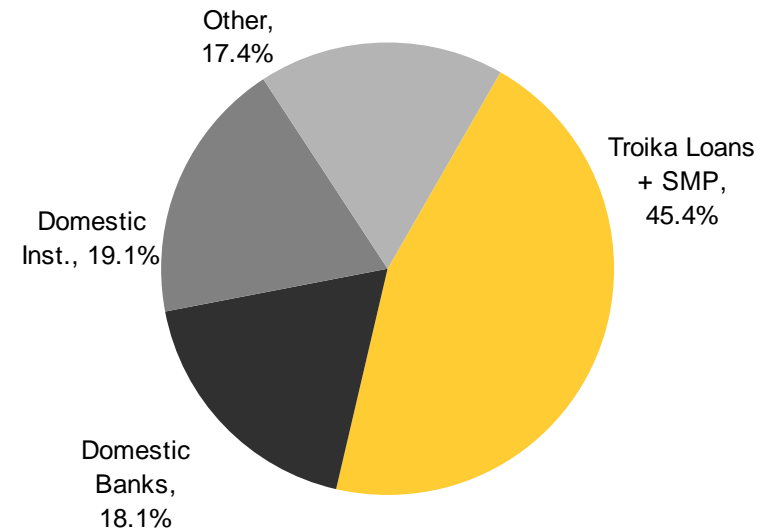
(Ex-)Program countries: Easy exit despite demand constraints

Public debt* holdings, in % of total outstanding

Ireland



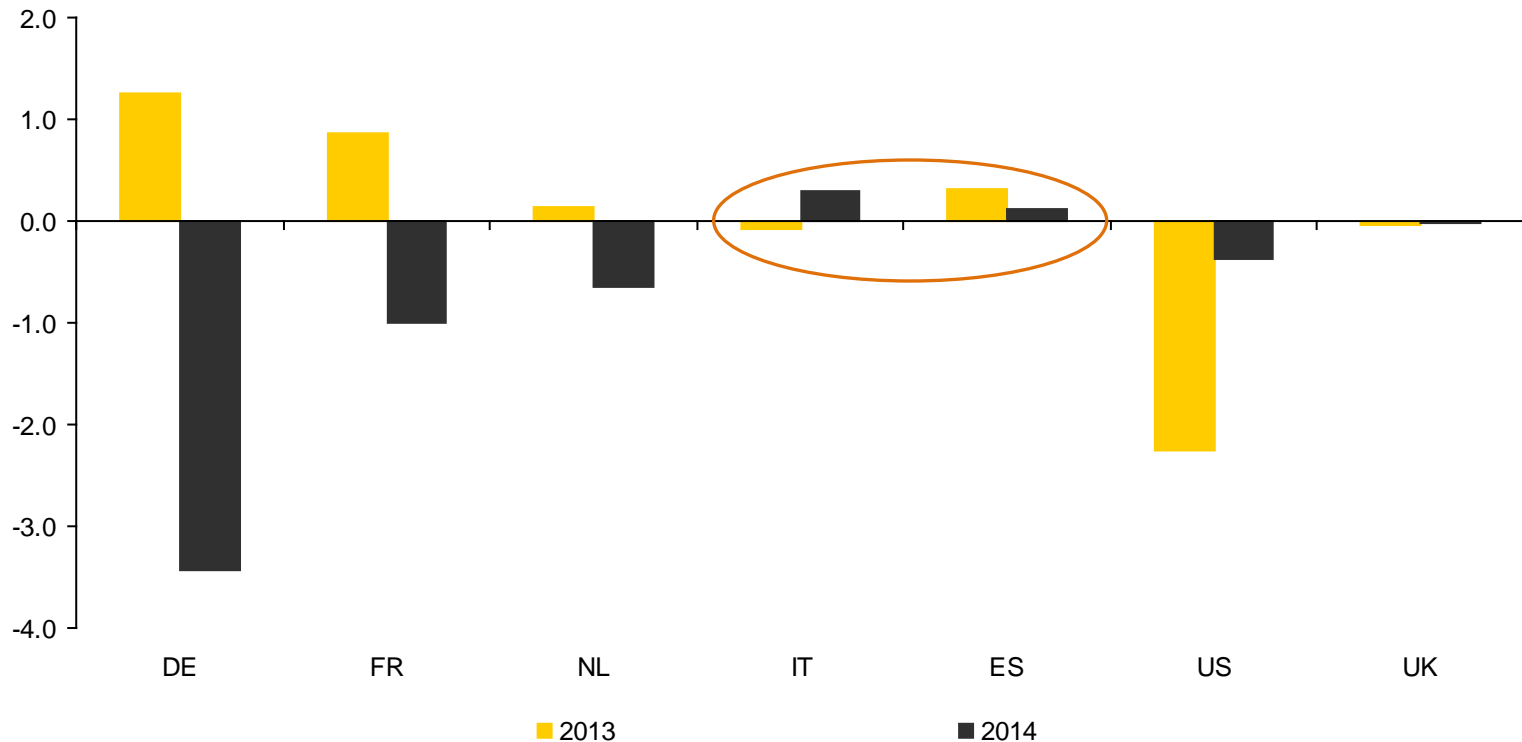
Portugal



Source: Commerzbank Research, IMF, BIS, ECB, Eurostat, *) refers to Maastricht general government debt

Japanese buying: Facts vs fiction

Japanese net buying of foreign bonds (trn Yen)



Source: Commerzbank Research, Bank of Japan

Discussion points

- How will regulatory changes (e.g. risk weighting) impact demand for sovereign bonds?
 - How can intra-EMU bank buying be revived?
 - Will foreign investors continue their return to peripheral markets?
 - How will global central bank divergence impact EGB demand?
 - How can Ireland, Portugal and Greece achieve a more robust investor structure?
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