



ECB BMCG

Bond markets in an environment of monetary policy normalization

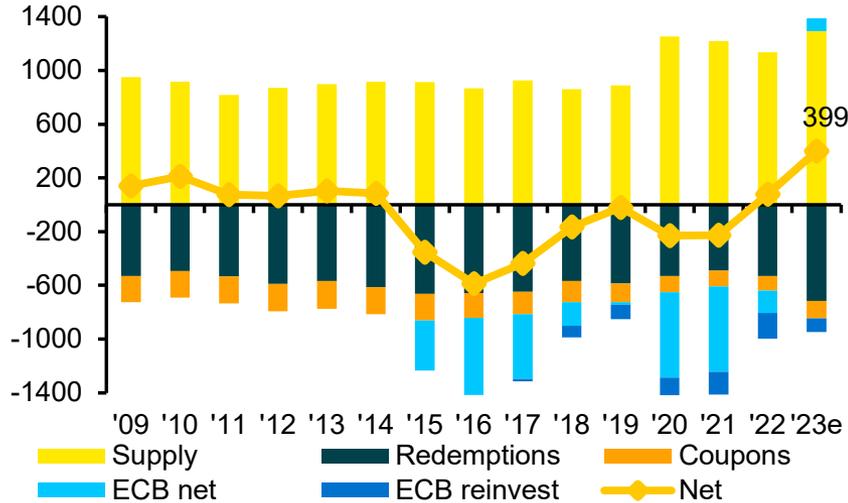


Christoph Rieger, 14 February 2023

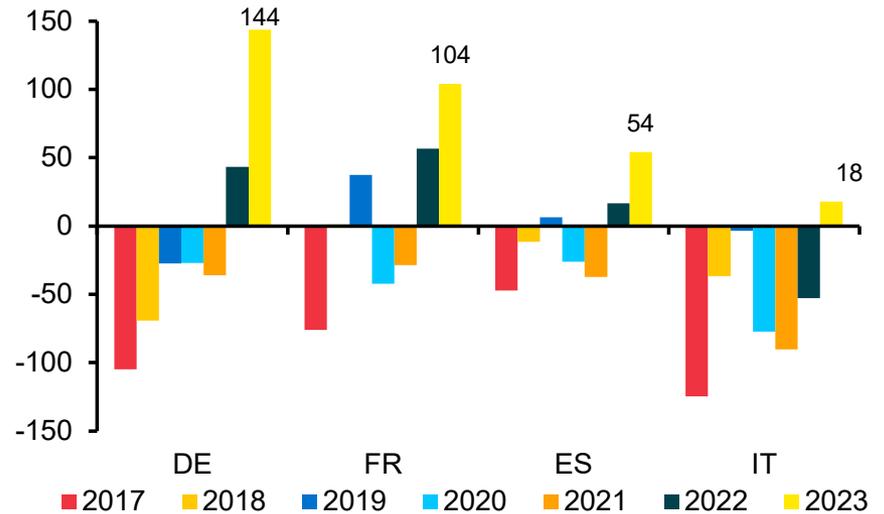
2023: Record issuance and ECB support in reverse!



