

## Ad hoc teleconference of the ECB's Bond Market Contact Group – 30 March 2020

### Summary of the discussion

**Members reported some improvement in the liquidity and functioning of the euro area bond market** following the announcement of a temporary envelope of net asset purchases of €120 billion in addition to the existing asset purchase programme (APP) and the start of the pandemic emergency purchase programme (PEPP). Sovereign bonds of lower-rated euro area jurisdictions had benefited the most – particularly Italian and Greek sovereign bonds – and this had also led to a significant narrowing of spreads relative to German bonds. Smaller markets and longer maturities remained still very illiquid, with continued deterioration being reported by one member in Spain.

**The start of Eurosystem purchases of non-financial commercial paper had contributed to the stabilisation of flows from investment funds and money market funds.** After significant outflows during the previous week, the liquidity situation of funds had improved and the imminent risk of redemption gates or suspensions of redemptions had been avoided for now. Members were reminded by the ECB that the Eurosystem gave eligible counterparties the possibility of submitting offers on behalf of APP-eligible securities on behalf of non-eligible counterparties, such as asset managers and non-bank financial institutions, which could contribute to alleviating market tensions in the current volatile environment. These offers could be aggregated with the daily reporting on counterparty inventories or they could be reported separately.

**A few indicators of market stress pointed to an improvement in euro area credit market conditions.** This was most evident for APP-eligible assets, such as investment-grade corporate bonds. The market for high yield bonds remained impaired. Members warned of impending risks of broad-based rating downgrades affecting BBB-rated corporate bonds. If they were to fall below investment grade, this could result in a sharp decline in prices and a loss of access to funding, given their loss of APP eligibility and the narrow investor base.

**US dollar funding conditions had reportedly improved, helped by the coordinated action by central banks and the increased frequency of swap line operations.**