

ECB BMCG

# EU issuance – Impact on euro area bond markets

3 December 2020

## '3-slide' agenda

1

**Issuance: How well were the first SURE bonds absorbed?**

2

**Pricing: Is the EU trading like a Supra or a Sovereign?**

3

**Outlook: How will future issuance be spread?**

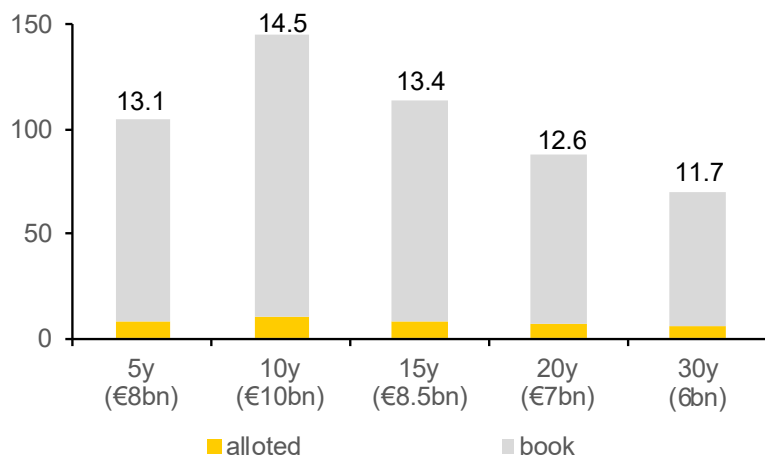
4

**Discussion**

## Strong demand for first deals from broad investor base

### Record oversubscription levels

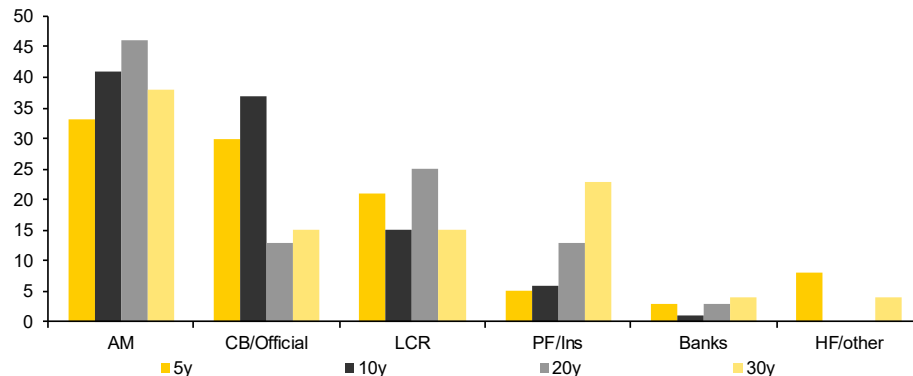
EU SURE allocation, in € bn, oversubscription rate above columns



Source: EU, Commerzbank Research

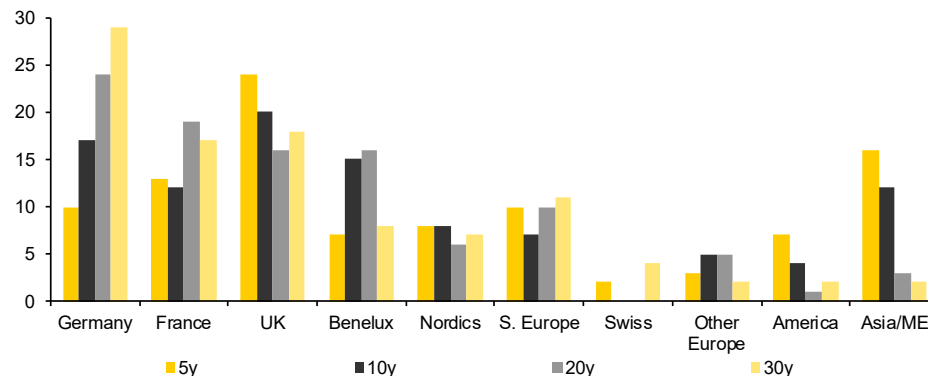
### Large real money interest, official sector active in 30y

