

# Peripheral Europe Update

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- **Italian government approves public bailout of Banca Carige**
- **Greece to issue bonds to buy back IMF loans**

## Main market events

Peripheral bonds underperformed sharply in the first two days of the year, with especially Italian spreads fully reversing the rally seen in December, but stabilized afterwards. Positive US labor market numbers and a dovish speech by FED President Powell calmed markets and supported risk globally. The minutes of the December ECB meeting did not bring much news. As the first big wave of primary issuance is now behind us, with Spain, Ireland, Portugal and Italy coming to the market, we see some support for spreads in coming days. Italian bonds have returned -0.9% year-to-date, Spanish bonds -0.6%, Portuguese bonds -0.4% and Irish bonds -0.1%.

## Italy

The Italian government approved urgent measures, which include government guarantees and a potential public “precautionary recapitalization” of EUR 1.2bn, to prop up the mid-sized lender Banca Carige. The potential need for public support may represent another source of tension between the Italian government and the European Commission, after the battle on the 2019 budget in the Autumn. Support given to banks may also further alienate voters from the coalition party M5S, which had been strongly against public bailouts of banks in the past.

## Greece

Greece will tap the bond markets for EUR 7bn in 2019. The government plans to buy back some of the IMF loans and/or the ECB-held bonds with the cash buffers. The program exit buffer of EUR26bn cash allows Greece to avoid a rushed bond placement, but the cost of market refinancing remains elevated, with 10-year yields above 4%.

## Issuance

Debt issuance in the eurozone got off to a flying start. Belgium issued euro 6 billion in a new 10 year bond, for a record order book of more than euro 28.5 billion. Ireland’s new 10 year syndicate attracted orders above euro 18 billion and issued euro 4 billion, whilst Portugal issued euro 4 bln euro versus a total gross funding target of euro 15 billion this year. So a very successful week for issuance, especially as the ECB has now ended its net purchases of Eurozone government bonds. It’s encouraging that issuance has started off well without ECB support.

## Robeco Euro Government Bonds

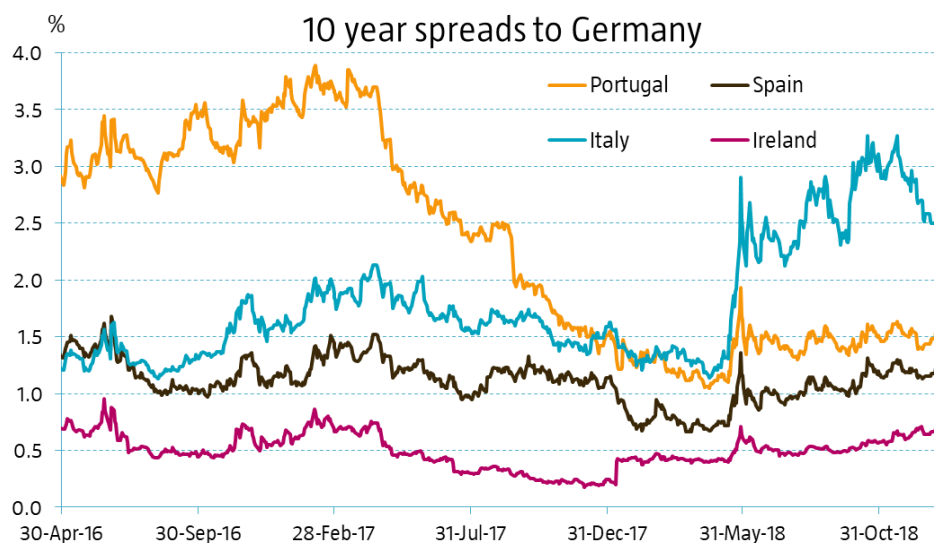
We have not adjusted our exposure to periphery during the final week of December or the first week of January. The fund has long positions in both long dated Spanish and Irish bonds, a small long in Italian 10-yr bonds and a small underweight in shorter dated Portuguese bonds. We aimed to close the underweight in Portugal at last week’s primary issuance, but as the spread guidance changed to expensive levels, we decided not to participate. The fund’s investments in peripheral bonds amounts to 37% which is below the index level as expressed in market value.

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.58	0.03									
2	-0.59	0.13	1.05	0.38	-0.02	0.06	0.10	1.99	0.15	0.11	0.40
3	-0.56	0.24	1.62	0.57	0.00	0.13	0.07		0.46	0.10	0.49
4	-0.48	0.31	1.89	0.63	0.03	0.19	0.18		0.43	0.16	0.63
5	-0.35	0.35	2.16	0.72	0.04	0.30	0.15	3.59	0.50	0.18	0.81
6	-0.20	0.27	2.29	0.87	0.04	0.27	0.16		0.55	0.10	0.83
7	-0.10	0.32	2.45	1.00	0.07	0.33	0.21		0.65	0.20	1.20
8	0.01	0.37	2.37	1.09	0.08	0.40	0.27			0.18	1.31
9	0.12	0.34	2.49	1.16	0.11	0.45	0.24				1.37
10	0.24	0.42	2.60	1.19	0.10	0.47	0.22	4.05	0.78	0.26	1.45
15	0.47	0.64	2.72	1.51		0.69	0.47	4.26	0.92	0.41	1.83
20	0.64	0.59	2.84			0.81	0.37	4.35			1.93
30	0.84	0.77	2.85	1.81	0.03	0.86	0.48			0.29	2.06

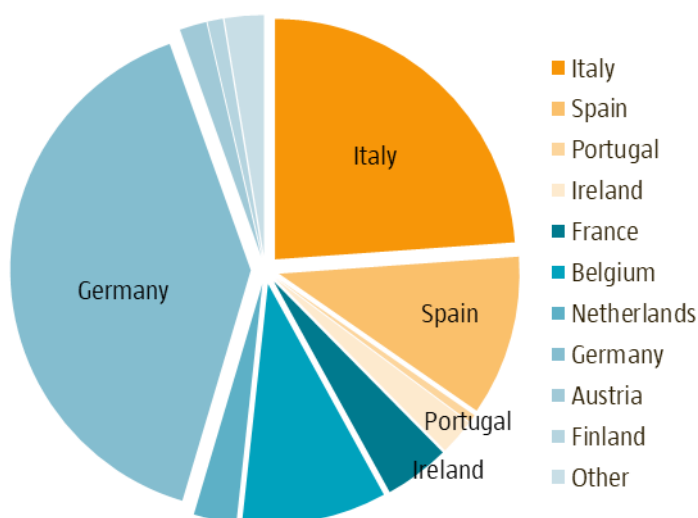
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (10 January, 2019)



Source: Robeco

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