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ECB BMCG

Market update

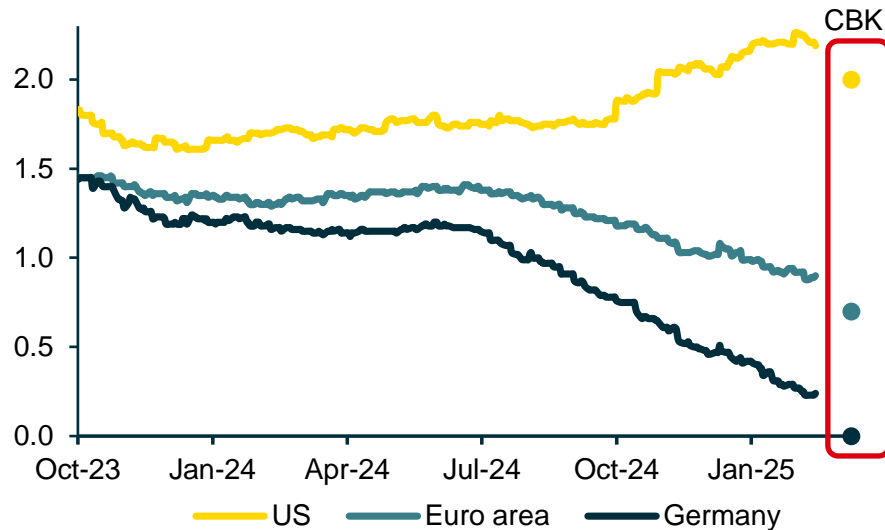


Christoph Rieger, 11 March 2025

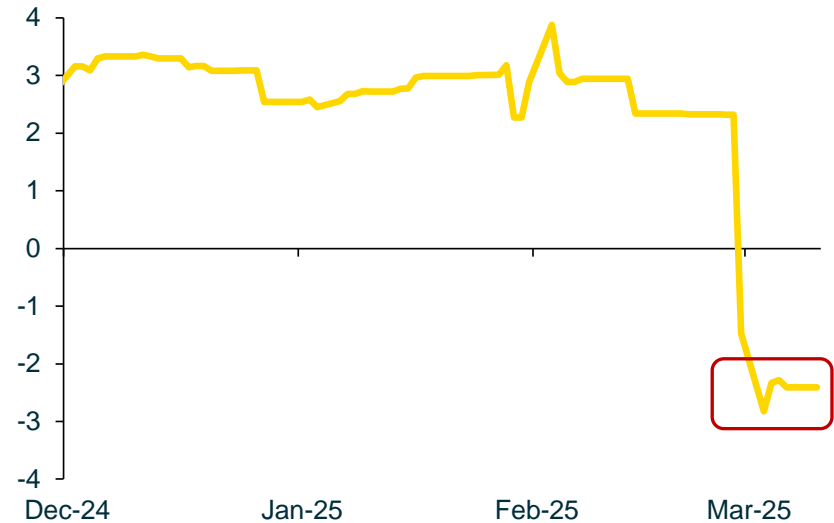


MAGA hopes give way to disruption fears

Real GDP growth expectations for 2025, Bloomberg average consensus, dots denote current Commerzbank forecasts, in %



