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SOF-B5: Borrowings and Treasury**

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(FEBRUARY 2000)**

**MONTHLY NOTE ON THE EURO-DENOMINATED  
BOND MARKETS**

**HIGHLIGHTS**

- The euro yield curve continued to flatten in February. The yield spread between 10 and 2 year paper decreased to from over 100 b.p. to just over 90 b.p.
- Total issues in February this year amounted to €116 billion, compared to €142 billion in February last year. This is partly the result of the fact that market conditions (in particular interest rate expectations) are less favourable than was the case last year.
- Issuance in February continued to be dominated by domestic issues, with their share coming close to the 1999 average. The corporate sector rebounded strongly from last month and noted a significant increase in volume, also compared to February 1999. Financials also issued greater volumes as compared to January.
- The share of highly rated bonds (AAA and AA) declined to about two thirds of the total. The A-rated bond-sector grew in importance.
- The number of issues from outside the euro-area increased substantially in February compared to the previous month and to last year.

**This serie of notes, and a statistical annex, are available from the European  
Commission website at:**

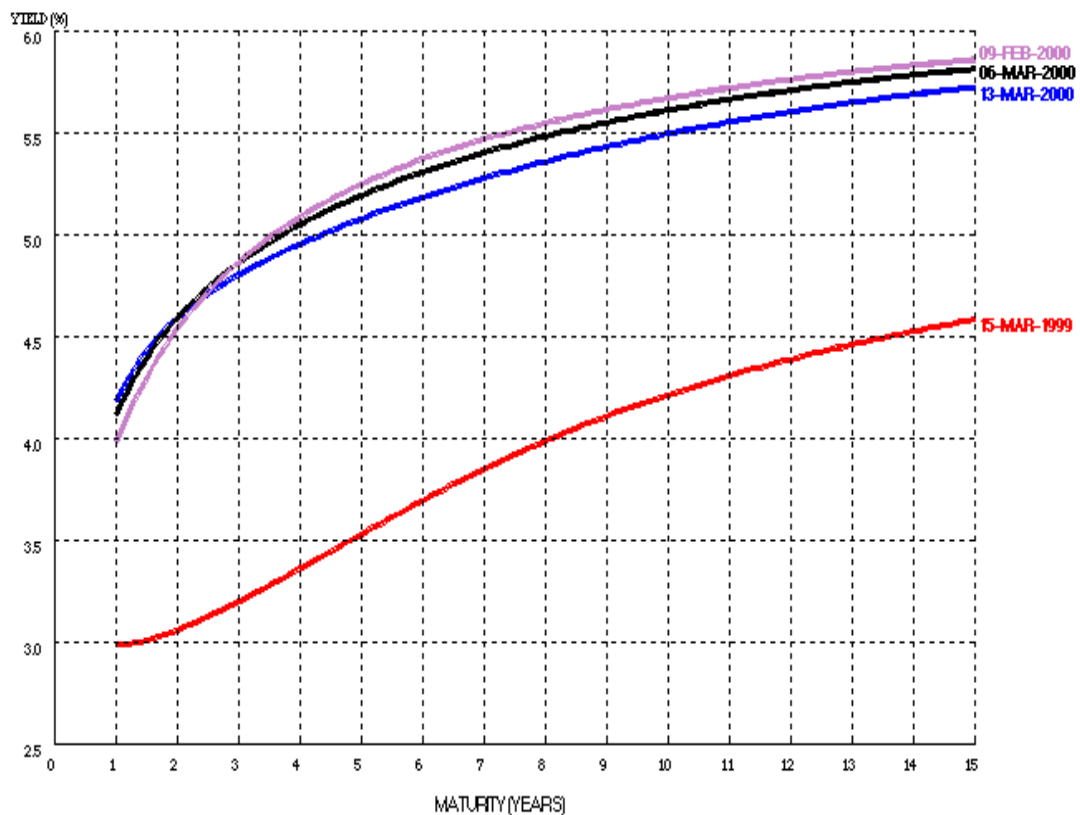
**[http://europa.eu.int/comm/economy\\_finance](http://europa.eu.int/comm/economy_finance)**

# THE EURO BOND MARKETS<sup>1</sup> – FEBRUARY 2000

## 1. LONG-TERM INTEREST RATES

The euro yield curve continued on its flattening trend throughout February. Movements could be observed at both ends of the curve with some downward movement at intermediate and longer maturities, and a slight increase was noted at the short end.<sup>2</sup> These movements reduced the spread between two and ten year rates towards 90 b.p. Movements of the euro yield curve continue to be influenced by expectations about monetary policy measures, inflation expectations and developments on the US bond markets.

