

Bond Market Outlook

By Maria Cannata

BMCG meeting of March 4, 2020



A look at the recent past



Main Evolution since 2019-end



Primary markets

- Large issuance of sovereign bonds since the beginning of 2020
- In particular, very relevant demand and supply of long dated bonds
- A look at the inflation linkers sector

• Secondary markets

- General recovery on volumes traded, after a modest Q4 2019
- Yields declining and spreads vs Bund generally reducing until February 21st, afterwards increasing tensions due to the COVID 19 contagion
- A look at bid-ask spreads



Sovereign Primary Market / 1



An overall picture since the start of the year

Country	Bond issuances 2020 YTD grouped by type and maturity (€bn)										Redemptions	Net issuance
	2 - 3y	5y	7y	10y	15 - 20y	30y	ILB	CCTeu - FRN	ICTZ	TOTAL		
Italy	5,7	7,8	5,5	10,2	10,3	7	2,9	4,6	6,9	60,9	22,7	30,7
France	7,7	7,1	6,2	12,4	6	8,5	4	0,0	0,0	52,0	0	52
Spain	7,2	6,8	1,4	13,7	1,2	6,1	1,5	0,0	0,0	38,0	23,1	14,9
Germany	9,0	8,0	0,0	9,0	0,0	3,0	1,0	0,0	0,0	30,0	22,0	8,0
Belgium	0,0	0,0	0,0	6,0	5,0	0,4	0,0	0,0	0,0	11,4	0,0	11,4
Portugal	0,0	0,0	0,7	4,0	0,8	0,0	0,0	0,0	0,0	5,5	0,0	5,5
Ireland	0,0	0,0	0,0	0,0	4,0	0,0	0,0	0,0	0,0	4,0	0,5	3,5
Austria	1,3	0,6	0,3	3,7	0,0	0,1	0,0	0,0	0,0	6,0	0,0	6,0
Finland	0,0	0,0	0,0	0,0	3,0	0,0	0,0	0,0	0,0	3,0	0,0	3,0
Netherlands	0,0	0,0	1,3	0,0	1,4	0,0	0,0	0,0	0,0	2,7	15,0	-12,3
Greece	0,0	0,0	0,0	0,0	2,5	0,0	0,0	0,0	0,0	2,5	0,0	2,5
Slovenia	0,0	0,0	0,0	1,5	0,0	0,0	0,0	0,0	0,0	1,5	1,6	-0,1
Slovakia	0,0	0,0	0,2	0,3	0,1	0,0	0,0	0,0	0,0	0,6	0,0	0,6
TOTAL by type and maturity	30,9	27,8	15,6	56,8	34,3	25,1	9,4	3,6	6,9			



Sovereign Primary Market / 2



Main remarks

- As usual, the largest amount issued was on the 10-year, followed by longer tenors.
- Extremely low yields pushed investors to extend duration, producing strong demand in long maturities.
- Many syndicated issuances in the long end, with high record order-books.
- Inflation linkers still attractive, with good demand in auction, confirming the trend observed at the 2019-end, where, for instance, Italy placed 4 €bn of a new 10y BTP€i and 6.75 €bn of a 8y BTP Italia. Indeed, the ILB less liquidity produces a yield pick-up of 20-25 bps, which enlarge the traditional investor base of such market segment.