EU SURE allocation by investor group, in % of total allocation



### Broad domestic interest, subdued foreign long-end appetite

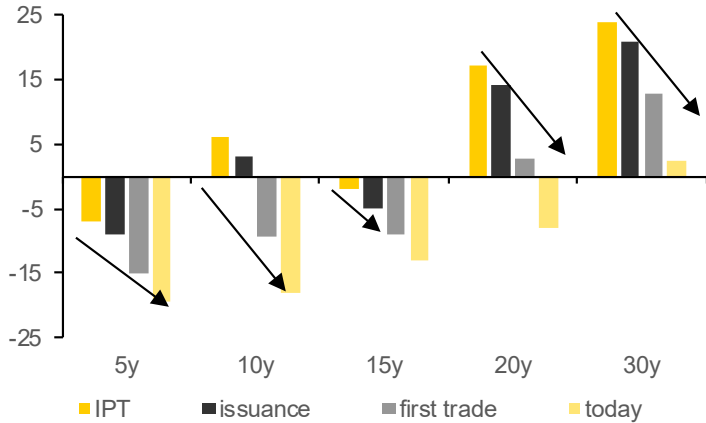
EU SURE allocation by investor group, in % of total allocation



# EU issuance creates more competition for core than for semi-core

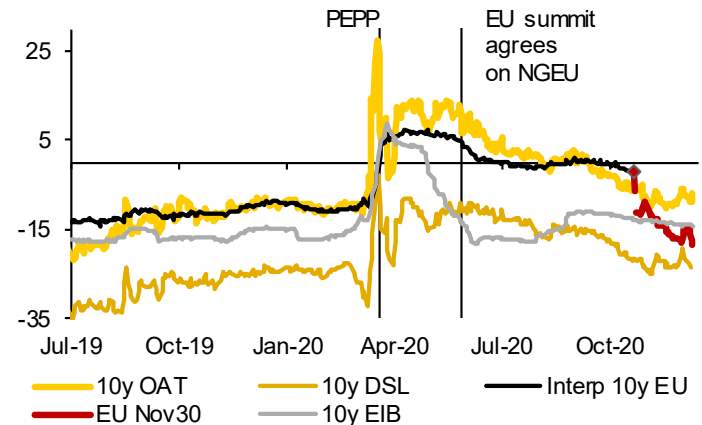
## Strong post-issuance performance

EU SURE primary and secondary levels, mid asset swap spreads, in bp



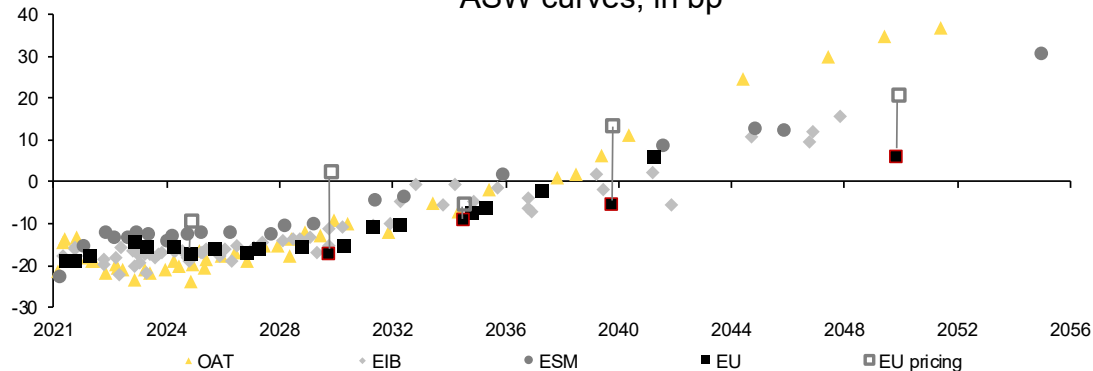
## EU slicing through supra peers, approaching core sovereigns