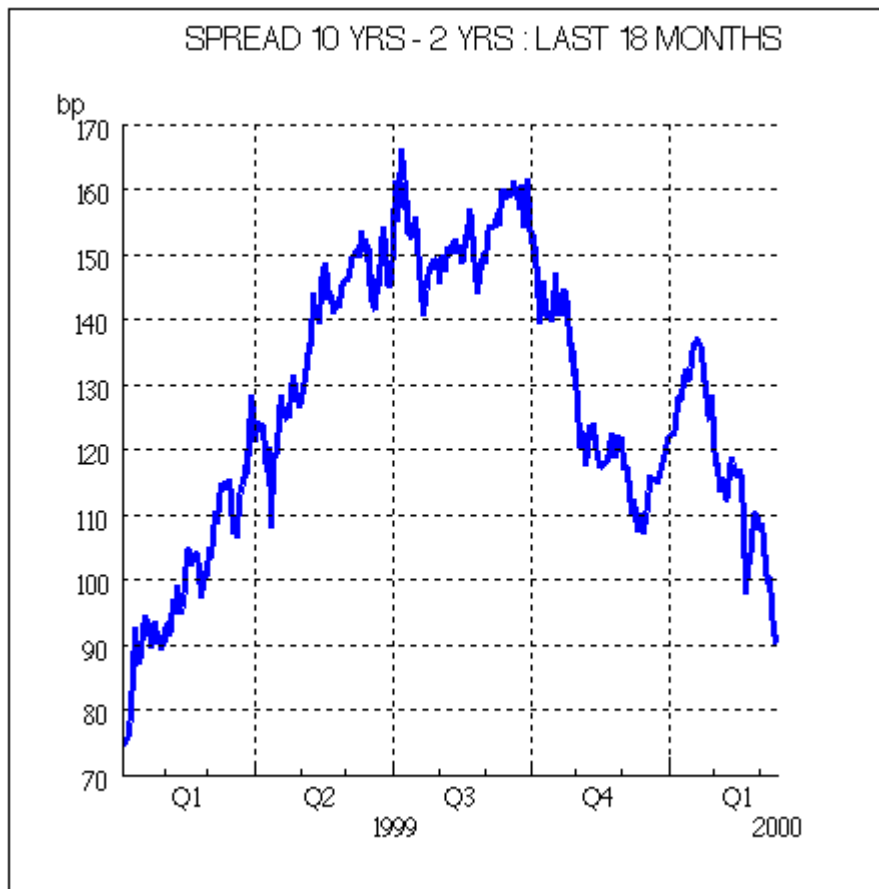
GRAPH 1 – EURO YIELD CURVE



<sup>1</sup> All figures quoted are from the DG ECFIN SOF data base unless stated otherwise. In this database all euro denominated issues of an amount of EUR 50 million or more are recorded. It should be noted that the data base includes all issues of a maturity of 1 year or more (incl. in particular Italian and French discounted paper of usually significant issue amount). Throughout this note payment dates - as opposed to announcement dates - of new issues have been taken into account unless stated otherwise. Data are subject to revision.

<sup>2</sup> Source: EUROSTAT (A daily euro yield curve can be found on the EUROSTAT internet site).