Syndicated issuances

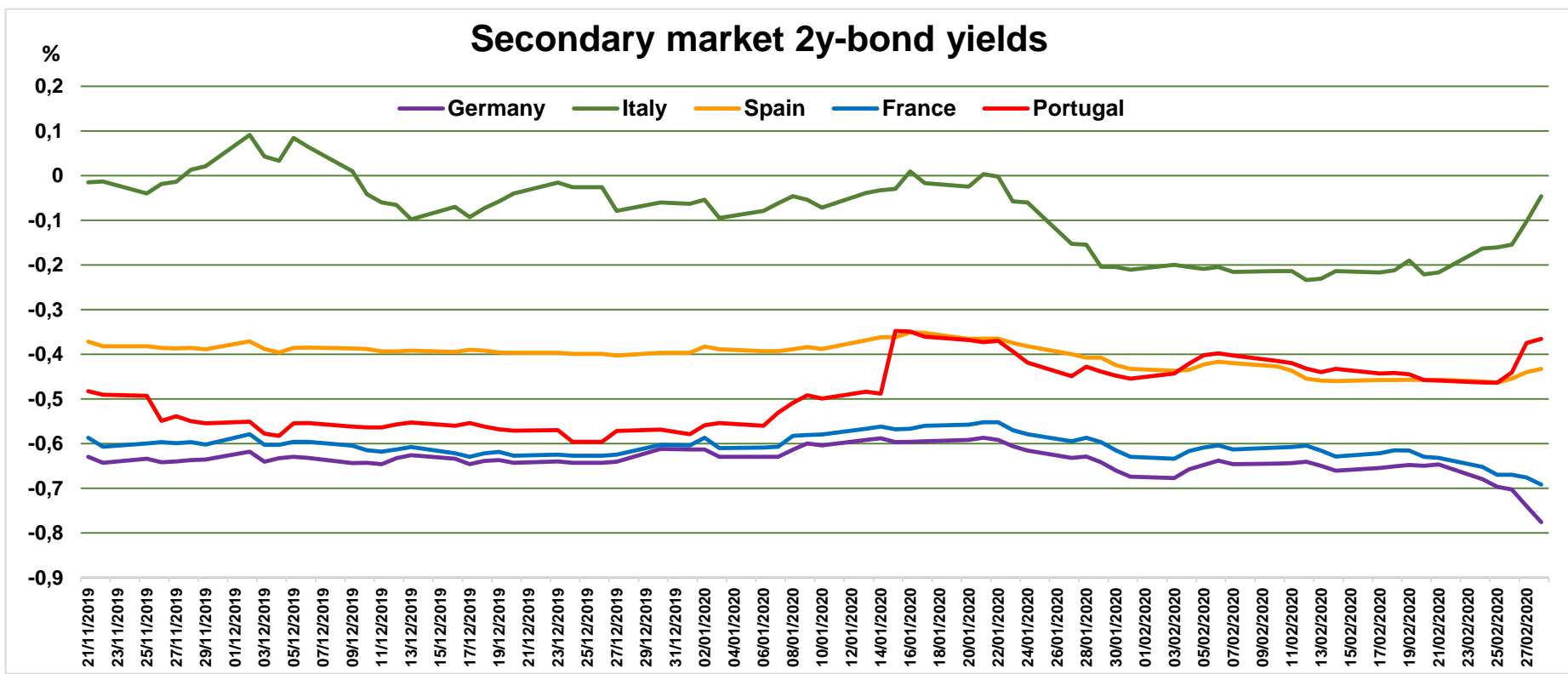
Country	Date of issuance	Volume (€mln)	Tenor at issuance
Slovenia	7 Jan 2020	1.500	10 years
Ireland	8 Jan 2020	4.000	15,3 years
Portugal	8 Jan 2020	4.000	10,8 years
Germany	8 Jan 2020	9.000	10,1 years
Spain	14 Jan 2020	12.060	10,3 years
Italy	15 Jan 2020	7.000	30,6 years
Belgium	15 Jan 2020	6.000	10,4 years
France	28 Jan 2020	5.000	32,3 years
Greece	28 Jan 2020	2.500	15 years
Austria	29 Jan 2020	3.250	10,1 years
Finland	4 Feb 2020	3.000	16,2 years
Italy	11 Feb 2020	9.000	16,1 years
Belgium	18 Feb 2020	5.000	20,2 years
Spain	25 Feb 2020	5.000	30,7 years



