

Sharp tightening of sovereign spreads

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SOVEREIGN SPREADS tightened sharply in Ireland and other peripheral European countries yesterday as central banks began buying up government debt.

Euro-zone central banks began buying government bonds in an effort to support fractured markets, boosting debt of fringe countries such as Greece – a step that they had resisted as late as last week.

Bond spreads had widened to new highs in periphery European economies last week, which had called into question their ability to issue debt.

This in turn had threatened the euro, said Kevin O’Connell of Bloxham stockbrokers, but the scale of the intervention announced yesterday had now “put this on its head”.

The premium – or “spread” – investors demand for holding 10- year Irish debt, instead of benchmark German securities, narrowed dramatically to 178 basis points yesterday, having risen to a high of 314 at one point on Friday.

Ireland’s National Treasury Management Agency may now push ahead with a planned bond auction next week in the wake of the rescue package, according to Glas Securities, which specialises in fixed-income markets.

Greece also saw its bond spread narrow sharply to 379 basis points from 939 on Friday, while Portugal and Spain also saw their borrowing costs fall.

However, Oliver Gilvarry, head of research at Dolmen Stockbrokers, pointed out that the bond spreads moved wider in some core European countries. – (Additional reporting, Reuters/Bloomberg)

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