



COMMERZBANK

# ECB BMCG

## Bond markets in an environment of monetary policy normalization

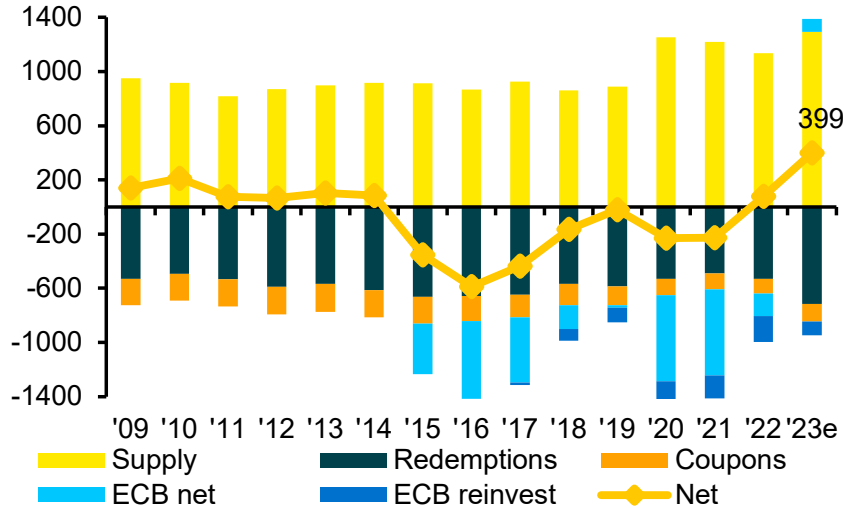


Christoph Rieger, 14 February 2023

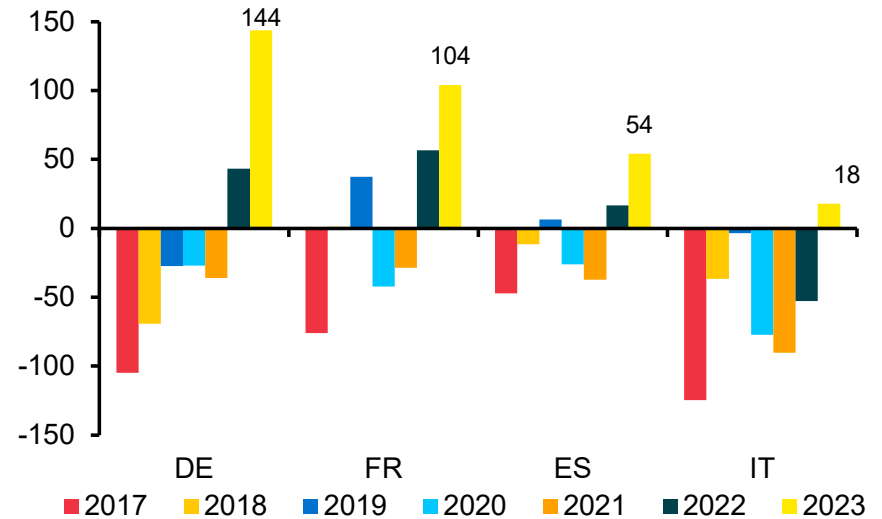
# 2023: Record issuance and ECB support in reverse!



Euro area sovereign gross and QE-adjusted net issuance, Redemptions and coupons are ex-ECB, estimates for 2023, in €bn



