

NTMA to test bond market

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The National Treasury Management Agency (NTMA) will test the bond market next week when it offers up to €1.5 billion in bonds for auction.

The NTMA plans to auction a 4 per cent bond that matures in 2014 and a 5 per cent bond maturing in 2020.

The monthly scheduled auction comes in the wake of widening bond spreads in recent days, following the European Commission's approval of Government plans to raise the level of capital it can inject into Anglo Irish Bank.

On Wednesday, bond spreads hit the highest level in a month, reaching almost 300 basis points at one point, before narrowing slightly. The yield on 10-year bonds broke through the 5.4 per cent mark on the same day.

This morning, bond spreads were 292 basis points above the German bund, with yields of 5.3 per cent.

Ireland's borrowing costs rose at an auction of €1 billion of six- and eight-month bills yesterday, when the NTMA sold €500 million of securities due February 14th, 2011, at an average yield of 2.458 per cent. That compared with 1.367 per cent at a July 22nd auction of the same bills. Some €500 million of securities due April 18th, 2011, at an average yield of 2.81 per cent, compared with 1.8 per cent on July 22nd.

The European Central Bank was yesterday reported to have bought Irish government debt to try to halt the slide in its price, with Bloomberg News citing market traders who witnessed the transactions.

Glas Securities said the the buying may have helped stabilise the market for Irish bonds which specializes in fixed-income markets.

"Once again there were rumours of Central Bank participation yesterday but as per Wednesday, we believe it was in small size," the Dublin-based firm said in a note today. "Even if their actual buying activity is minimal, the knowledge that they are lurking in the background is enough to stabilise the market."

Additional reporting: Bloomberg

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