



## Chart of the week

### The reduction in the ECB's monthly bond buying looks unlikely to result in higher spreads.

The ECB has recently announced a reduction of its monthly bond buying. Will less demand from central bank purchases lead to higher yields and risk premia, which in turn might jeopardize a still fragile economic recovery?

We doubt it. Looking at ECB bond purchases and moves in risk premia (we take spreads of Italian sovereign bonds over their German peers as a reference), it seems that central bank communication has made much more impression on bond markets than actual buying. Between 2010 and 2012, risk premia increased despite ECB market interventions. After president Draghi's famous "whatever it takes" speech, spreads declined substantially, without the central bank spending a single cent on sovereign bonds. In 2015, ironically, when the ECB started to buy sovereign bonds again (although for different reasons than in 2010), spreads started to move sideways, and at times even widened again. The takeaway? When it comes to monetary policy, words often seem to matter more than deeds. Moreover, improving fundamentals and rating upgrades are lending additional support to the strong performance of Italian, Spanish and Portuguese bonds.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH, as of 11/01/17  
\* 10 year maturity

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