

# Peripheral Europe Update

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- **ECB see risks to downside, sweeteners likely to follow in March**
- **Issuance bonanza continues as Spain raises EUR 10bn**

## Main market events

Spreads of euro periphery bonds tightened this week, supported by a dovish ECB meeting. Spain outperformed its peers as the issuance of a new 10 year Bono attracted large demand. Italian bonds have returned 0.7% year-to-date, Spanish bonds 1.2%, Portuguese bonds 1.2% and Irish bonds 0.8%.

## ECB

The ECB is expected to announce a new round of cheap long term financing in its March meeting, following a downgraded of its growth assessment from “broadly balanced” to “risks surrounding the euro area growth outlook have moved the downside”. Although the ECB only assessed the current environment, refraining from action, during the press conference president Draghi mentioned that initiating both TLTROs and LTROs was raised by several members. An indication that this will be the preferred instrument to use as a policy tool. We expect the ECB will announce a new round of attractive bank financing at its March meeting.

## Spain

Big, bigger, biggest, the size of the final order book for Spain’s new 10 year syndicate amounted to EUR 47 billion and eclipsed the large books of all earlier European government syndicates this month. The deal size was set at EUR 10bn. So issuance for Spain got off to a strong start, especially as new issue premium in the process was reduced to just a few basis points. The Spanish issuance confirmed the positive backdrop for issuance in general this year and the solid demand for Spanish paper more specifically.

## Italy

The Italian economy was technically in recession in H2 2018, according to updated information from the Bank of Italy. In their latest bulletin the bank published preliminary GDP growth data of -0.2% for Q4, which indicates that GDP has been shrinking for two consecutive quarters. The forecast for this year was lowered from 1.0 to 0.6%, due to an expected worsening in private sector credit conditions. Official Q4 GDP data are due to be released on Thursday 31 January.

## Robeco Euro Government Bonds

We participated in the new Spain 10 year syndicate, adding to periphery exposure. Risk sentiment is supportive for spreads also as the ECB followed the FED in its dovish assessment. This is providing further tail winds for country spread. However we remain aware of the current fragile growth outlook for the Eurozone economy. The fund’s investments in peripheral bonds amount to 40%, in line with the index. In duration terms, the fund is overweight in Spain and Ireland. Year to date the absolute return of the fund is 0.88%\*

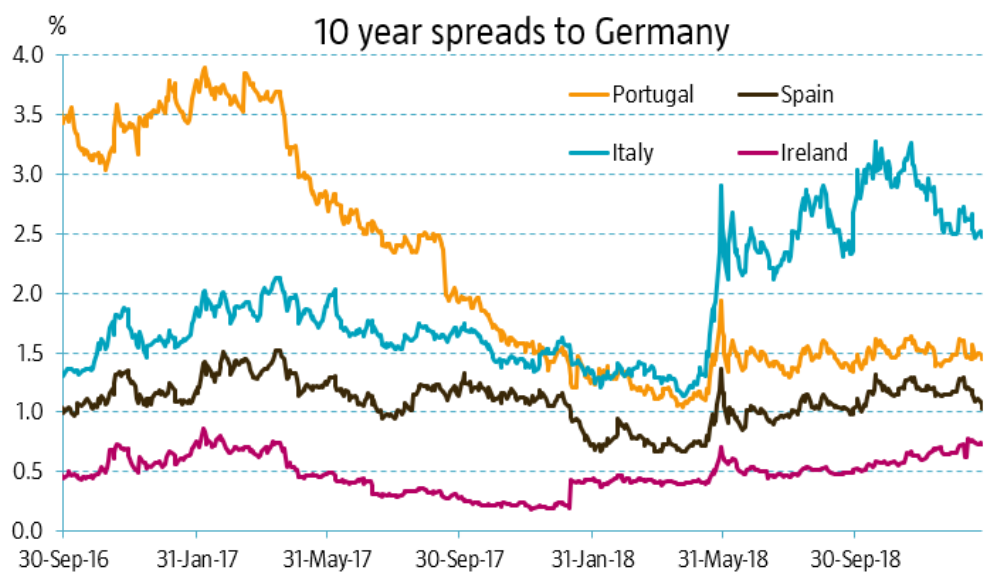
\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, 24 January, 2019. The value of your investments may fluctuate. Past results are no guarantee of future performance

Current 10-yr spreads versus Germany

Maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.56	0.03									
2	-0.58	0.12	0.85	0.32	-0.01	0.06	0.11	1.98	0.14	0.11	0.39
3	-0.52	0.18	1.34	0.43	-0.04	0.08	0.05		0.37	0.06	0.59
4	-0.42	0.20	1.57	0.43	-0.03	0.10	0.11		0.30	0.08	0.74
5	-0.31	0.24	1.85	0.51	-0.02	0.20	0.09	3.38	0.38	0.10	0.78
6	-0.24	0.24	2.09	0.73	0.05	0.23	0.17		0.49	0.11	1.16
7	-0.14	0.29	2.26	0.85	0.07	0.30	0.21		0.59	0.19	1.27
8	-0.04	0.34	2.23	0.94	0.09	0.36	0.26			0.17	1.34
9	0.07	0.32	2.34	1.02	0.11	0.42	0.23				1.43
10	0.18	0.40	2.47	1.03	0.10	0.44	0.22	3.94	0.73	0.25	1.45
15	0.41	0.61	2.78	1.33		0.65	0.47	4.27	0.87	0.39	1.66
20	0.57	0.57	2.74			0.79	0.37	4.38			1.77
30	0.77	0.76	2.75	1.63	0.04	0.85	0.47			0.28	1.90

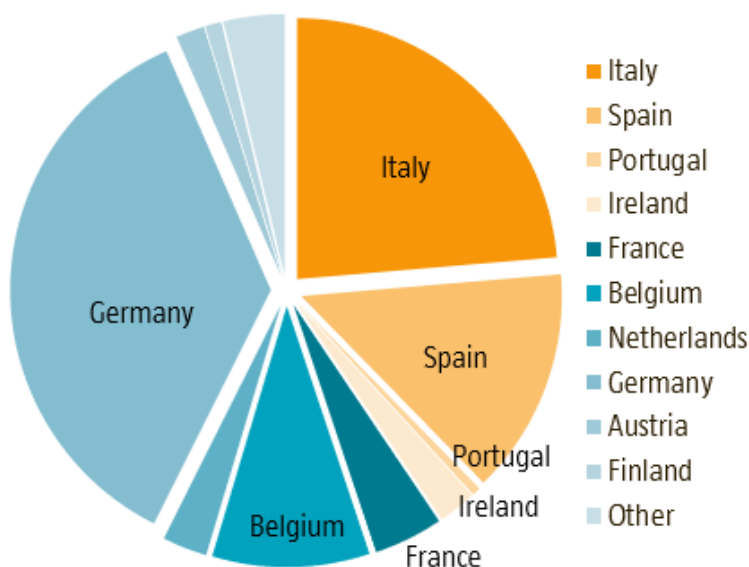
Source: Bloomberg

Movement over time



Source: Bloomberg.

Country allocation Robeco Euro Government Bonds (24 January, 2019)



Source: Robeco

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