Estimated ECB-adjusted net EGB issuance, in €bn

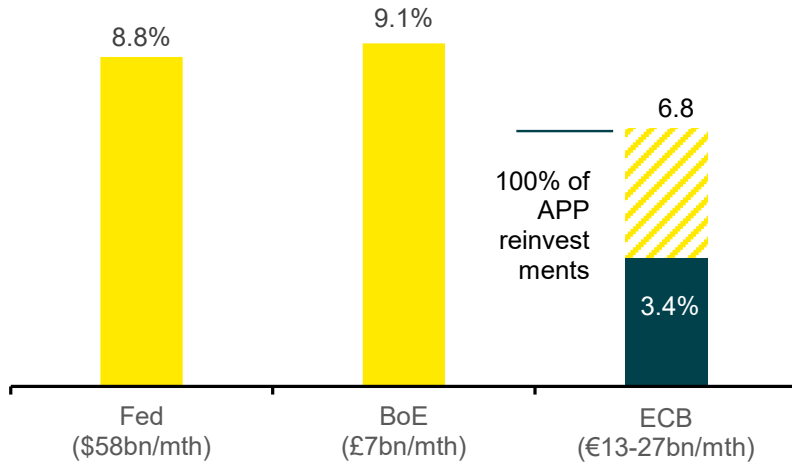


Source: Debt agencies, Bloomberg, Commerzbank Research

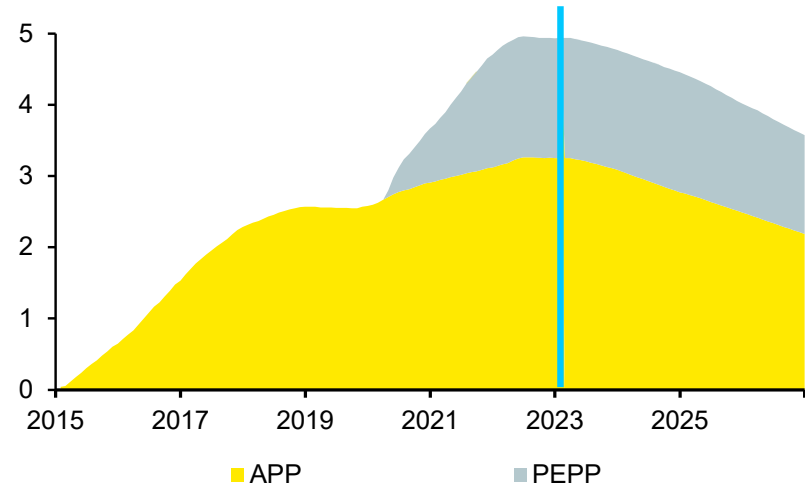
# QT: Watching paint dry?



Central bank QE portfolio reduction during first twelve months of QT, in % of accumulated portfolios. Amber column shows Commerzbank expectation starting in March 2022.



APP and PEPP portfolio holdings and projections using SMA median, in € trn



SMA median implied monthly APP reduction, in € bn

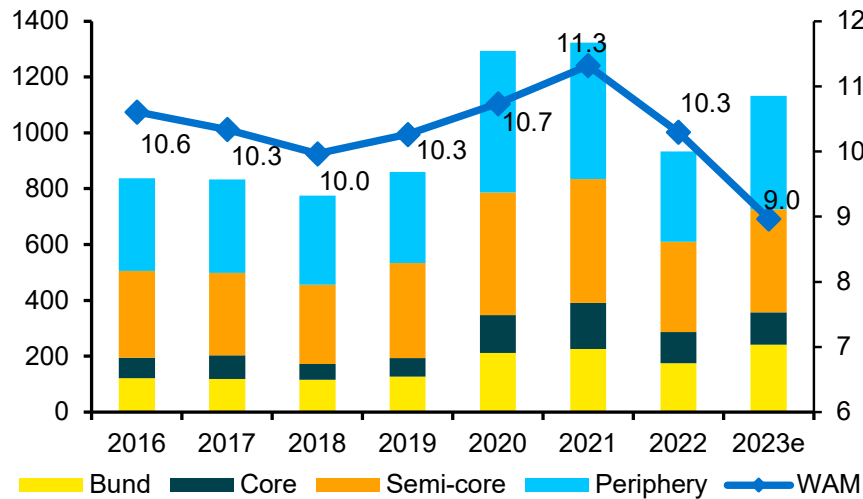


Source: Fed, BoE, ECB, Bloomberg, Commerzbank Research

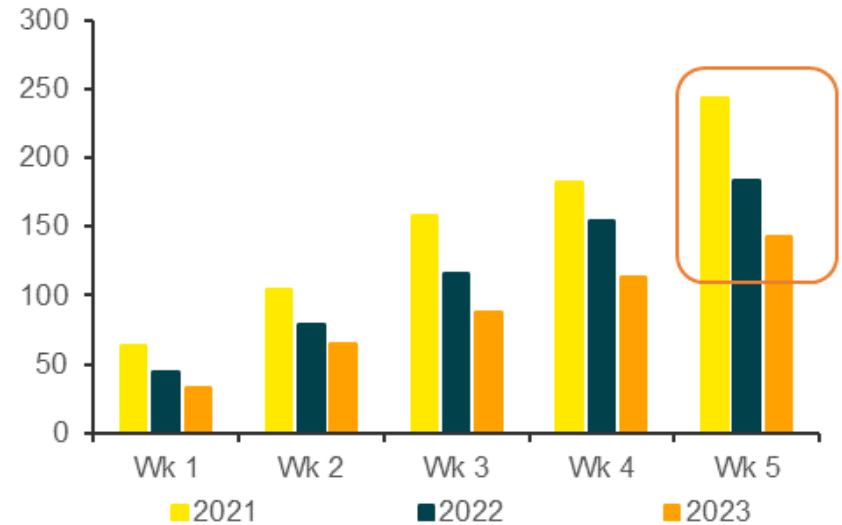
# Primary: More volumes, less duration!