Yields on secondary market: short end



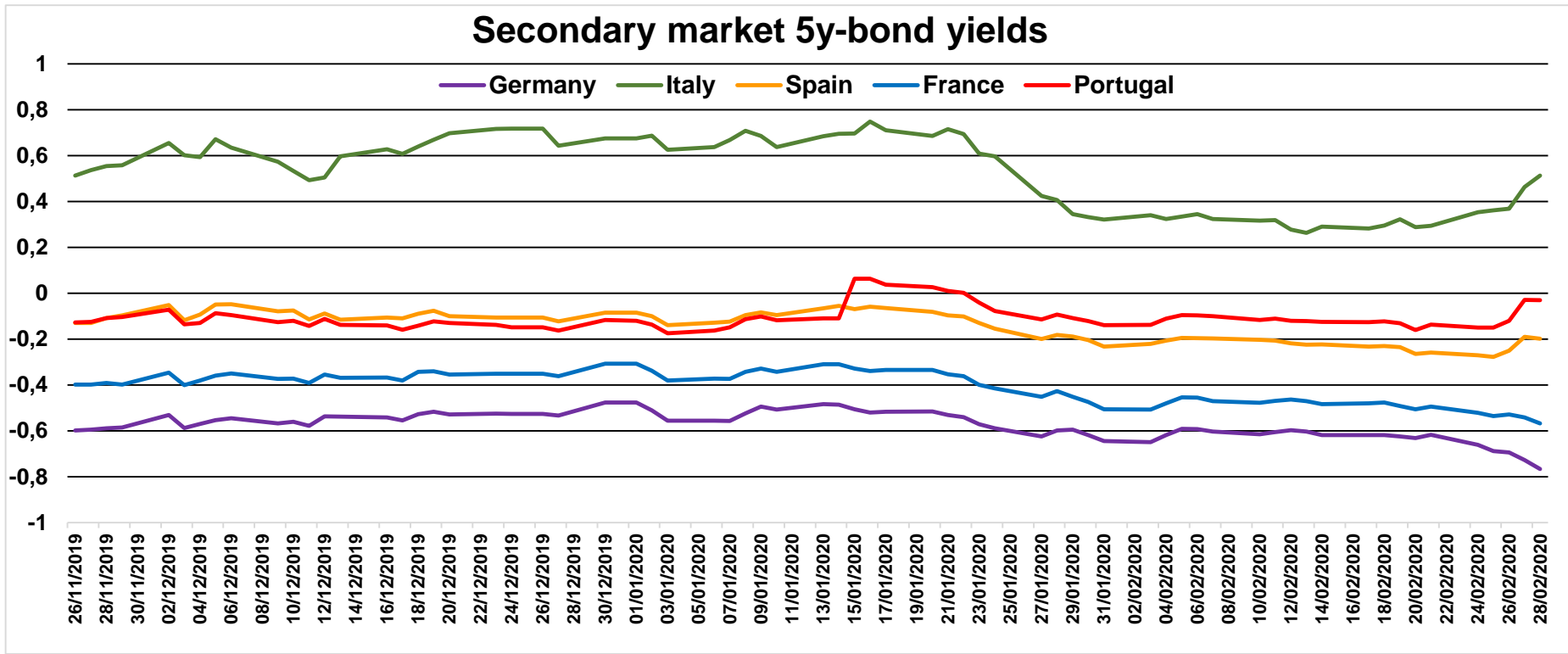
All 2y-bond yields in negative territory, even Italy since mid-December. Strong reduction for the Italian bond since the beginning of the year. New divergence between core and peripheral countries during the last week of February.



Yields on secondary market: medium term



Similar trend for 5-y tenor, in general with higher yields, with the only exception of the German bond, showing an extremely low level.

