

FOCUS · The ECB enters the European corporate bond market

In just over a year since the start of the public sector purchase programme (sovereign QE) the ECB is about to begin its private debt purchase programme (corporate QE). The institution has two aims with this move: to improve financing conditions for firms and to diversify the type of assets purchased, which should boost monthly debt purchases by 20 billion euros. Although the effective start of corporate QE will take place in June, its announcement in March has already begun to be felt.

Firstly, a clear drop can already be seen in yields and risk premia for European corporate debt. The yields and spreads (compared with sovereign bonds) of investment grade (IG) corporate bonds from non-financial firms have fallen by 28 and 25 bps to 0.98% and 120 bps respectively.¹ The speculative or high yield (HY) segment of this market and European bank debt (both outside the ECB's radar) have also seen their respective yields and spreads fall, especially the former. Secondly, the upswing in the rate of IG and HY bonds issued by European non-financial firms is another of the effects associated with the announcement of corporate QE. In March and April 65 billion euros were issued, a very high figure that contrasts with the inactivity dominating the capital markets in January and February.

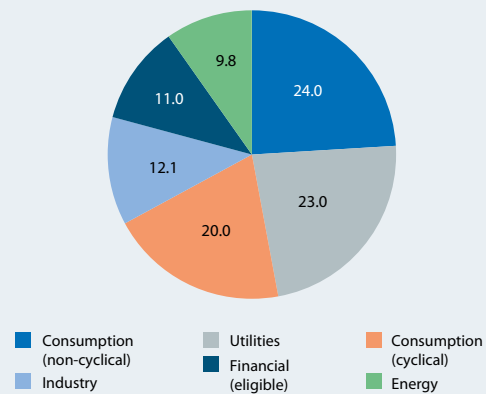
Regarding the design of corporate QE, one of the most relevant aspects is the range of eligible bonds, which has been wider than expected. Specifically bonds from the IG segment will be eligible, denominated in euros and issued by non-banking corporations located in the euro area.² The bonds of insurers and financial firms whose parent companies are not a credit institution will also be eligible. But it is in the technical section where corporate QE has surprised the most, both because of the target market for the purchases (primary and secondary) and also for the high limit to the ECB's share in each bond (70% except in the case of companies with a notable public holding). Moreover, there will be no minimum amount per issue, which will particularly help medium-sized firms, and purchases will include almost all types of maturity (from 6 months to 31 years). Based on these parameters and the rest of the technical aspects stipulated by the ECB, the universe of eligible corporate bonds totals 670 billion euros.

Lastly, the size of corporate QE and, consequently, the rate of monthly purchases is an area for which the ECB

has not established any targets ex ante. A simple and reasonable estimate would be to extrapolate the experience of the last covered bond purchase programme by the ECB (CBPP3), very similar in several ways to its corporate QE. Based on the ECB's pattern of purchases in the primary and secondary covered bond markets in 2015, monthly bond purchases could total around 7-8 billion euros and the volume for the programme as a whole could be as much as 72 billion (in 9 months, up to March 2017). This is a relatively modest size in comparison with the target market, which should help corporate QE to be implemented without too much difficulty.

Corporate QE: sector share of the eligible bond market

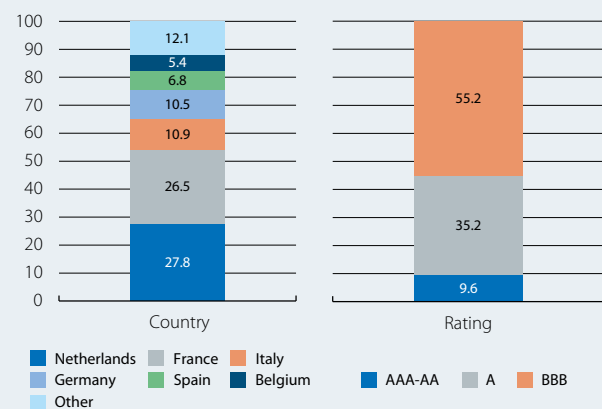
(% of the target market)



Source: CaixaBank Research, based on data from the ECB and Bloomberg.

Corporate QE: breakdown of the target market by country and credit rating

(% of the target market)



Source: CaixaBank Research, based on data from the ECB and Bloomberg.

1. Fixed Income indices of Bank of America Merrill Lynch.

2. More specifically, the ECB will use the criterion of the country where the issuer is incorporated, which means that the bonds of companies incorporated in the euro area but whose parent company is outside will be eligible provided they meet the programme's other criteria.