

Market welcomes ECB plan; US bank credit improves

Bond investors reacted positively as the ECB revealed the finer details of its corporate bond buying programme; while in the US earnings season has proved positive for US banks' credit.

- ECB will start buying corporate bonds in June, placing a 70% limit per non-bank bond issue
- [Markit iBoxx € Non-Financials index](#) spread tightened to 131bps, an eight month low
- Basis between US bank credit risk and broader US IG market tightened to 5bps from 14bps

ECB reveals corporate bond plan details

After slashing interest rates and expanding monthly QE purchases, ECB president Mario Draghi gave a more subdued performance in yesterday's monetary policy meeting. The ECB did however reveal the finer details of its corporate sector purchase programme (CSPP), which is scheduled to commence in June.

- Issuer has to be established in the euro area
- 70% limit per issue (ISIN)

While Markit iBoxx € Non-Financials index has seen its annual spread fall over 25% from February's highs, spreads are still around 30bps wider than the start of ECB QE last year, as global growth concerns linger and the diminishing efficacy of monetary policy in Europe comes under further scrutiny. If covered bonds spreads are anything to go by (the ECB have been buying them since 2014), corporate bond spreads should fall further. Draghi was also quick to point out the ECB has further leeway should current measures not suffice in stimulating growth and inflation.

Bank risk falls after earnings season

Credit investors have reacted positively after US banks' earnings fared better than feared, despite enduring one of their [toughest periods in years](#).

It was [noted earlier this month](#) the US banking sector was struggling to shake off headwinds faced in the first quarter of this year. It meant that investors were demanding more to insure against the sectors debt than that of the broader US investment grade market.

iBoxx € Non-Financials index

Annual benchmark spread (bps)



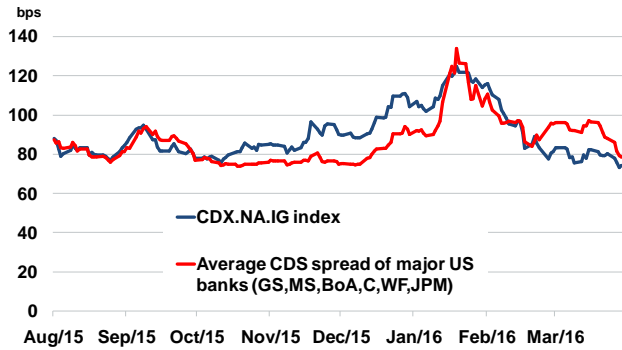
Source: Markit

Corporate bonds in the European region, as represented by the Markit iBoxx € Non-Financials, saw risk fall on the back of the disclosure. The annual spread (interest premium over German bunds) on the index tightened 3bps to 131bps, the lowest level since last August.

CSPP summary:

- Scheduled to commence in June
- Investment grade, euro-denominated bonds issued by non-bank corporations eligible
- 6 months to 30 years maturity

US banks credit spreads tighten



Source: Markit

The average 5-yr CDS spread for major US banks (Bank of America, Citigroup, Goldman Sachs, J.P. Morgan, Morgan Stanley and Wells Fargo) tightened to 79bps, from 94bps ten days ago. The basis between US banks and the broader US investment grade market, as represented by the Markit CDX NA index, tightened to 5bps, from 14bps before earnings season.

In bond markets, the annual spread on the Markit iBoxx \$ Domestic Banks Senior index tightened to 135bps, just 9bps wider than at the start of the year.

Neil Mehta

Fixed Income 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.