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

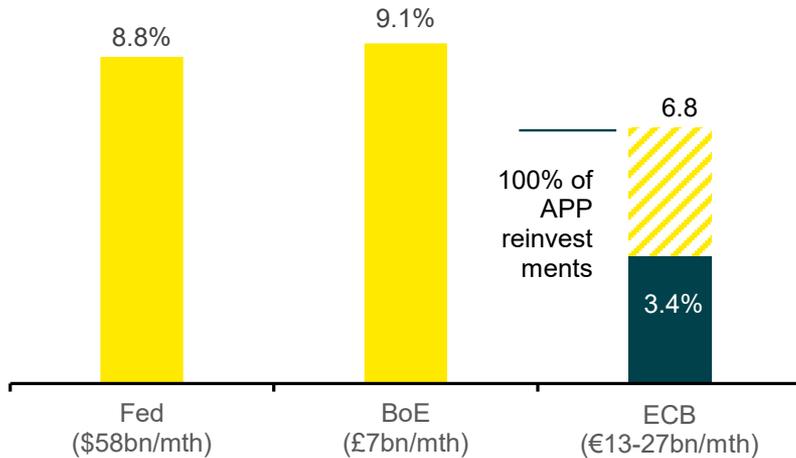


Source: Debt agencies, Bloomberg, Commerzbank Research

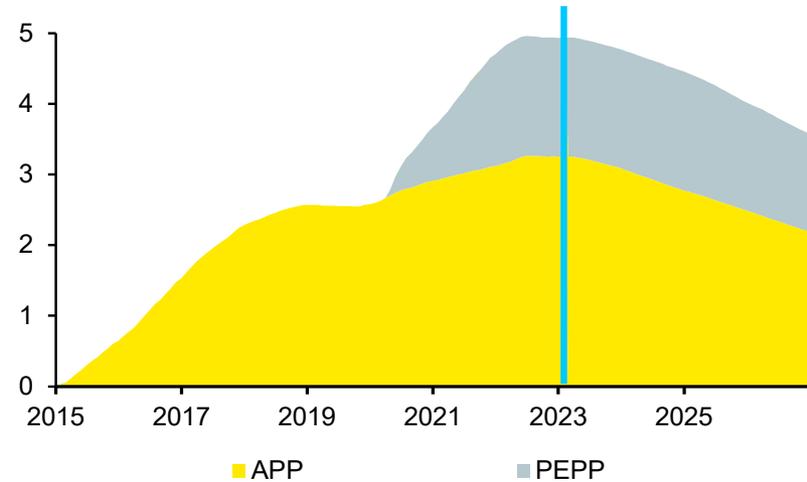
QT: Watching paint dry?



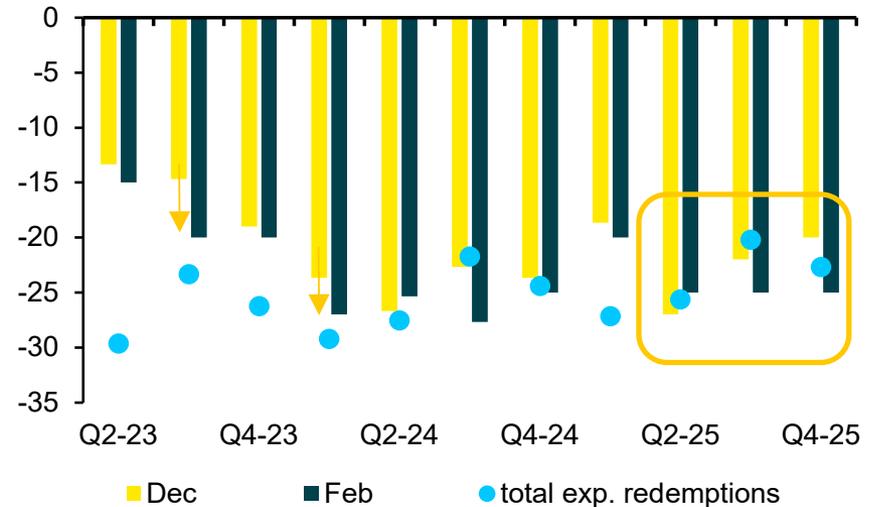
Central bank QE portfolio reduction during first twelve months of QT, in % of accumulated portfolios. Amber column shows Commerzbank expectation starting in March 2022.