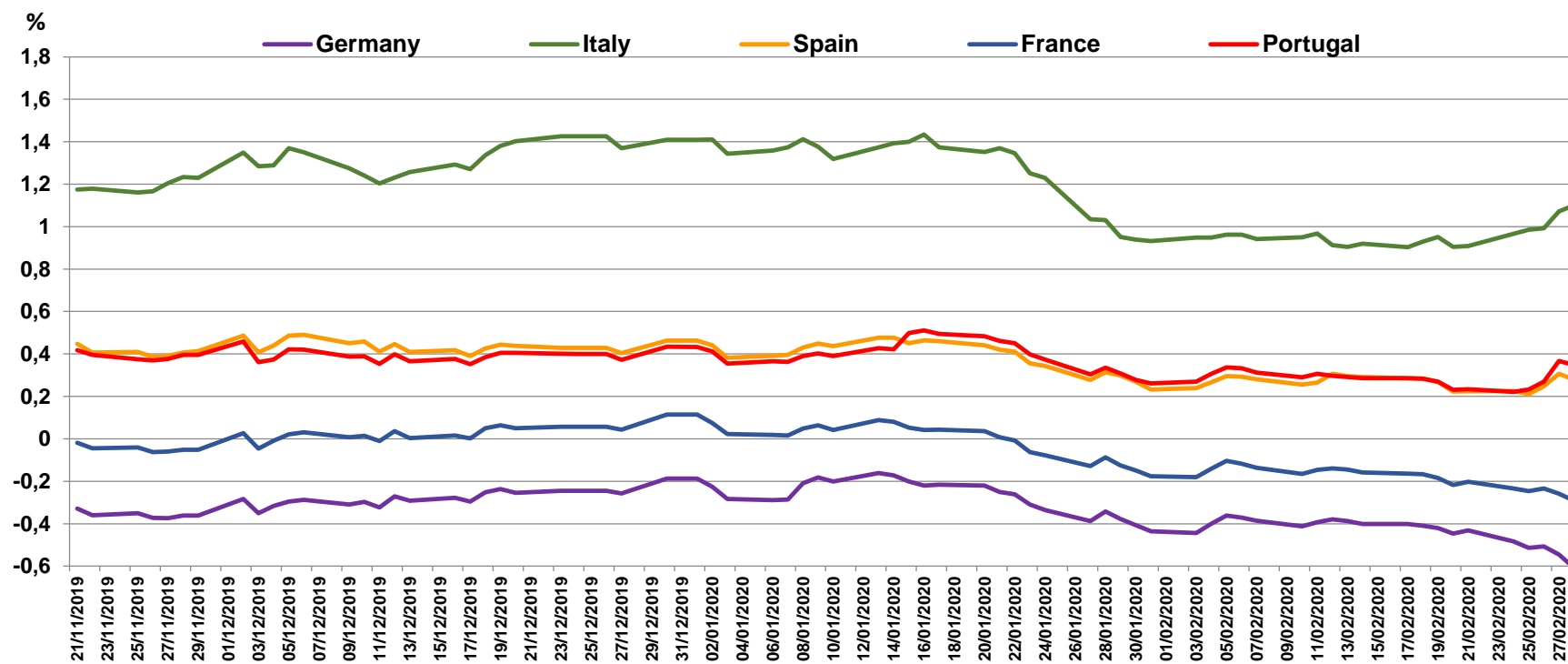


Yields on secondary market: 10 year benchmarks



10y-benchmark yields at record lows, due to concerns regarding global growth. During the past week, this trend was accentuating for Germany, while partially reversing for Italy, as consequence of COVID-19 contagion.

