# Borrowing costs rise as market hits Irish bonds

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IRISH BOND spreads hit their highest level since the end of June yesterday, as the State's debt management agency announced it would auction up to €1.5 billion in bonds next week.

Ireland's borrowing costs were pushed almost 3 percentage points higher than Germany's at one point yesterday, after investors bet that the Government will have to inject more capital into banks, including Anglo Irish Bank.

The premium – or spread – that investors demand for holding 10- year Irish bonds, instead of benchmark German securities, widened to 294 basis points, the most since June 29th.

Fine Gael spokesman on enterprise Richard Bruton attributed the international loss of confidence in the Republic's creditworthiness to the decision by Minister for Finance Brian Lenihan to bail out Anglo Irish Bank and Irish Nationwide.

However, Dublin brokers warned against reading too much into fluctuations in Irish spreads, as volumes on bond markets are so light at the moment.

The National Treasury Management Agency (NTMA), which manages the State's debt, said it would test the bond market next Tuesday when it offered 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.

Ireland's borrowing costs rose at an auction of €1 billion of six- and eight-month bills on Thursday, when the NTMA sold €500 million worth of securities due on 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.

Earlier this week, the European Central Bank was 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, which specialises in fixed-income markets, said the buying may have helped to stabilise the market for Irish bonds.

“Once again there were rumours of Central Bank participation [on Thursday] but as per Wednesday, we believe it was in small size,” the Dublin-based firm said in a note yesterday.

“Even if their actual buying activity is minimal, the knowledge that they are lurking in the background is enough to stabilise the market,” it said.

Ireland is not the only country coming under pressure on the sovereign bond market.

Spanish bonds fell yesterday and the extra yield investors demand for holding Greek debt instead of German bunds rose to the most since May on concern that flagging growth in nations on Europe’s periphery will crimp the region’s recovery. – (Additional reporting Bloomberg)