

European bonds tighten after Draghi comments

Mario Draghi reasserted his commitment to ECB QE this week, sending European bond yields tighter.

- Markit iBoxx € Sovereigns index now yielding 70bps
- Tightening occurs despite increasing bearish news coming out of Greece
- Alcatel Lucent CDS spreads tightened by 80bps after Nokia announcements

Bonds tighten after ECB comments

While much of the media coverage of the recent ECB press conference focused on the confetti showered on president Mario Draghi, the market chose instead to focus on the bank's continuing commitment to QE. The central bank was bullish on the impact of the program so far and pledged to continue its €60bn monthly asset purchase program for as long as eurozone inflation remains [low](#).

The news sent eurozone sovereign bond yields falling to new lows, with the Markit iBoxx € Sovereigns index yield hitting the 70bps mark for the first time ever on Wednesday; a tightening of 4bps from the close of last week.

EUR Bond Yields



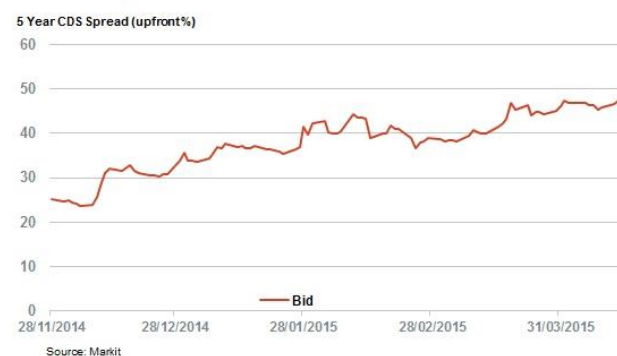
Corporate bonds also reacted positively with the Markit iBoxx € Corporates index tightening by 2bps. Interestingly, the yields on the region's corporate bonds are still off their all-time lows registered at the closing weeks of last year, indicating that the recent tightening is driven by falling reference

sovereign credit and not improving outlook on the region's corporate bonds.

Market discounting Greek trouble

Not all the sovereign news flow was positive however. Greek bonds fell to new recent lows as the country's ongoing negotiations with international creditors hit another impasse. This news sent Greek CDS spreads to new highs with the market now implying a 77% [change](#) of default for the country in the coming five years.

Greek CDS Spread



Despite this latest chapter in the protracted Greek saga, the CDS market has tightened in line with bonds over the last few weeks, with the iTraxx index recently [reaching](#) its lowest level in over five years.

Corporates tighten

Another development moving the CDS market this week was the announced tie-up between Finnish telecommunication equipment maker Nokia and its French rival Alcatel Lucent in a €15.6bn all-stock deal.

Both firms are hoping to save around €900m through synergies, something which the market has well received as evident by the tightening in Alcatel's CDS spread. The firm's 5 year CDS fell by over 80bps in the two days after the deal came to light, reaching their lowest level in over 7 years.



Alcatel bonds also rallied in line with the CDS spreads.

Simon Colvin

Analyst

Markit

Tel: +44 207 260 7614

Email: simon.colvin@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.