European Stability Mechanism



BOND MARKET CONTACT GROUP

Review and outlook of the euro area bond market developments

14th February 2023



WHAT HAPPENED SINCE NOVEMBER?



Source: Bloomberg, ESM



SPREAD MOVES





- Swap spreads moved tighter...
- ... a move mostly expressed in the bills space, but
- ...swap spread curves are still far from normal.











Source: ESM

WHO IS BUYING?



SSAs January EUR by Investor Type

Source: ESM



• From terminal rates to terminal balance sheet size

- What would be the level of excess liquidity to trigger concerns regarding secondary market functioning?
- Would a more prolonged overlap of rate hikes and balance sheet reduction, than currently discounted, augment such concerns?

Supply takedown

- Can issue sizes stay were they are in second half of 2023 in the event of change in macro and rates outlook from the current one?
- Who will emerge as marginal buyer in the future?
- Do we expect differences between jurisdictions and across asset classes?



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