EUROPEAN CENTRAL BANK

EUROSYSTEM

MONTHLY REPORT ON THE EUROSYSTEM'S COVERED BOND PURCHASE PROGRAMME

FEBRUARY 2010

From 1 February to 26 February 2010, the Eurosystem purchased eligible covered bonds with a total nominal value of €5,153 million under its covered bond purchase programme (CBPP).[1] Of this total, €1,268 million was accounted for by purchases in the primary market and the remaining €3,885 million by purchases in the secondary market.[2] The total nominal value of all covered bonds purchased by the Eurosystem since the programme was first started stood at €38,976 million on 26 February 2010.

The widening of spreads between euro area government bond yields, which reflect sovereign credit risk concerns, continued to impact the covered bond markets in February.

Following the high level of activity in the primary market in early January, the number of new bond issues decreased until mid-February in an environment of rising swap spreads. With 13 new covered bond issues in the euro area, including two taps, primary market activity in February was limited to borrowers from France (with eight issues worth €6.5 billion), Germany (with four issues worth €3.7 billion) and Italy (with one €1 billion issue). In total, the volume of new issues of CBPP-eligible covered bonds amounted to over €11 billion. Although some covered bonds in the other markets traded at levels close to those of their respective sovereign bonds, the lack of investor demand limited the use of the primary market by covered bond issuers during the reporting period. Consequently, some issuing plans may have been postponed.

Activity in the secondary market was also influenced by developments in government bond markets. Covered bond spreads widened further in several market segments, owing to limited market liquidity, continuing pressures on the sellers' side and a correlation of price moves with national government bonds. Towards the end of February, covered bond spreads stabilised again. Recently placed French and German covered bonds have actually performed rather strongly in the secondary market, with most of the bonds referred to above now trading at lower spreads than at issuance.

Overall, spreads of euro area covered bonds and senior unsecured bank bonds against swap rates have increased somewhat in comparison with those recorded at the beginning of February (see the chart below).

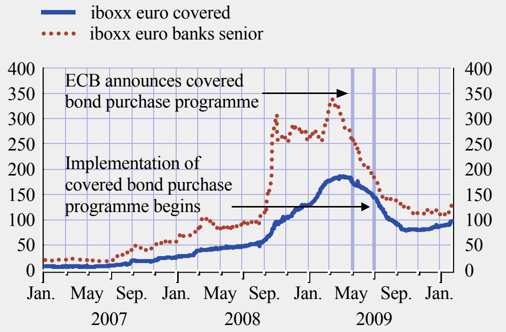
The Governing Council decided that the Eurosystem will be making available, for lending, its portfolio of covered bonds bought under the CBPP. This decision will be implemented by the Eurosystem central banks on a voluntary basis through security-lending facilities offered by central securities depositories, or through matched repo transactions with eligible counterparties.

1 Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16), available at http://www.ecb.europa.eu/ecb/legal/pdf/l_17520090704en00180019.pdf

2 These figures include transactions concluded but not yet settled during the period from 1 February to 26 February 2010. The total amount of purchases settled on or before 26 February 2010 provided €5,002 million of liquidity in the money market, according to the ECB's liquidity analysis.

iBoxx spreads against swaps

(basis points)



Source: Markit.

GLOSSARY OF TECHNICAL TERMS AND EXPRESSIONS

Bid-offer spread: the difference between the price or yield at which a market-maker is willing to buy a given asset and that at which he is willing to sell it.

Covered bond spread: the spread between the yield of a covered bond and the rate quoted for a euro interest rate swap contract with a similar maturity date.

Cover pool: a set of collateral on which the investor in a covered bond has a prior claim in the event of the failure of the issuer of the covered bond.

Eligible covered bond: a covered bond that fulfils the conditions specified in the Decision of the European Central Bank of 2 July 2009 on the implementation of the covered bond purchase programme (ECB/2009/16).

iBoxx indices: commonly used indices that track the movement of spreads in several bond markets versus interest swap rates. They are compiled by a subsidiary of the financial information services company Markit. The iBoxx Euro Covered index is an indicator of the difference in the yield on a basket of euro-denominated covered bonds and interest rate swaps with a similar maturity, while the iBoxx Euro Bank Senior index is an indicator of the difference in the yield on a basket of senior unsecured bank bonds and interest rate swaps with a similar maturity. The iBoxx Euro Other Sub-Sovereigns Guaranteed Financials index is an indicator of the difference between the yield on a basket of euro-denominated bank bonds with a government guarantee and interest rate swaps with a similar maturity.

Inaugural covered bond: the first covered bond ever to be issued by an institution.

Interest rate swap: a contract between two parties to exchange one stream of interest payments for another, over a set period of time. The most commonly traded and most liquid interest rate swaps are contracts under which parties exchange fixed-rate payments for floating-rate payments based on the LIBOR or EURIBOR, the interest rate at which a prime bank is willing to lend short-term funds to another prime bank.

Matched repo transaction: a transaction based on a repurchase agreement (i.e. an arrangement to sell an asset and to repurchase it at a specified price on a predetermined future date, or on demand), whereby the cash obtained in the underlying transaction is fully and simultaneously reinvested with the same counterparty.

Security lending facilities offered by central securities depositories: programmes, offered by central securities depositories as a service to their customers, which match the supply of securities available for lending from some customers with the borrowing demand of other customers, thus enabling participants in such programmes to meet their settlement needs.

Senior unsecured bank bond: a bond that is issued by a bank, is not secured by a cover pool, but represents a claim on the issuer's assets and income that is prior or superior to the junior bonds issued by the same entity.

Tap: the reopening of an existing bond that allows the issue size to be increased, thereby potentially improving the secondary market liquidity on that bond.

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