Secondary market 10y-bond yields

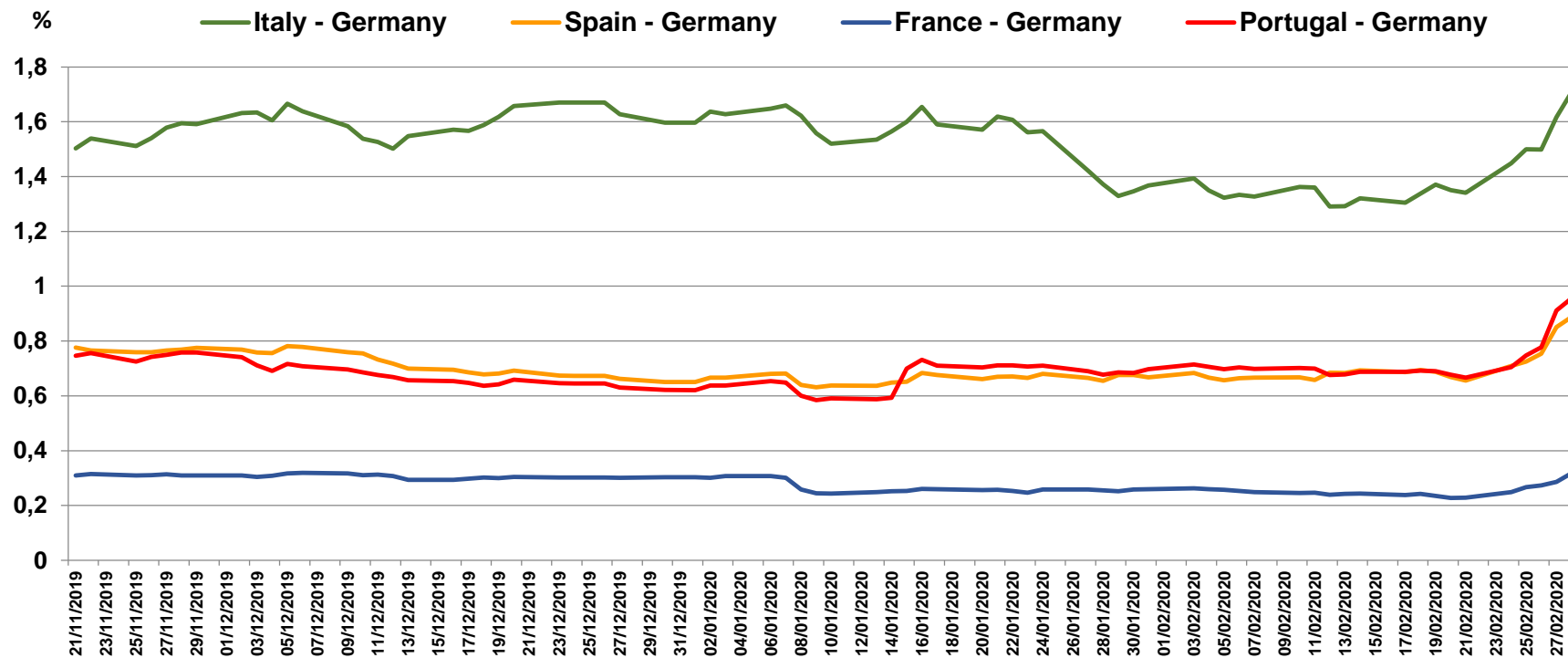


Yields on secondary market: a look to spreads vs 10y Bund



Evolution of spreads vs Bund emphasises the fly to quality effects generated by fears regarding the COVID-19 impact on the economic growth.

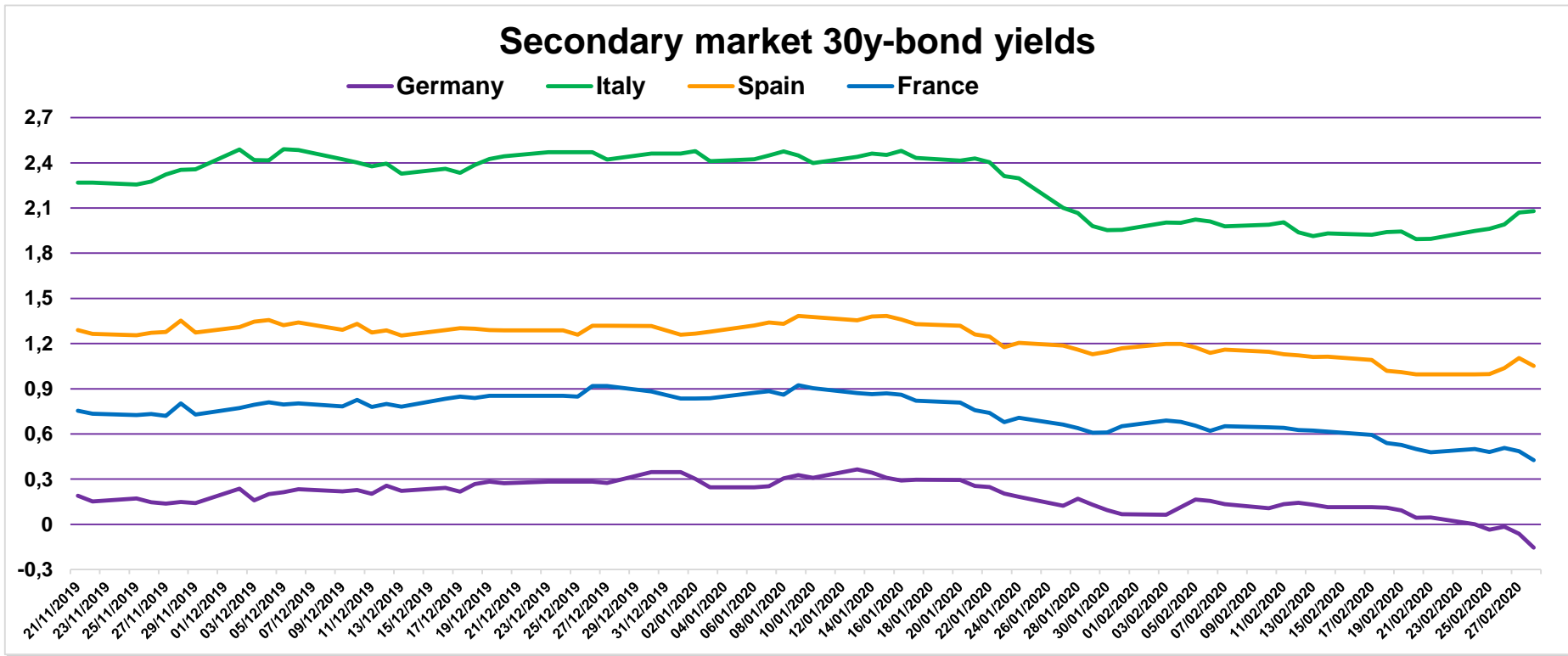
10-year sovereign bonds: spreads vs Bund



Yields on secondary market: long term benchmarks



On the 30-y tenor, evident impact of the large demand for long dated bonds, seeking investors a yield pick-up. Impressive decline in negative territory of 30-y Bund at February-end.

