

ECB comments halt bond selloff

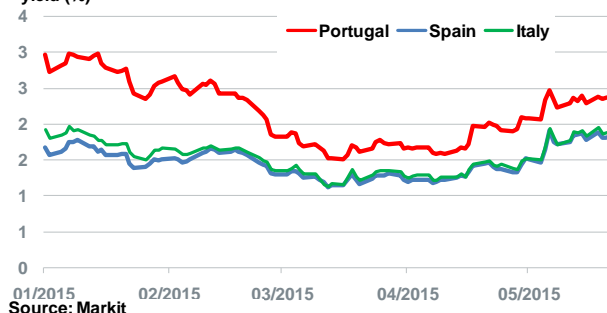
The ECB has reiterated its commitment to QE, halting the bond selloff, while Ukraine's woes worsen as corporates struggle to repay debt.

- ECB rhetoric has temporarily halted the slide in European sovereign bond prices
- Russia's 5-yr CDS spread has tightened below 300bps; the first time since November 2014
- Loan ETFs experienced a sharp surge in inflows of \$376m in April; the highest in a year

Europe

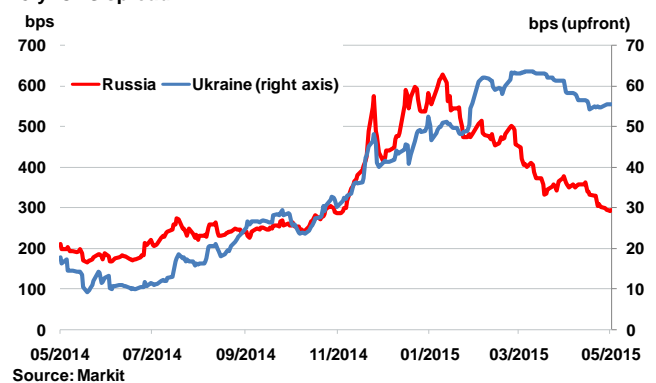
A senior member of the ECB, Benoit Coeure, said this week that the bank would front load its QE purchases ahead of reduced liquidity during the summer months. The statement quashed speculation that the ECB would end QE early amid better than expected growth and inflation expectations.

10-yr government bond yields
yield (%)



As a result of the statement, the euro fell against the US dollar and European stock markets rallied. The comment came just as European sovereign bond yields experienced a sharp rise over the past month, erasing any QE attributed gains. 10-yr periphery bond yields halted, with Italy yielding 1.89% and Spain 1.81%. Portugal also managed to sell six month debt at [negative yield for the first time](#) on record.

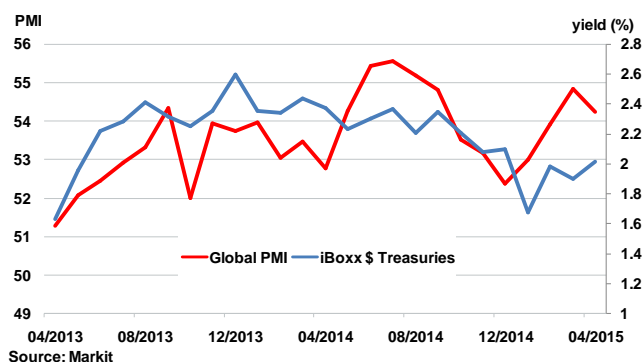
5-yr CDS spread



Across Europe, Russia's recovery gained traction as its 5-yr CDS spreads tightened below 300bps for the first time since November 2014. The recovery is in stark contrast to its neighbour Ukraine, whose credit trajectory diverged in February as troubles deepened. CDS spreads continue to imply a default probability above 95%.

Sovereign troubles have also spilled over into the corporate sector. Metinvest, a Ukrainian steel firm, technically defaulted on its corporate debt this week as it failed to repay principle on its 2015 US dollar bond. Its other US dollar bonds, a 2017 and a 2018, continue to trade at 58.5 and 56 on a cash basis to par respectively according to Markit's bond pricing service.

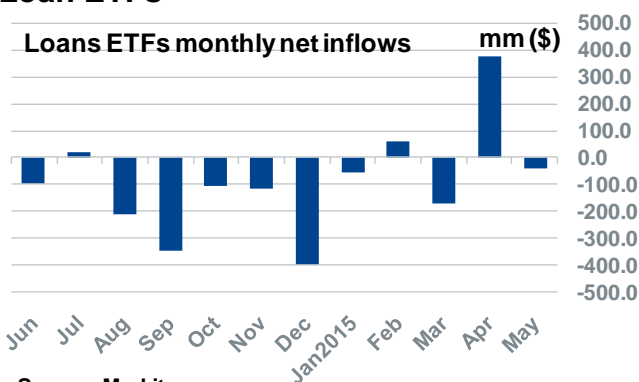
Yields driven by macro



Treasury bond yields and the global macroeconomic environment hold a close relationship. Comparing the annual yield on the Markit iBoxx \$ Treasuries index and Markit's Global PMI composite finds that the uptick in the PMI level this year from 53.0 to 54.3 has been met by an increase in yields from 1.68% to 2.02%.

This trend can be seen holding over the past few years, which have seen treasury yields rising as global PMI levels increased and vice versa.

Loan ETFs



ETFs tracing indices comprised of leveraged loans experienced their best month of inflows since March 2014, with \$376m of inflows in April. The increased demand came as investors rushed to less interest rate sensitive assets that are negatively correlated to sovereign and corporate bonds.

The largest leveraged loan ETF, the PowerShares Senior Loan Portfolio ETF, has outperformed the largest investment grade corporates ETF, the iShares iBoxx \$ Investment Grade Corporate ETF by over 3% in April. That trend has since cooled off which has seen investors take some profits off the recent trade, with leveraged loan funds seeing outflows in the last three weeks.

Neil Mehta

Analyst

Markit

Tel: +44 207 260 2298

Email: neil.mehta@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.