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



SMA median implied monthly APP reduction, in € bn

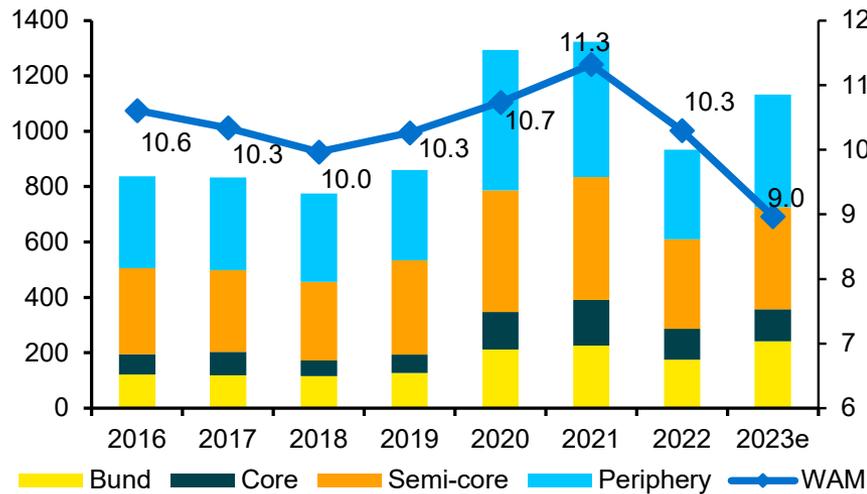


Source: Fed, BoE, ECB, Bloomberg, Commerzbank Research

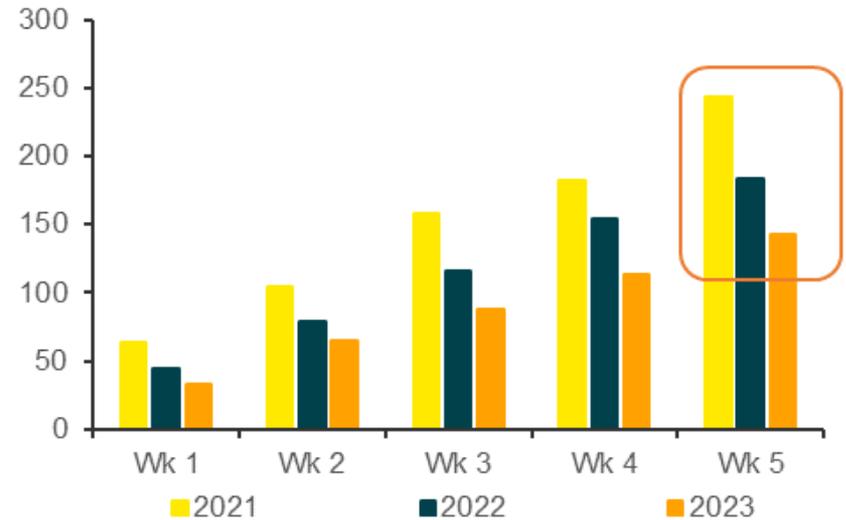
Primary: More volumes, less duration!



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



Cumulative weekly DV01 EGB supply

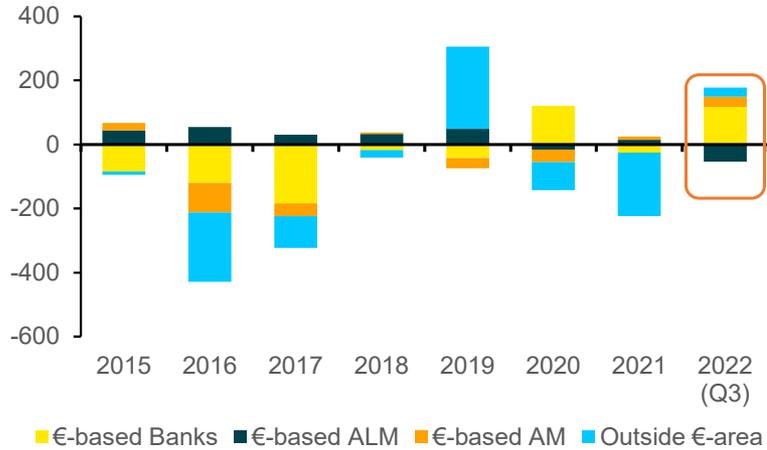


Source: Bloomberg, Commerzbank Research

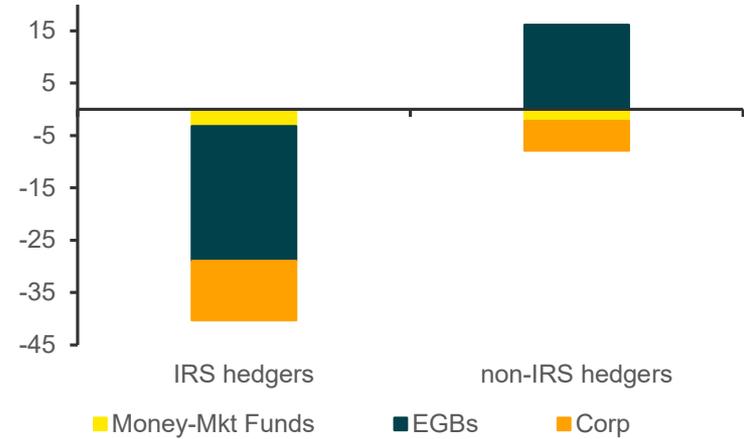
Who is buying?