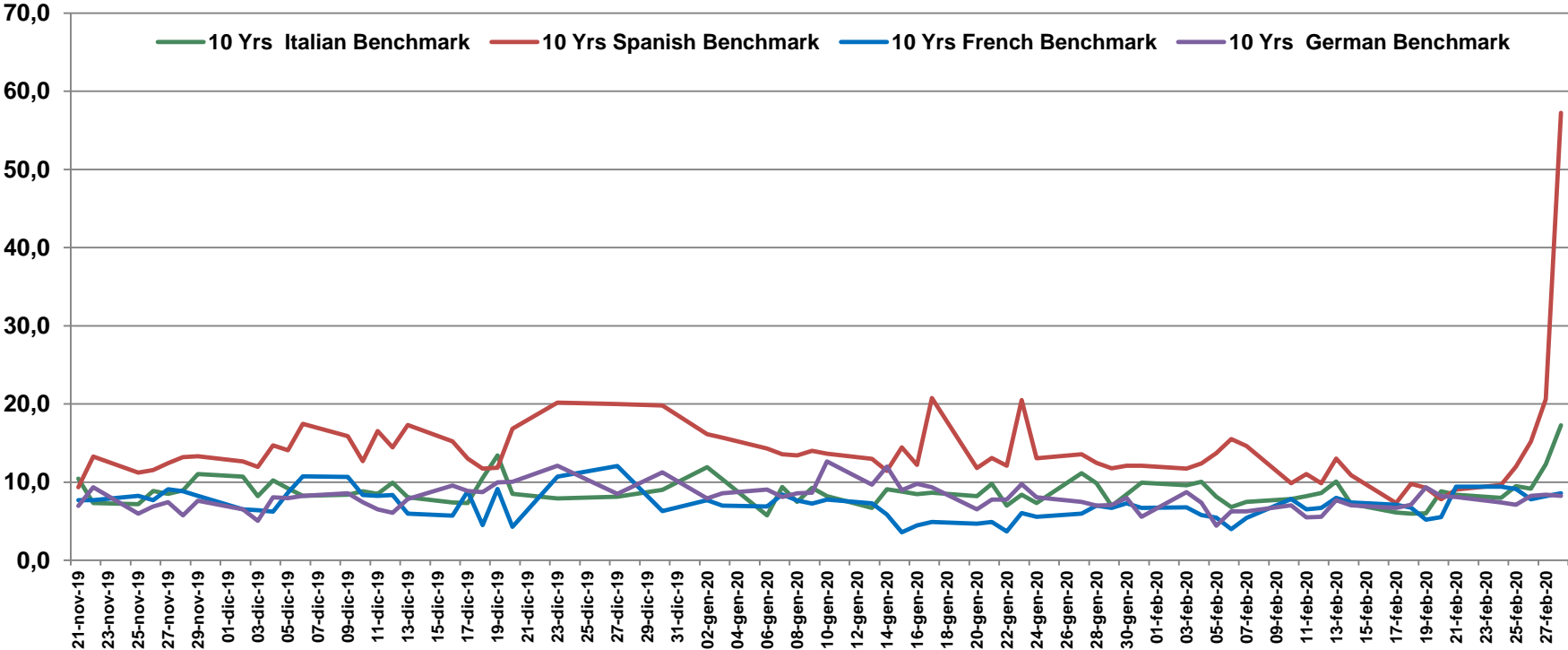


Quite stable bid-offer spreads



Significant widening only in the past week, particularly evident only in the Spanish market.