Mid asset swap spreads, in bp



## EU establishes new benchmark curve

ASW curves, in bp



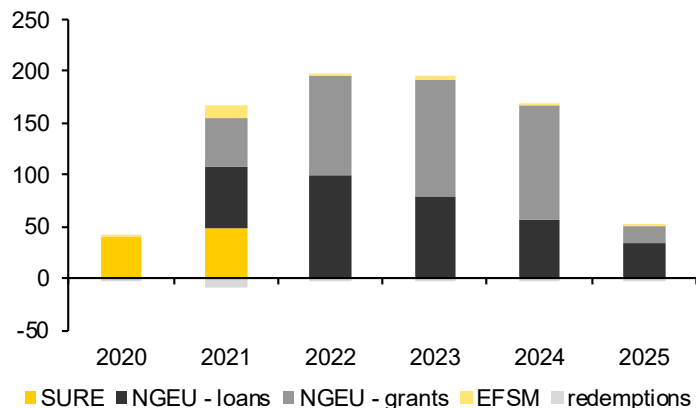
Source: EU, Bloomberg, Commerzbank Research



## €160-200bn EU net issuance expected each year through 2024

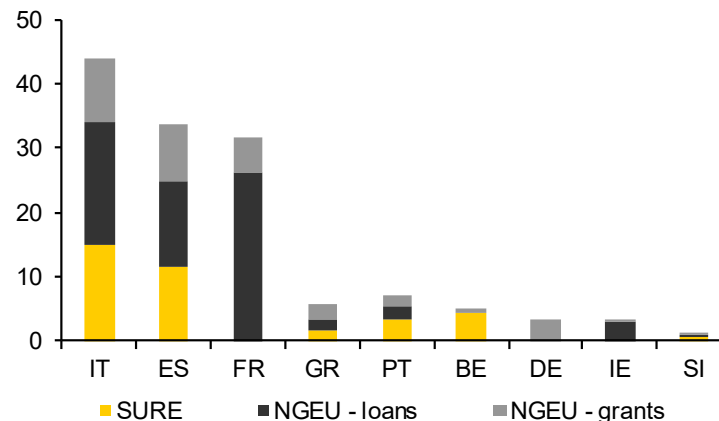
### Front-loaded loan funding...

Estimated funding profile according to sectoral legislation drafts from 30 May, in € bn



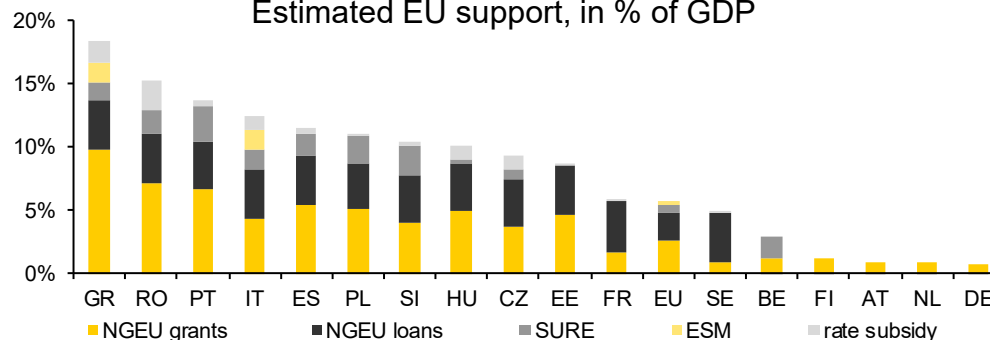
### ... would mean most flow support for periphery

Estimated 2021 EU support by country, in € bn



### South and East benefiting the most

Estimated EU support, in % of GDP



Source: EU, Commerzbank Research

## Discussion points:

- Is the initial 'EUphoria' exaggerated and how can the positive momentum be maintained?
- Is there a risk that heavily oversubscribed orderbooks make a proper allocation nearly impossible?
- Could bond futures improve market functioning?
- Should the EU consider T-bills, foreign currency funding and interest rate swaps for NGEU
- Should the ECB adjust its asset purchases to account for EU?
- How could transparency be improved?
- Can the ESM approach be applied to the EU and how could the role of the ESM evolve?
- How relevant is it that EU funding can only be temporary?

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Source: Commerzbank Research

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Source: Commerzbank Research

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