Risk-equivalent EGB supply per credit bucket in €mn/bp and weighted average maturity in years (rhs)



Cumulative weekly DV01 EGB supply

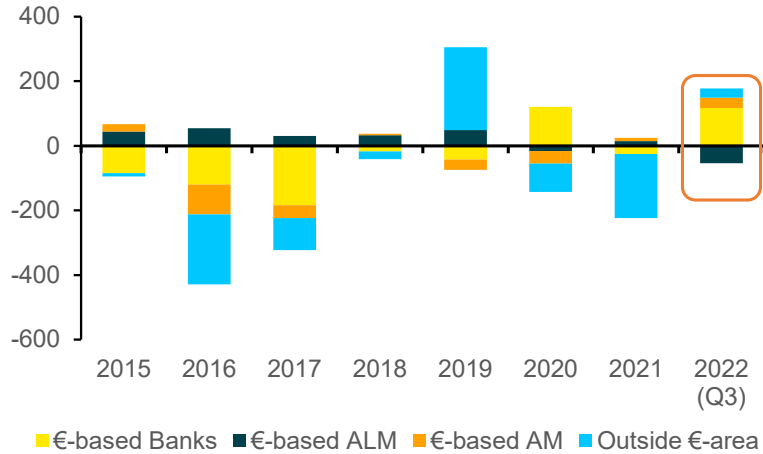


Source: Bloomberg, Commerzbank Research

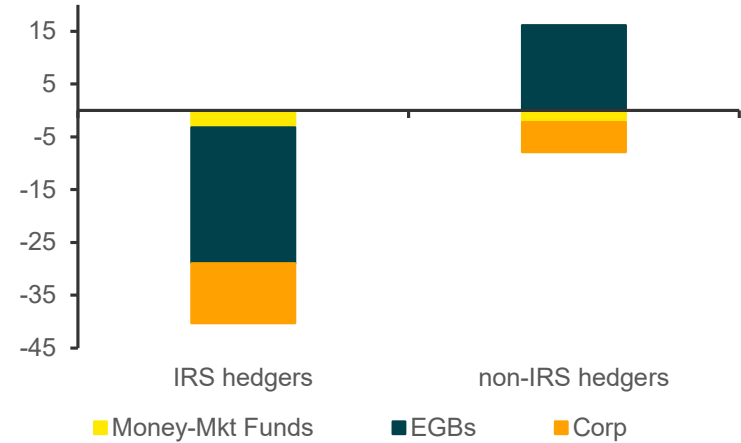
# Who is buying?



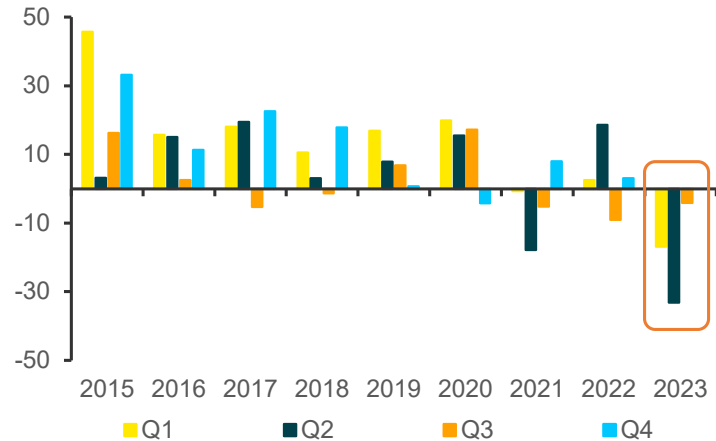
Net EGB transactions\* per investor type, excl. ECB, in € bn



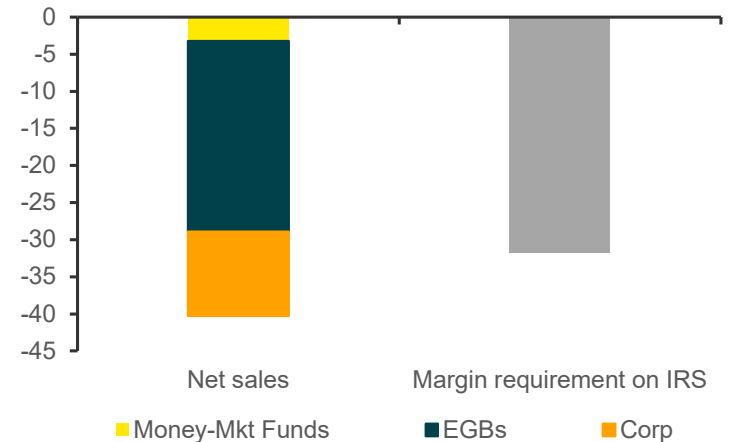
Net bond flows of EU insurers during H1-22, in € bn



