EUROPE'S CORPORATE BOND MARKET SOARS ON ECB RE-ENTRY BETS

- 24.06.2019

EuroNews (21 June 2019)

LONDON (Reuters) Bond investors have sent Europes 1.7 trillion euro (£1.5 trillion) corporate debt market spiralling to record highs this week, betting the sector will be a prime beneficiary should the European Central Bank revive its asset purchase programme.

Government bonds have rallied hard since Tuesday when ECB president Mario Draghi surprised investors by flagging that the bank could cut interest rates and resume bond purchases, less than six months after it ended its three-year-long stimulus scheme.

The bank seems likely to first cut interest rates, leaving Draghis successor at the ECB to embark on asset purchases if he or she deems it necessary. Because corporate bond purchases were often considered the most effective part of quantitative easing, many predict that this is where policymakers will eventually direct their stimulus fire.

David Zahn, head of global fixed income at Franklin Templeton is among those who have bought corporate and bank capital bonds, as well as Italian and Spanish government debt in anticipation of the ECBs re-entry.

Corporate bond purchases are the ones that work really well in my view, Zahn told a conference a day after Draghis speech. We have been positioned for this for probably around six months.

Zahn declined to say whether he had added to those positions after Draghis comments, but many other investors appear to have done so.

On Tuesday, the widely-used iBoxx euro corporate bond index RIC hit a record high and enjoyed its best day since the ECB first announced corporate bond purchases in March 2016. Average yields have dropped 19 basis points this week to an all-time low of 0.76%.

The iTraxx Main, a index of investment grade credit default swaps (CDS) derivatives used to hedge exposure to a credit – slipped to its lowest level in over a year at 56.5 basis points.

Vincent Chaigneau, head of research and investment strategy at Generali Investments, a 450 billion-euro fund, also believes corporate bonds will be the ECBs first port of call.

I think we will see corporate bond QE this year and perhaps another round of ABS (asset-backed securities) and covered bonds purchases, he said.

The ECB began the corporate sector purchase programme (CSPP) in June 2016, buying between 5-6 billion euros every month up to the end of the programme last year. It holds 177.8 billion euros of corporate bonds.

One reason to expect more is that sovereign bonds are in short supply. Analysts estimate the ECB already holds 25%-30% of the euro zone debt market and is approaching a self-imposed ceiling on some governments paper.

It makes sense to hold credit right now ☀ theres more juice in credit than in other sectors like non-core (government bonds), Chaigneu said.

In 2016, inflation rose significantly after the CSPP action, with policymakers arguing that this programme in particular was more effective than others because indirectly leads to more lending to small and medium enterprises.

Ive been a relatively big fan, ECB ratesetter Ardo Hansson told Reuters. All asset purchases are not created equal. Were trying to get the enterprises and households to spend or invest a bit more.

The scheme resulted in sharply lower bond yield premia over sovereign debt, allowing companies access to record low funding rates.

The fact ECB is even contemplating resuming QE shows how much the outlook for the European economy has darkened. Perversely, this leads to investors being more bullish on the European corporate sector; as the old mantra goes, bad news is good news for markets.

(Reporting by Abhinav Ramnarayan; editing by John Stonestreet)

Kaynak/Source: