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C4: Financial sector analysis
L5: Treasury management and market operations

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MONTHLY NOTE ON THE EURO-DENOMINATED BOND MARKETS

N° 118: June 2007

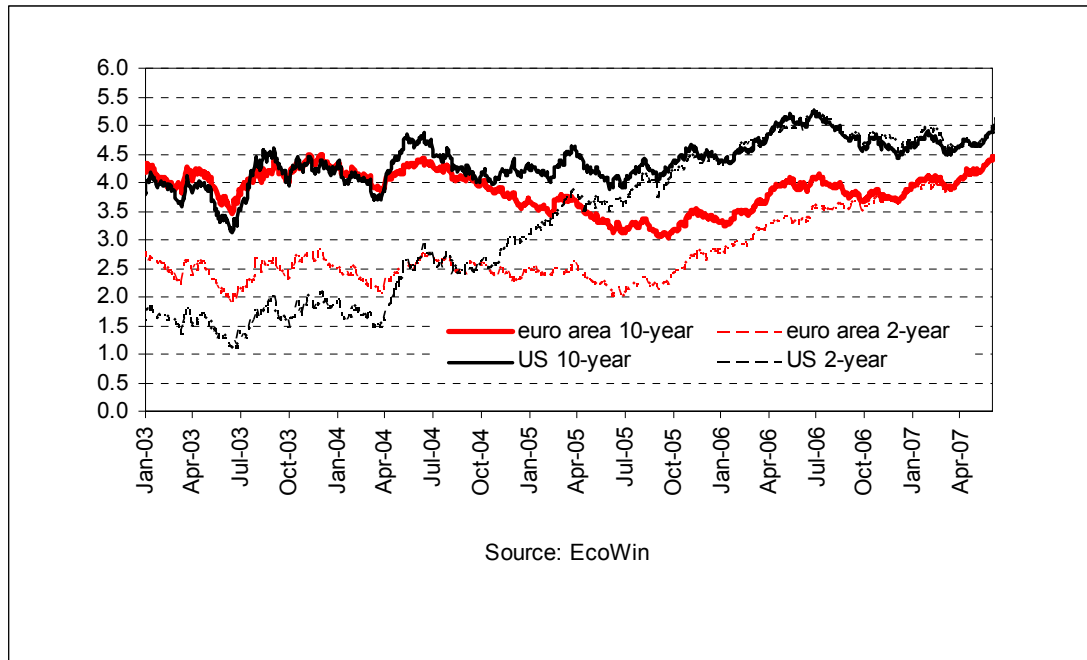
HIGHLIGHTS

- In response to the ECB decision to increase its refinancing rate, the euro yield curve shifted further upwards in June. 2-year yields increased by 8 basis points and 10-year yields by 15 basis points. As a result the 2-year/10-year spread widened substantially. The yield curve in the US became upward sloping as the 2-year yield declined by 5 basis points and the 10-year yield increased by 14 basis points. The spread between euro-area and US yields narrowed for 2-year maturities and remained largely unchanged for 10-year maturities. *(See Graphs 1&2)*
- Total gross issuance of euro-denominated bonds amounted to €225bn, which was higher than in May and in the corresponding month in previous years. *(See Graph 3 & Table 1)*
- The main change in the composition of issuance in June compared to the 12-month average was a relatively high share of ABS (23% compared to 15% on average) and issues from corporates (13%). Issuance from central governments (29%) was below its average level (25%), but included several new issues: €4bn of 33-year bond from Spain, €4bn of 16-year index-linked bond from Italy and €3bn of 4-year from Belgium. The share of issues from financial institutions (19%) was also relatively low. Meanwhile, the shares of pfandbriefe/covered bonds (12%), agencies (3%) and local governments (1%) were broadly in line with the average. *(See Graph 4a)*
- The other main characteristic of issuance in June was a relatively high share of issues from EU excluding euro area which is presumably a result of relatively high activity of issuers from the UK (ABS, covered bonds and issues from financial institutions) and several issues from Swedish corporates. As for the coupon type, the issuance in June was characterised by a shift from fixed-coupon bonds to securities with floating rate coupon. *(See Graphs 4a and 4b)*

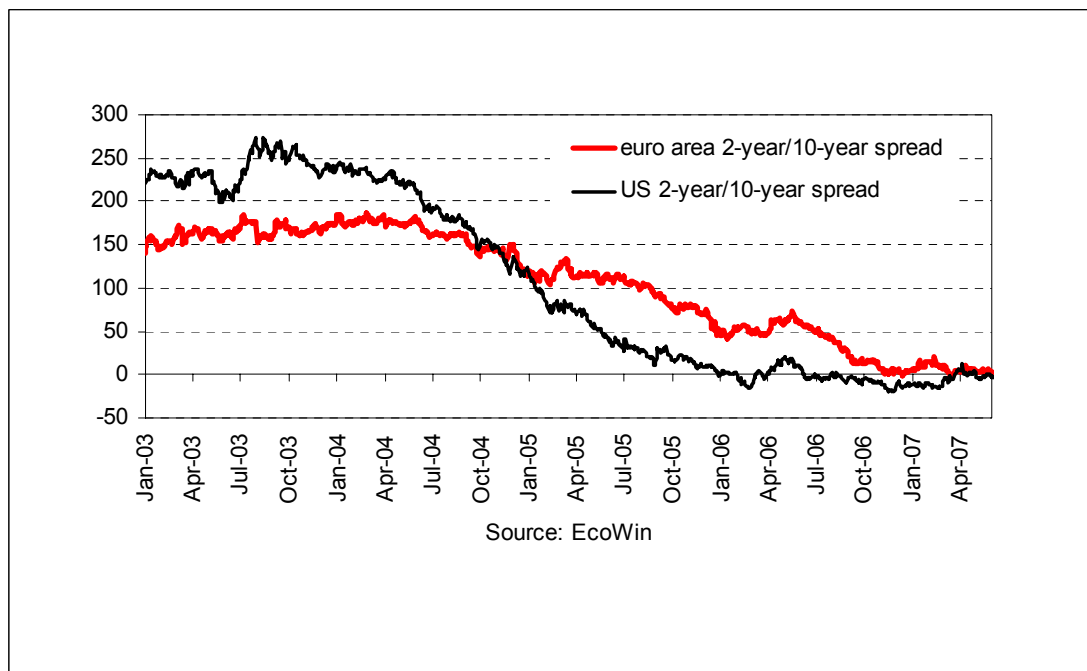
This series of notes, and a statistical annex, are available from the European Commission website at:
http://ec.europa.eu/economy_finance/publications/bondmarkets_en.htm

1. EVOLUTION OF EURO-AREA AND US INTEREST RATES ¹

GRAPH 1 –EURO AREA AND US BENCHMARK YIELDS



GRAPH 2 –EURO AREA AND US YIELD CURVE: 2-YEAR/10-YEAR SPREAD



¹ Source: As the EUROSTAT yield curve is currently not available, the usual graphs on the euro yield curve and spread are temporarily replaced by graphs illustrating the evolution of euro area and US benchmark yields and spreads based on data series provided by EcoWin.

2. EURO-AREA BOND MARKET ISSUES²

GRAPH 3 – ISSUING ACTIVITY, VOLUMES IN € MILLION

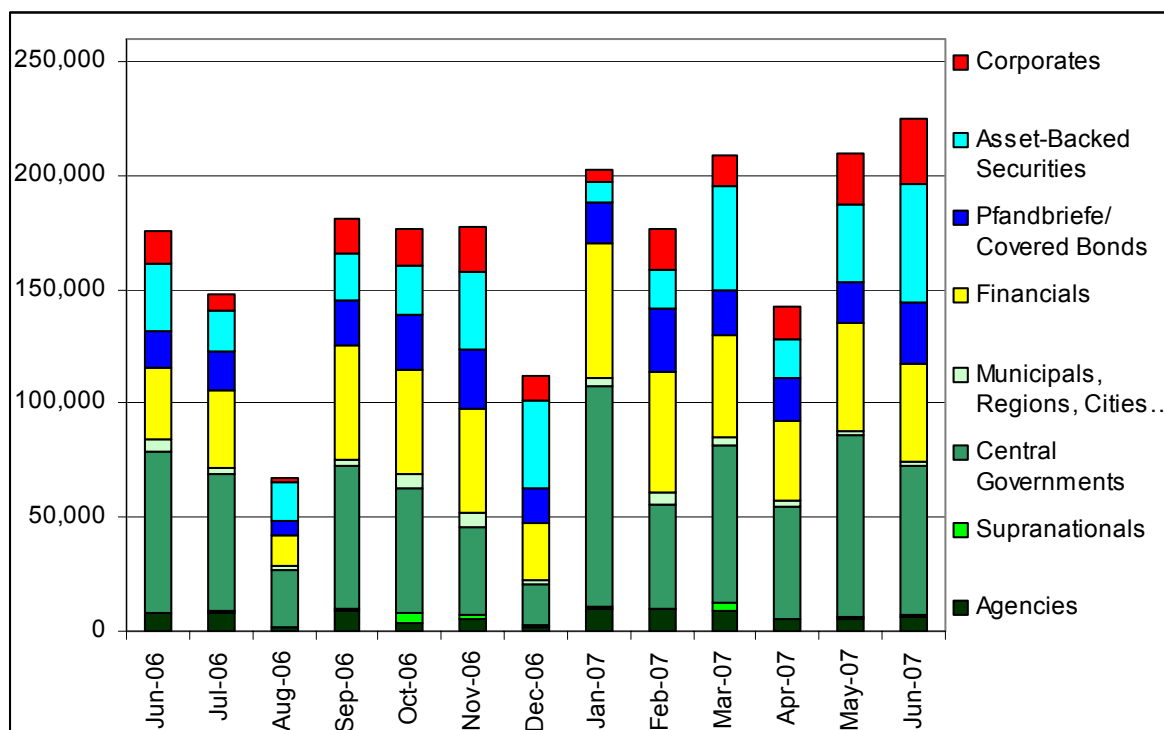


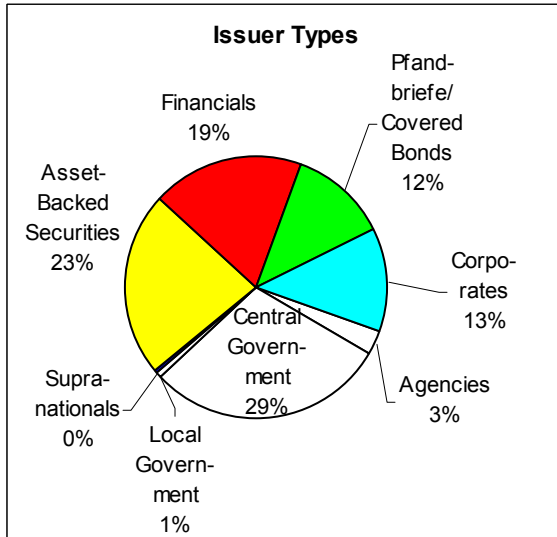
TABLE 1 – EURO ISSUING ACTIVITY IN JUNE SINCE 2004

Issue volumes in € mn	Jun-04	Jun-05	Jun-06	Jun-07
Agencies	8,565	6,475	7,810	6,325
Supranationals	350	500	0	600
Central Government	70,574	73,131	70,938	65,848
Local Government	4,845	7,049	5,213	1,901
Financials	41,472	68,272	31,525	42,450
Pfandbriefe/ Covered Bonds	14,457	41,280	15,937	26,835
Asset-Backed Securities	6,448	30,154	30,156	52,147
Corporates	17,680	25,337	14,126	28,509
Total	164,391	252,198	175,705	224,615

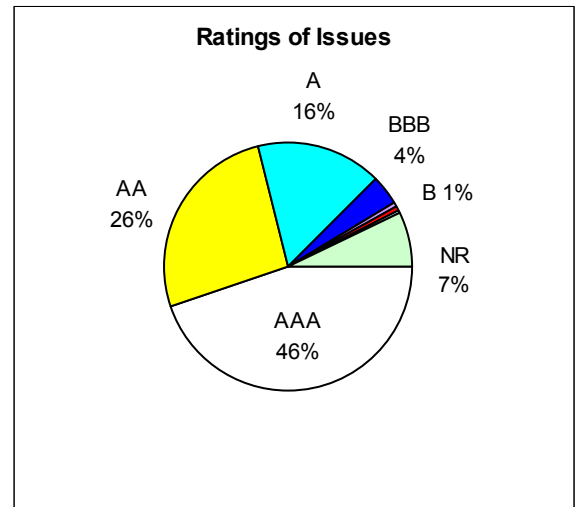
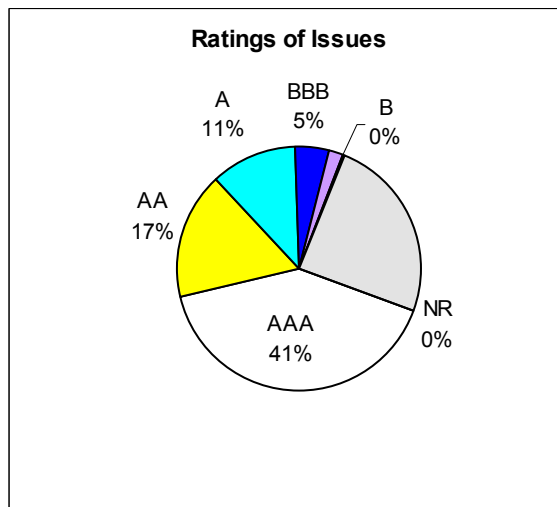
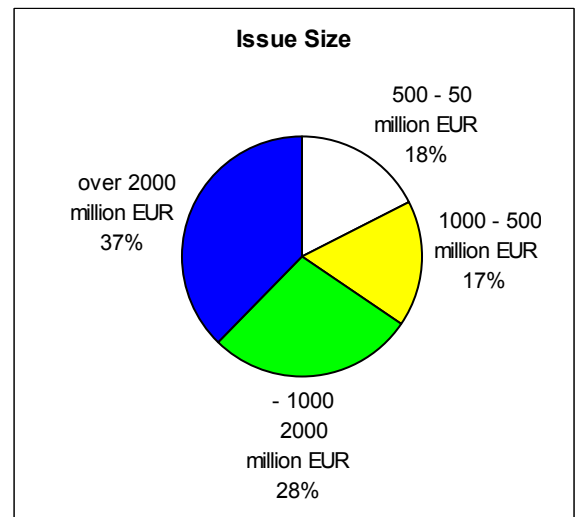
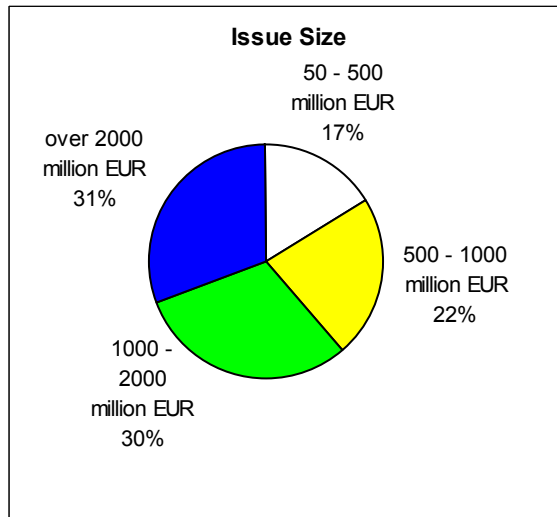
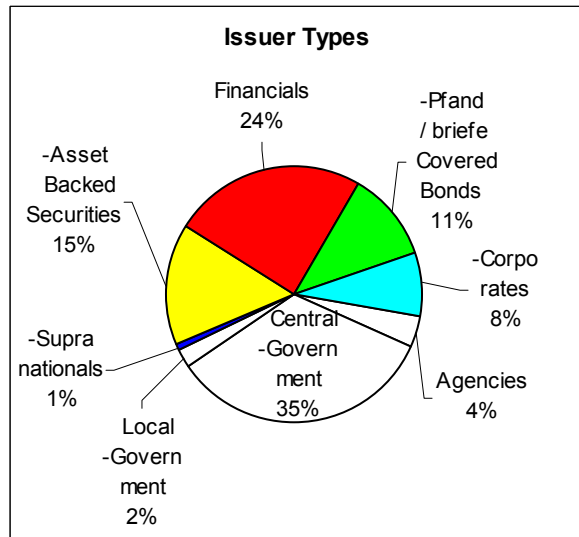
² All figures quoted are from the DG ECFIN database unless stated otherwise. In this database all euro denominated issues of an amount of €50mn or more are recorded on the basis of information from various sources (such as notably Bloomberg and the Thomson International Financing Review). It should be noted that the database 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.

**GRAPH 4A – ISSUANCE CHARACTERISTICS IN JUNE 2007
 COMPARED TO THE AVERAGE OF THE 12 PREVIOUS MONTHS
 (IN EURO, % OF TOTAL VOLUME ISSUED)**

June 2007



June 2006 – May 2007



**GRAPH 4B – ISSUANCE CHARACTERISTICS IN JUNE 2007
 COMPARED TO THE AVERAGE OF THE 12 PREVIOUS MONTHS
 (IN EURO, % OF TOTAL VOLUME ISSUED)**

June 2007

June 2006 – May 2007