**GRAPH 2 – EURO YIELD CURVE: SPREAD**

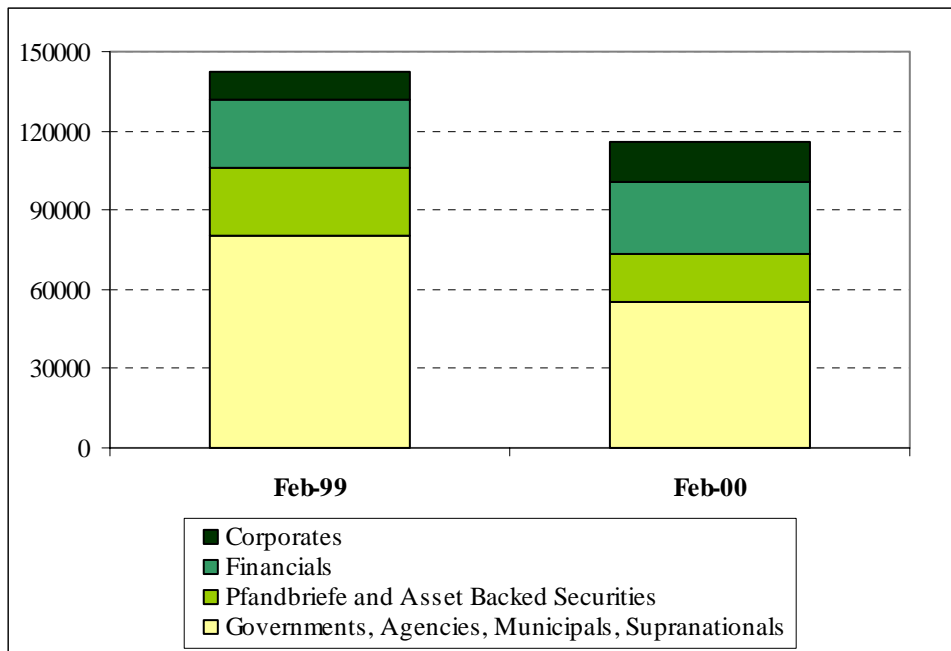


**2. BOND ISSUES: TOTAL ISSUES**

Total issues in February were €116 billion, down on February last year but more or less equal to the previous month. This stabilisation in issuing volume could indicate that the market has matured somewhat, reducing the need for issuers to establish themselves quickly in the new market. Furthermore, issuers and investors still face a considerable degree of uncertainty concerning interest rate and exchange rate movements.

	<b>Feb-99</b>	<b>Feb-00</b>
Governments	74,304	52,661
Other sovereign	5,994	2,475
Pfandbriefe	25,769	18,726
Financials	25,490	27,217
Corporates	10,694	15,020
<b>Total</b>	<b>142,251</b>	<b>116,099</b>

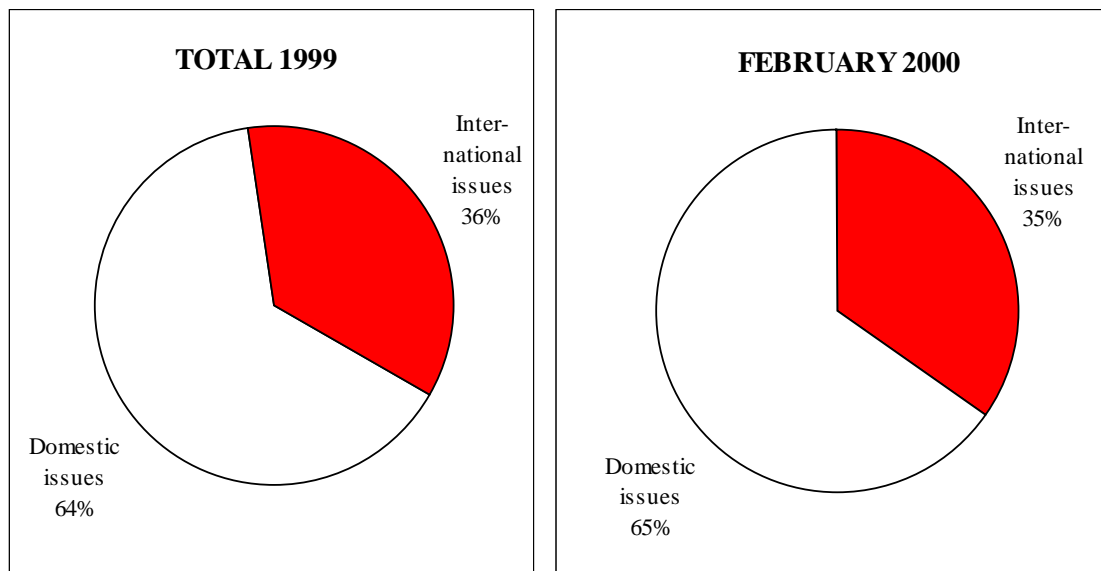
**GRAPH 3 – ISSUING ACTIVITY, VOLUMES IN € MILLION**