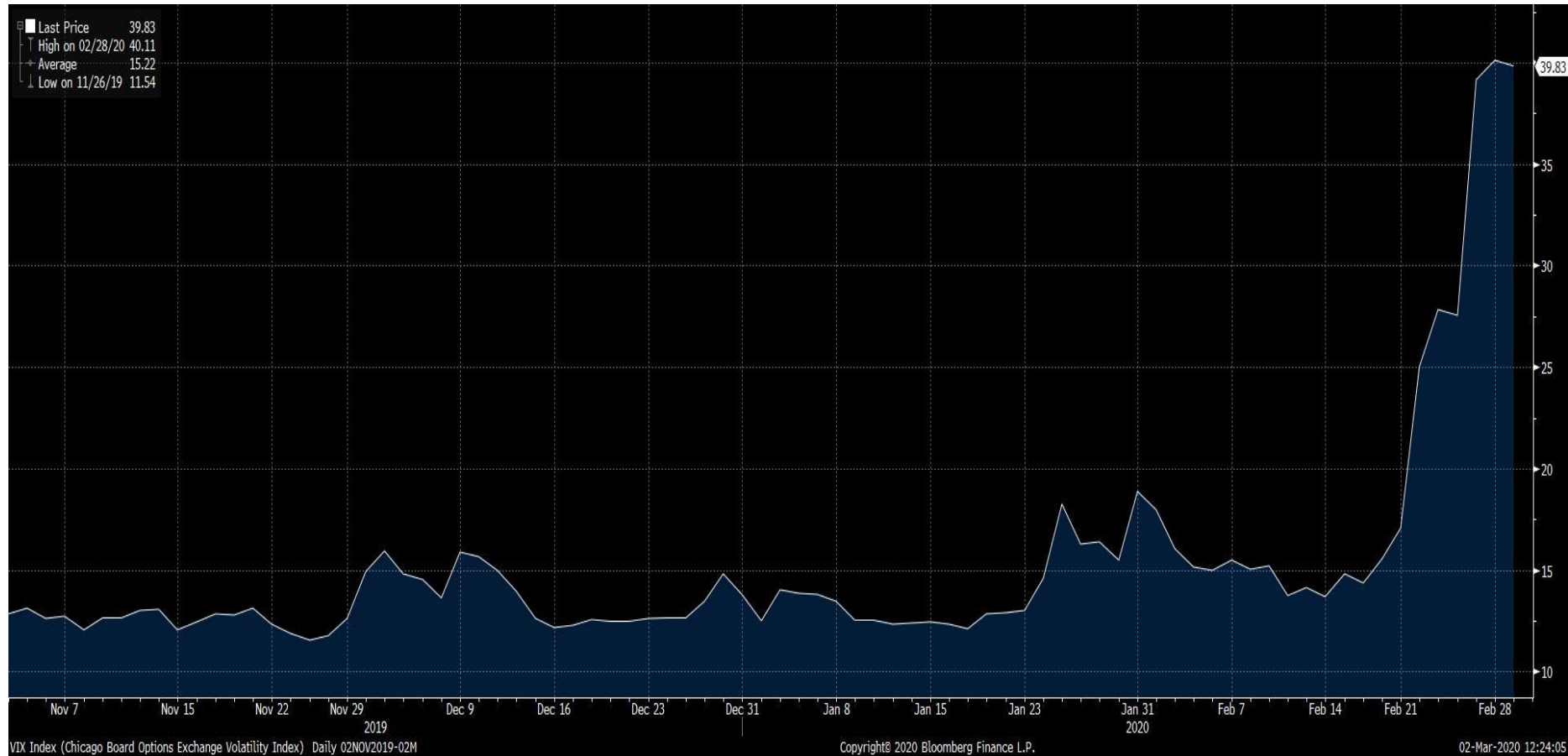
Bid-offer spreads on MTS cash market (price cents)