Atlanta Fed GDPNow for SAAR Q1 2025, in %

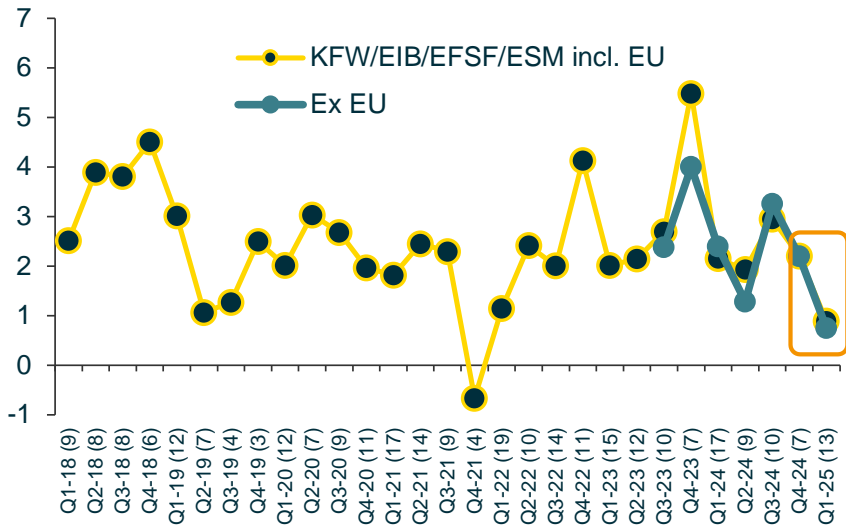


Source: Bloomberg, Commerzbank Research

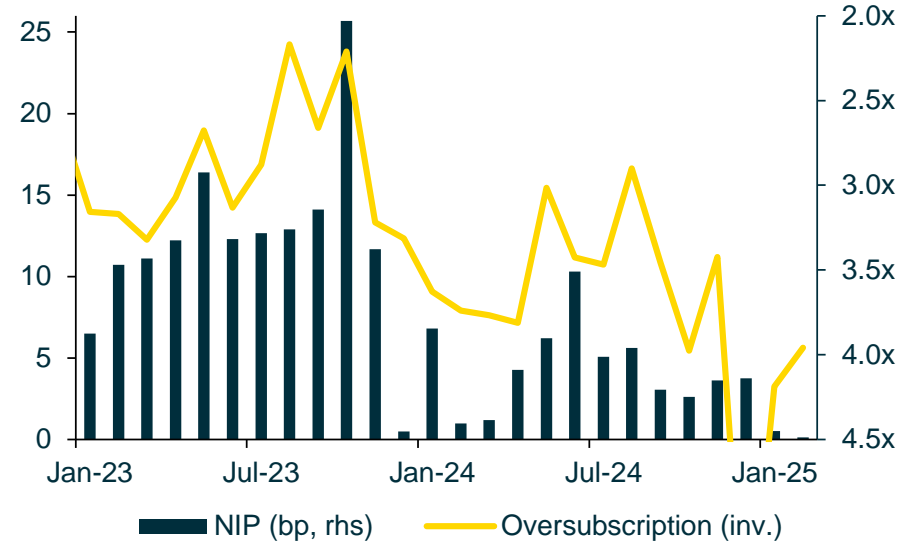


Primary: More buyers than sellers?

SSAs: Duration-weighted NIP of € benchmark transactions*, per quarter in bp, (x) denotes number of transactions



Credit: Avg. monthly NIPs and oversubscription levels for senior €IG corporate deals

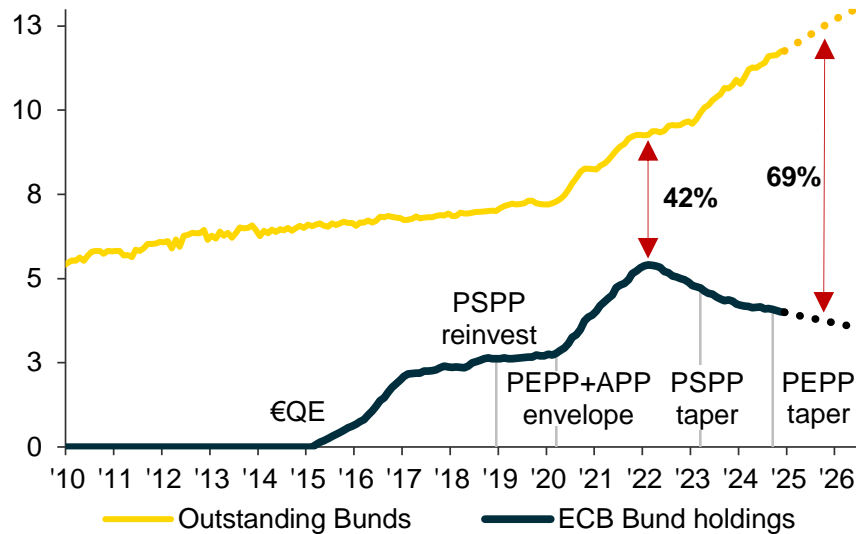


Source: Bloomberg, Commerzbank Research, *) new issues with €1bn+ size, issue spread vs. active secondary curve