**3. INTERNATIONAL ISSUES**

Domestic issues accounted for about two thirds of all bonds covered by our database, clearly down from the previous month. The share of domestic issues in February was in line with the average of 1999, suggesting that the high level of domestic issues recorded in January of last year was a temporary occurrence.<sup>3</sup>

**GRAPHS 4 – TYPE OF MARKET: % OF TOTAL VOLUME ISSUED**

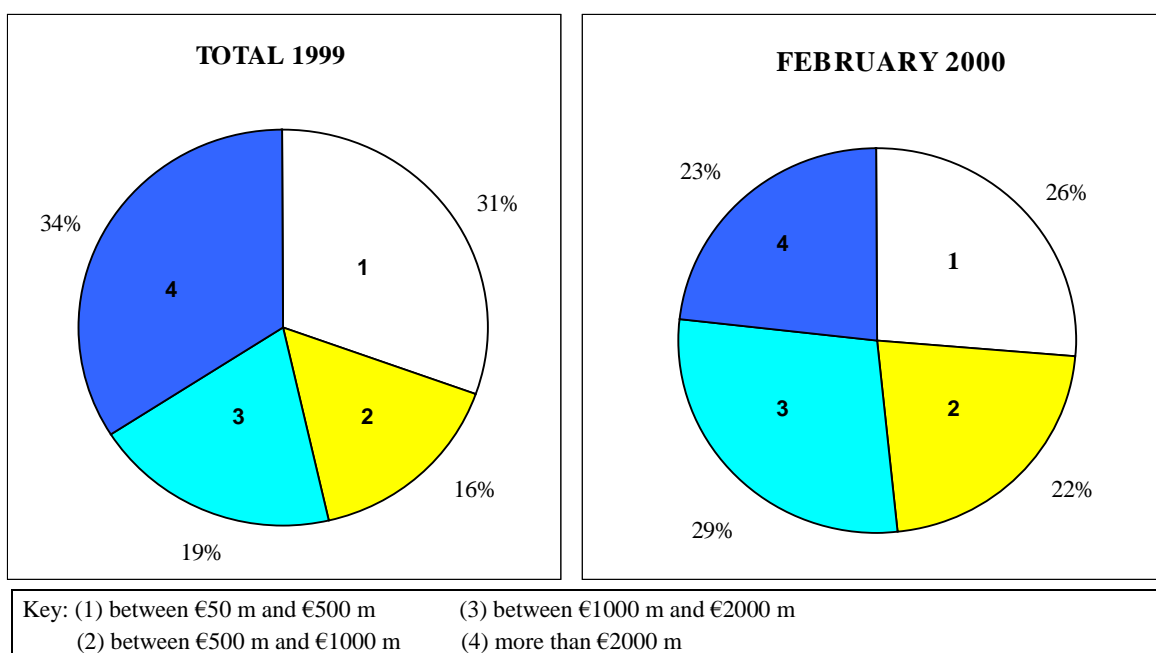


<sup>3</sup> Domestic issues are those offerings made to the national bond market; international issues are offered in more than one country. These figures are only indicative given the increasing difficulty in distinguishing bonds according to this criterion.

#### 4. ISSUE SIZE

The volume of big issues being brought to the market was significantly reduced compared to January, and clearly lower than its total 1999 share. One possible explanation for this is that government borrowing accounted for a declining share of the total in February, compared to January. The very largest issues accounted for less than a quarter of the total while intermediate issues (between €500 m. and €2000 m.) grew in importance. In particular, issues in the range between €1000 m. and €2000 m. increased substantially.