Volatility Jump for COVID-19



VIX Index at record levels



VIX Index (Chicago Board Options Exchange Volatility Index) Daily 02NOV2019-02M

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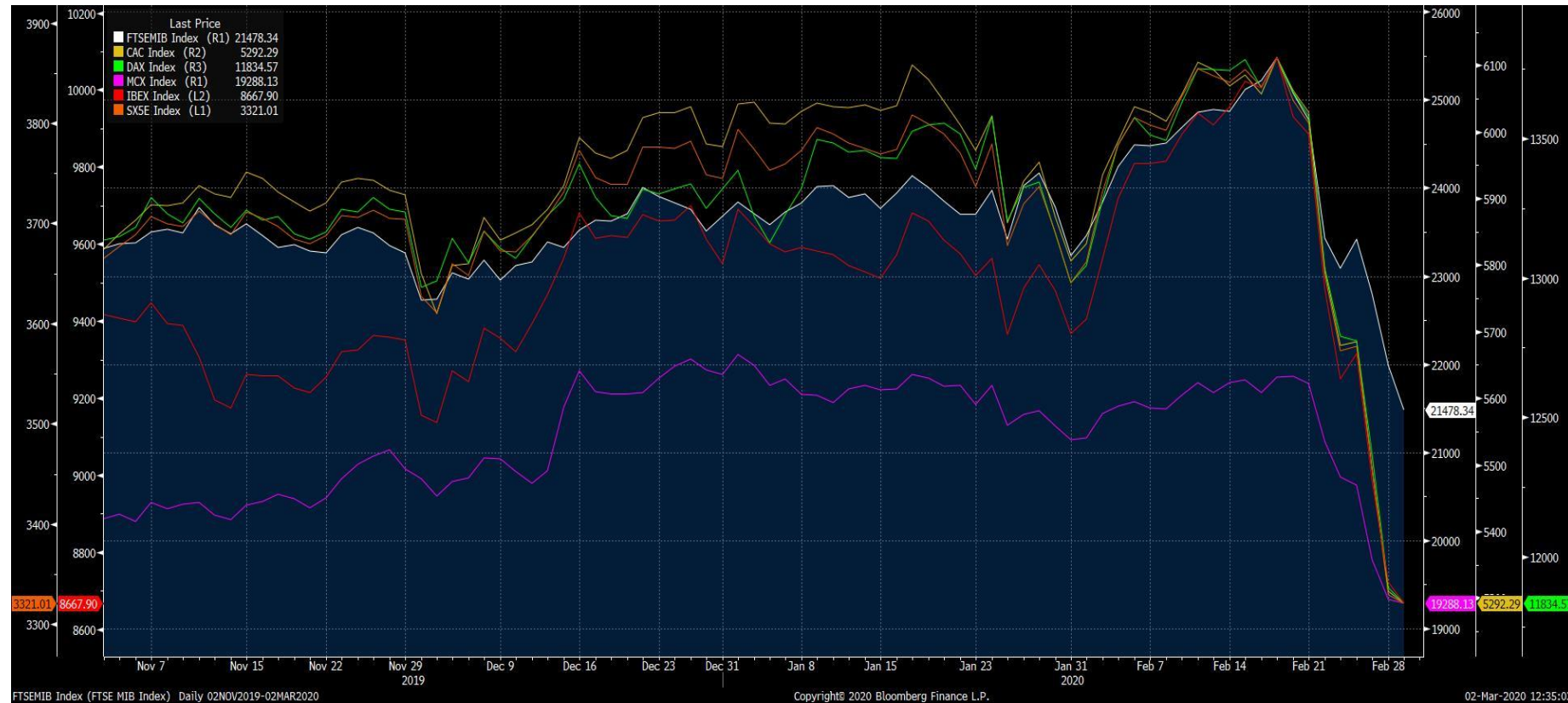
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COVID-19 depresses equity markets



Unexpected severity of the contagion risks to compromise global growth, worsening dramatically market perspectives.



Prospects for the near future of the bond market



Expectations of new issuances



Primary markets

- Having sovereign issuers profited of the good market moment, 33% of the 2020 bond issuance programme is completed.
- In SSA field, the issuance of green or sustainable bonds was very relevant in the past 3 months: only in euro, 14.16 billion, of which 7.45 by European entities, and the remaining from various other regions in the world. Several other issuances in different currencies (USD, Yen, GBP, CAD, AUD).
- Considering the very strong demand for these assets, it is reasonable to expect that trend continue.
- There at least three big Euro sovereigns that are seriously considering to enter in this market: Germany, Italy and Spain. The most like timing is the third quarter of the year for Germany (but an acceleration is not excluded) while for the other two may be also Q4.



Level of rates

- Concerns regarding economic growth are making difficult envisaging material changes in the monetary policy. If someone, only measures contrasting risks of recession consequent to COVID-19 seem reasonable
- Government bonds have been placed at record low yields. Even countries like Italy, where political tensions are often playing against, the average cost of funding has touched the historical minimum. Nevertheless, some increase is possible, as far as a widening of spreads vs Germany by peripheral countries.

Liquidity of the secondary market

- The liquidity could be impacted by tensions caused by the uncertainty on global economy, that makes less important other idiosyncratic risks.

Global Environment

- COVID-19 effects on the economic growth seem to be the most relevant at the moment
- Tensions in Middle East and North Africa
- Actual consequences of the tariff war

Political Risks

- Outside Europe, possible aggressive tones in the USA electoral campaign
- Local elections in Italy

Thank you!