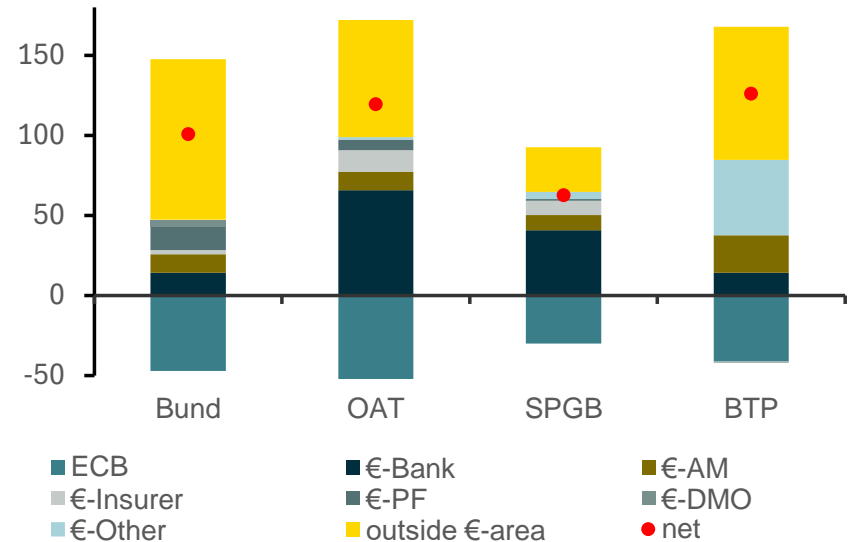


Who can fill this widening duration gap?

Aggregated duration of the Bund market* (outstanding x duration) and of ECB holdings (estimate), in €trn, CBK projections after Dec-24



Net funding requirement and investor buying in € sovereign** bonds during 2024, in €bn



Source: ECB, Bloomberg, Commerzbank Research

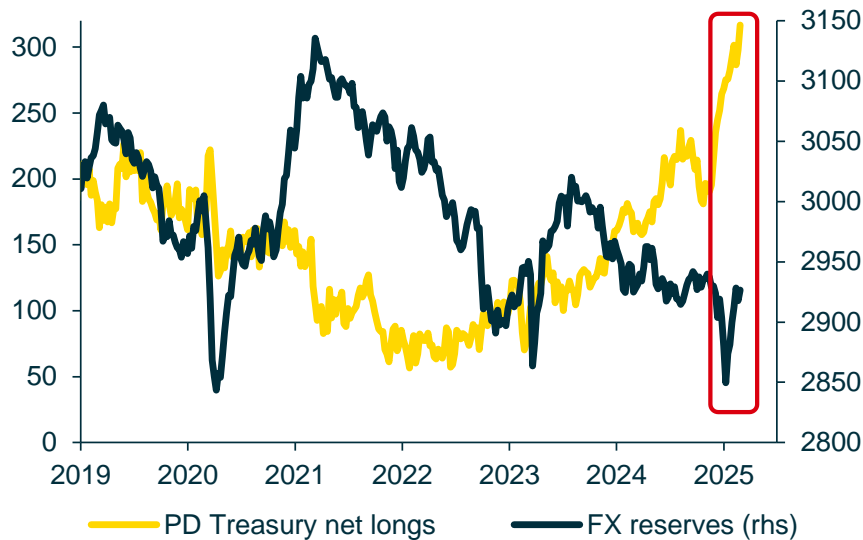
*) Conventional, green, linkers, all residual maturities, excl. ad-hoc taps and green twins