Net sovereign\* flows of €-area Insurers+Pension Funds, in € bn



Net bond flows and margin requirement of IRS hedger during H1-22, in € bn

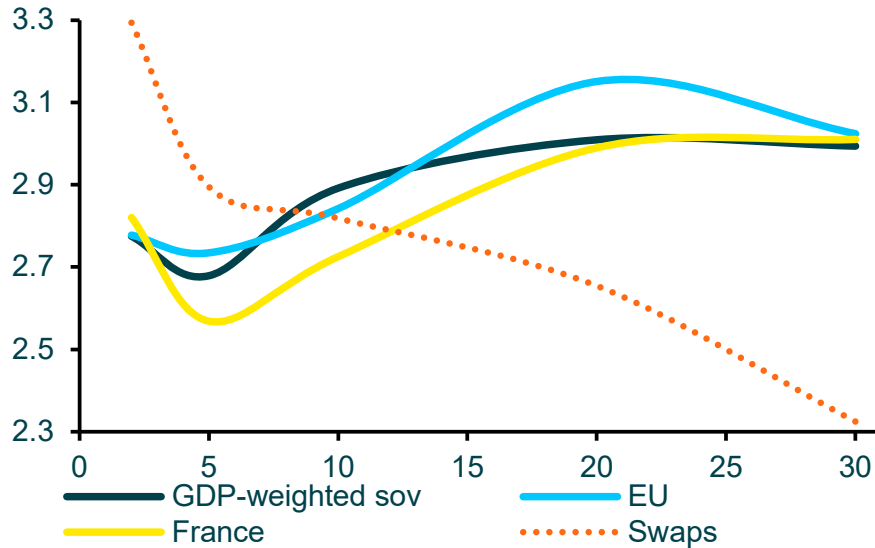


Source: Bloomberg, ECB, EIOPA, Commerzbank Research, \*) 1y+ general government bonds

# ... and at what price?



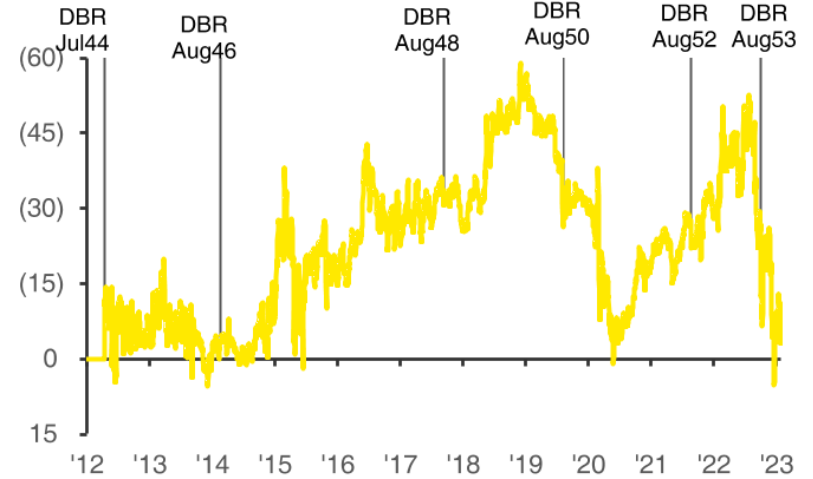
Yield curves for EU, GDP-weighted euro area sovereign, France and swaps, in %



Source: Bloomberg, Commerzbank Research, \*) interpolated from 10y and 30y on-the-run Bund

## Ultralong Bund swap spreads at historic lows...

Z-spreads of on-the-run 30y Bunds, in bp



## ... and EU underperformance until recently!

Z-spreads of on-the-runs, in bp



# Discussion points:



- Is the primary market at risk of getting saturated at some point?
- How will ALM demand for duration develop this year?
- Would a higher supra share be justified in the public-sector portfolios?
- How will covered bonds cope with ECB only buying in secondary?
- Is active switching out of CSPP bonds feasible to accelerate portfolio greening?

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### I) Recommendations versus benchmarks:

Overweight (OW) We expect outperformance versus the benchmark in spread and/or total return terms  
Marketweight (MW) We expect performance in line with the benchmark in spread and/or total return terms  
Underweight (UW) We expect underperformance versus the benchmark in spread and/or total return terms

**Benchmark:** Unless stated otherwise, the benchmark is the iBoxx € Corporate for IG-rated names/instruments, and the iBoxx € High Yield core cum crossover LC for HY-rated names/instruments

### II) Outright recommendations:

Buy We suggest entering / expanding positions in the relevant names/instruments  
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	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Overweight	70%	0%
Marketweight	0%	0%
Underweight	30%	0%

Source: Commerzbank Research

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Long/Buy	43%	0%
Neutral	16%	0%
Underweight	41%	0%

Source: Commerzbank Research

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