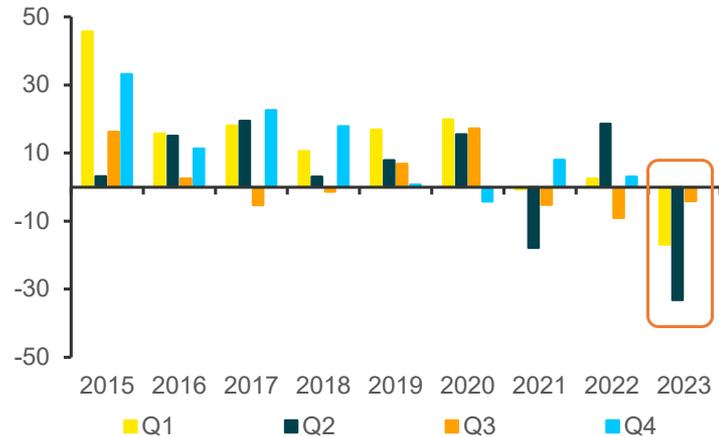
Net EGB transactions* per investor type, excl. ECB, in € bn



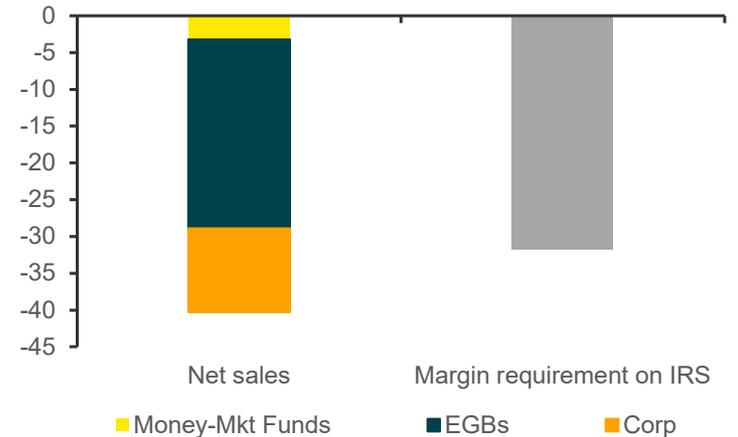
Net bond flows of EU insurers during H1-22, in € bn



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



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

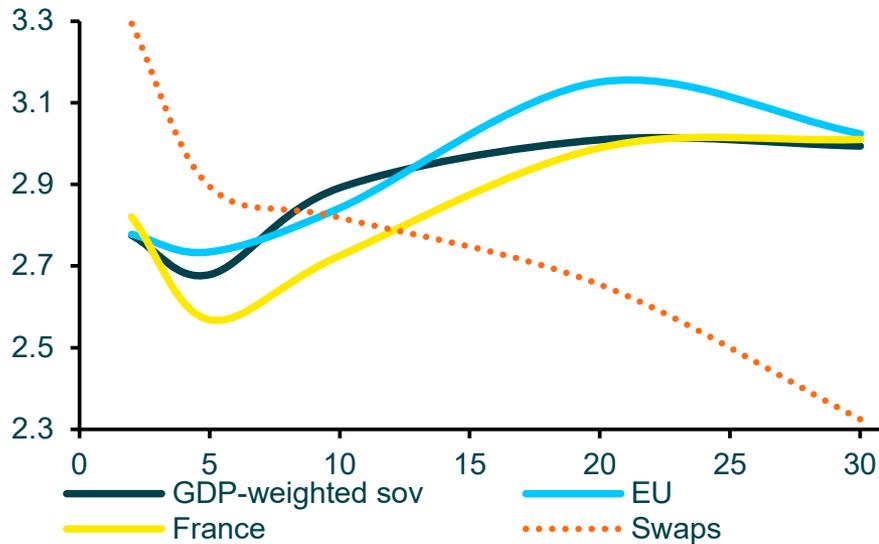


Source: Bloomberg, ECB, EIOPA, Commerzbank Research, *) 1y+ general government bonds

... 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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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

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Buy We suggest entering / expanding positions in the relevant names/instruments
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Distribution of Commerzbank AG credit research recommendation as of 31 December 2021

	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

Distribution of Commerzbank AG rates research recommendation as of 31 December 2021

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Long/Buy	43%	0%
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Source: Commerzbank Research

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