***) general government

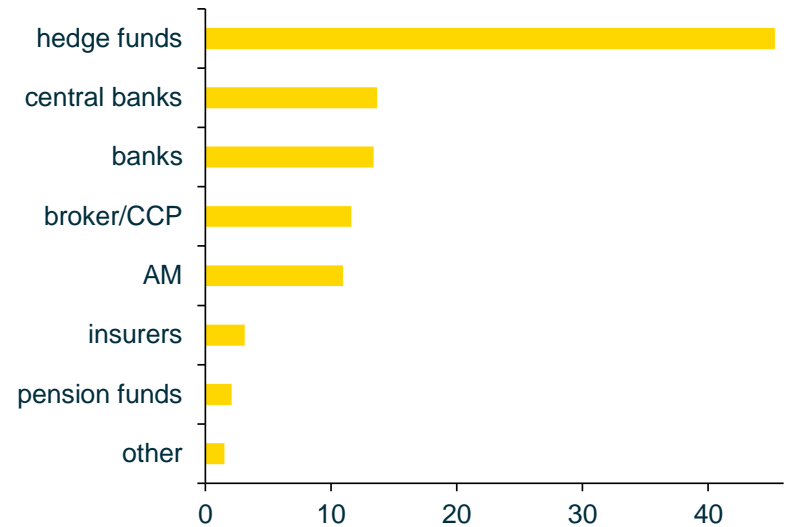
Swings in FX reserves and hedge funds bid could be key



US primary dealer holdings and Fed foreign official custody holdings in US Treasuries, in \$bn



Net secondary purchases of 10y Bunds in 2024, in € bn



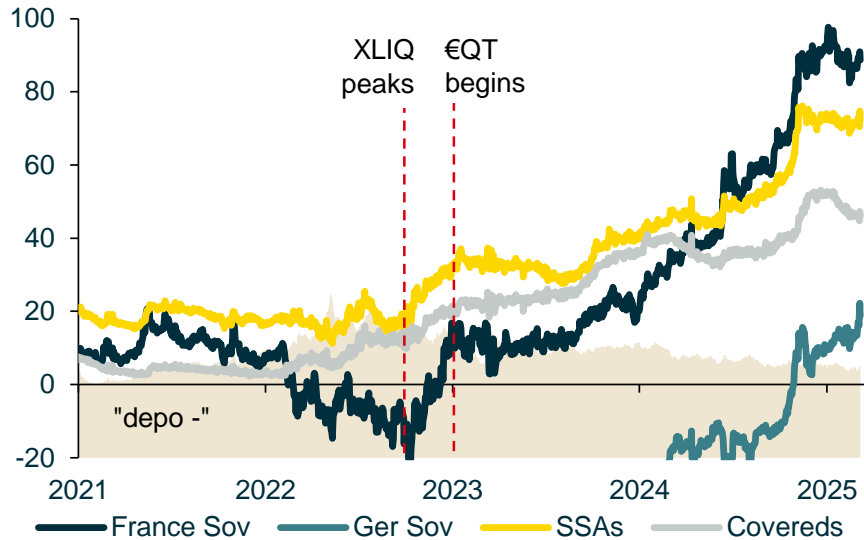
Source: Bloomberg, DFA, Commerzbank Research

Supply/demand imbalance: Just a question of price?



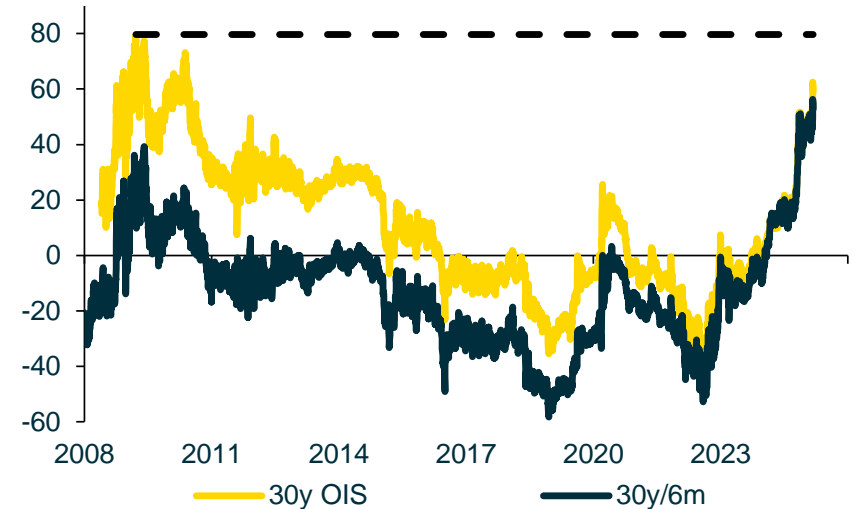
Pickups “vs. ECB” getting attractive for LCR portfolios...

iBoxx index z-spreads, in bp, shaded area indicates yield levels below the ECB depo rate (proxied via 5y €STR/6M and 10bp €STR-depo basis)



... but long-end Bund swap-spreads are not yet extreme!