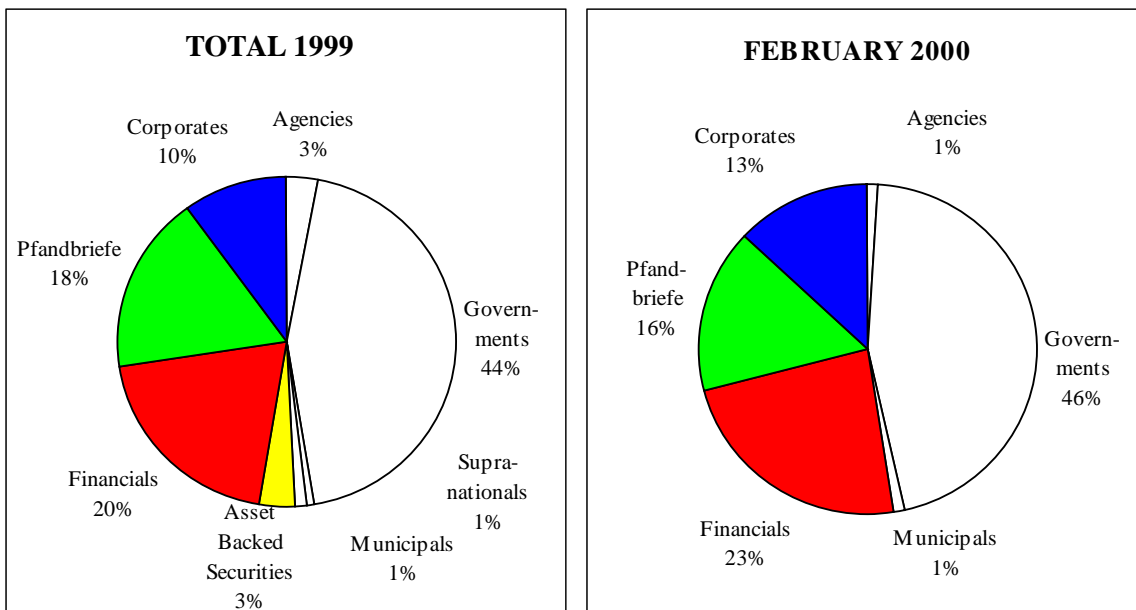
GRAPHS 5 – ISSUE SIZE, % OF TOTAL VOLUME ISSUED



#### 5. CATEGORIES OF ISSUER

February saw an increasing share of issues coming from corporates and financials, with the private sector as a whole representing more than half of total February issues. Compared to the beginning of last year, corporate bond issues in particular are now beginning to play an increasingly important role, both in relative and absolute terms.

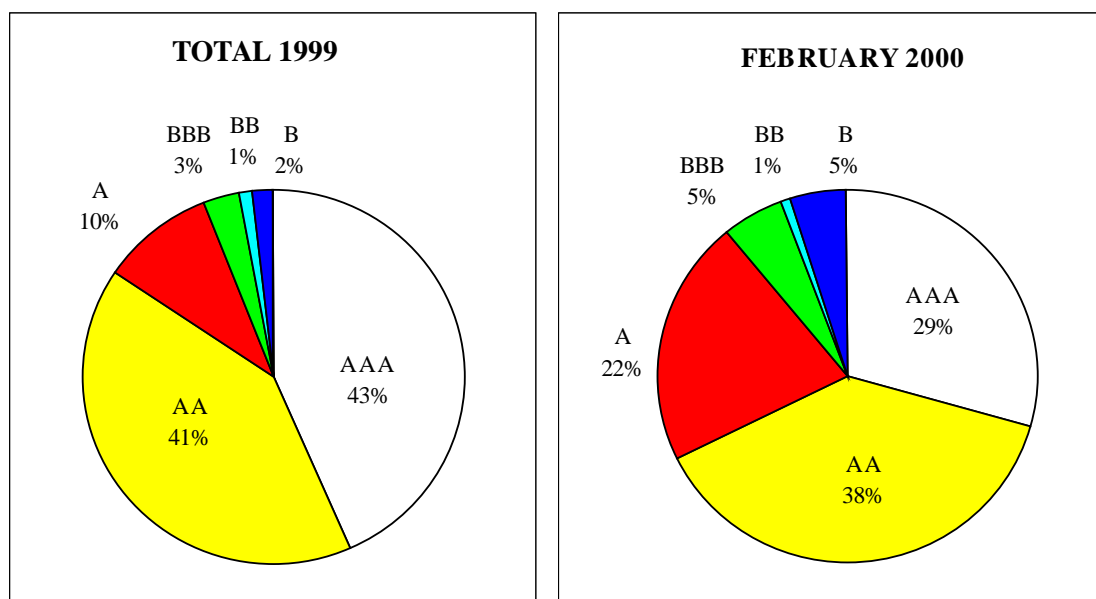
**GRAPHS 6 – TYPE OF ISSUER, % OF TOTAL VOLUME ISSUED**