30y Bund swap spreads vs. OIS (€STR and EONIA-8.5bp) and IRS/6M

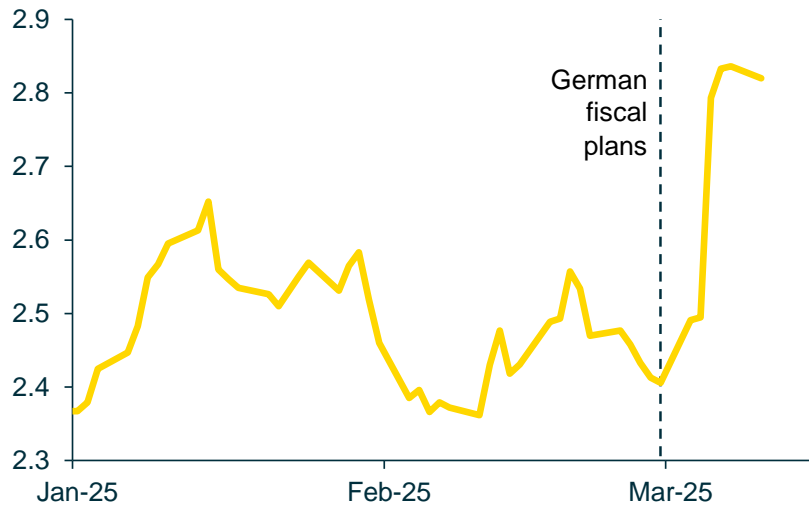


Source: Bloomberg, DFA, Commerzbank Research

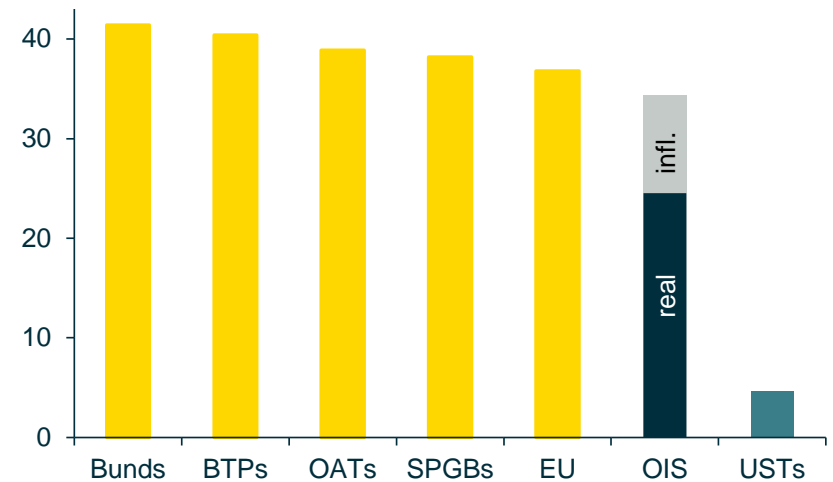
Is the German “whatever it takes” an opportunity or a risk for the euro area?



10y Bund yield, in %



Yield change since first media reports about German fiscal plans (28 Feb cob – 10 Mar 10:30), in bp



Source: Bloomberg, Commerzbank Research

Discussion points:



- Will the German fiscal u-turn lead to lastingly higher yields, steeper curves, more EGB spread convergence and EU/US divergence?
- What are the best realistic options at EU-level (temporary escape clause vs. permanent change to SGP, ReArm loans, existing NGEU envelope, EIB mandate, Rearmament Bank, SVP)?
- Can repo spreads stay anchored in light of the issuance Tsunami, and how could this affect the money market plumbing?

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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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Marketweight	55%	83%
Underweight	18%	100%

Source: Commerzbank Research

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Neutral	23%	0%
Underweight	42%	0%

Source: Commerzbank Research

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