## 6. RATING OF ISSUES

The share of AAA-rated bonds clearly diminished in February, declining to less than 30% of the total as the share of government issues in total issues declined.<sup>4</sup> Bonds rated below AA saw an upswing in their share compared to last year, and also compared to the previous month. In particular, the share of A-rated issues grew strongly. This development confirms the trend towards a more diversified risk structure of euro denominated debt.

**GRAPHS 7 – RATINGS AS % OF TOTAL VOLUME ISSUED WITH A RATING**

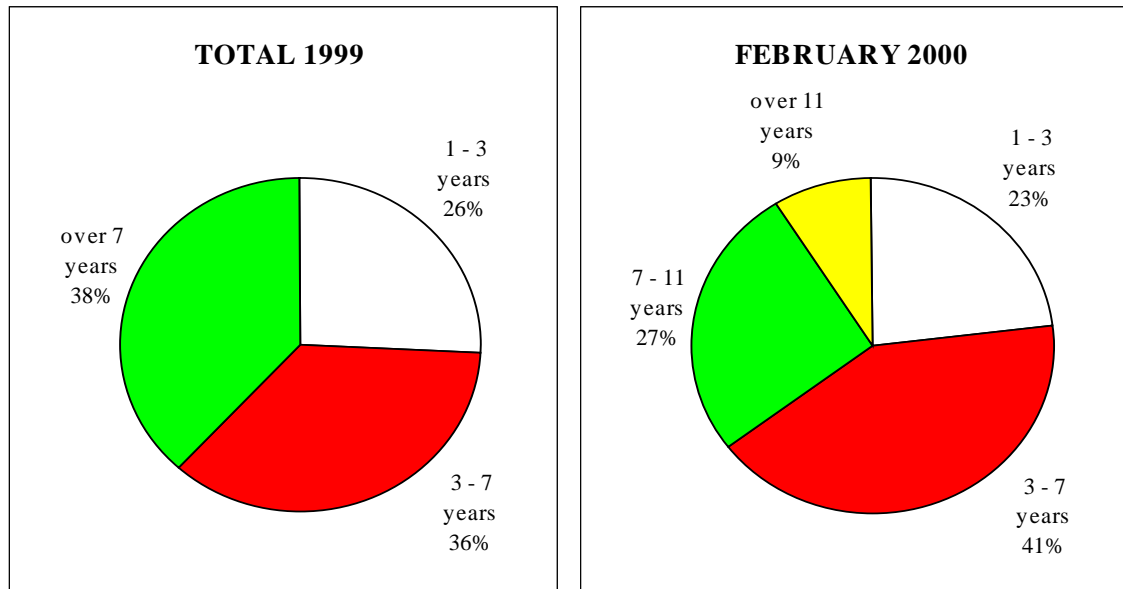


<sup>4</sup> Rating information is based on less than 100% of the issues recorded in the database since some rating information is not available.

## 7. MATURITY STRUCTURE

The maturity structure in February is rather similar to the situation last year, with issues in the intermediate range (i.e. 3-7 years) increasing their share somewhat. Compared to 1999 statistics, a supplementary maturity class has been introduced for maturities around the important 10-year segment of the yield curve.

**GRAPHS 8 – MATURITY STRUCTURE: % OF TOTAL VOLUME ISSUED**



## 8. ORIGIN OF ISSUERS

The percentage of total volume of issues originating outside the Euro area markedly increased. Increasing by roughly 50 percent as compared to 1999 totals, their share reached 15 % of total volumes issued. These issuers were largely to be found in North and Latin America and in the four EU countries not included in the Euro area.

**GRAPHS 9 – ORIGIN OF ISSUERS AS % OF TOTAL VOLUME ISSUED**

