



Update on Bond Market Developments

ECB Bond Market Contact Group, 25th September 2025

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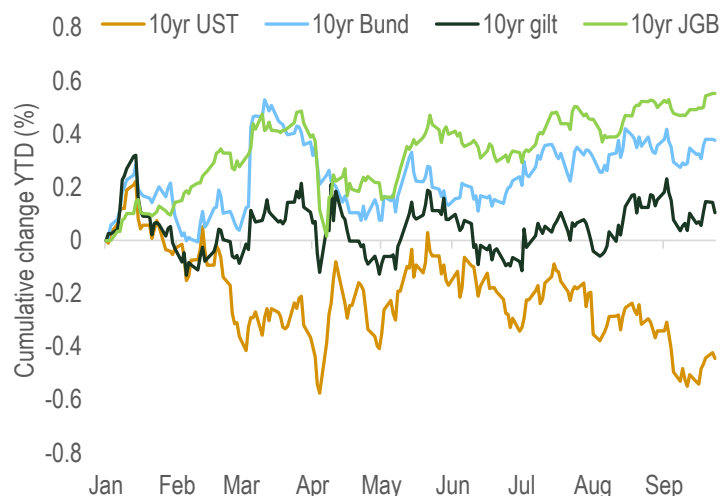
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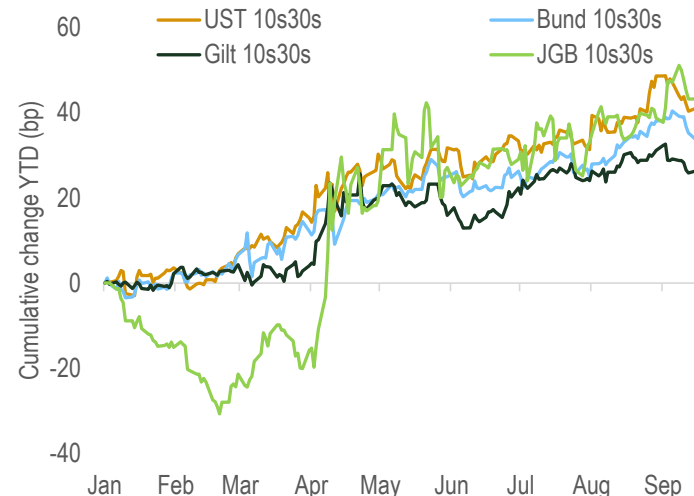


Divergent duration vs convergent curve

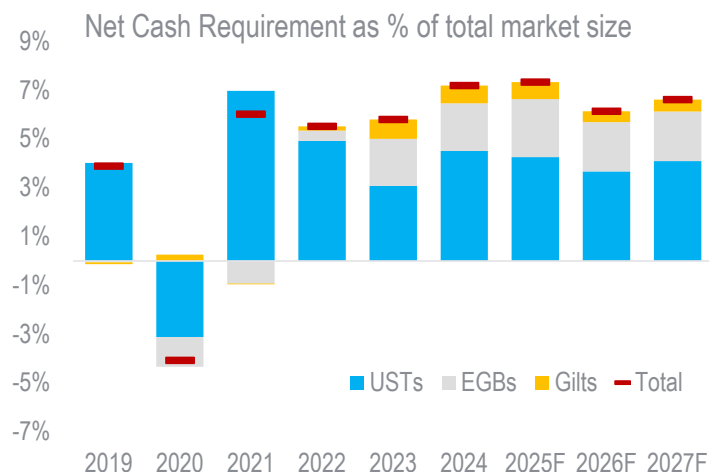
Global duration has de-coupled, driving cross-market volatility....



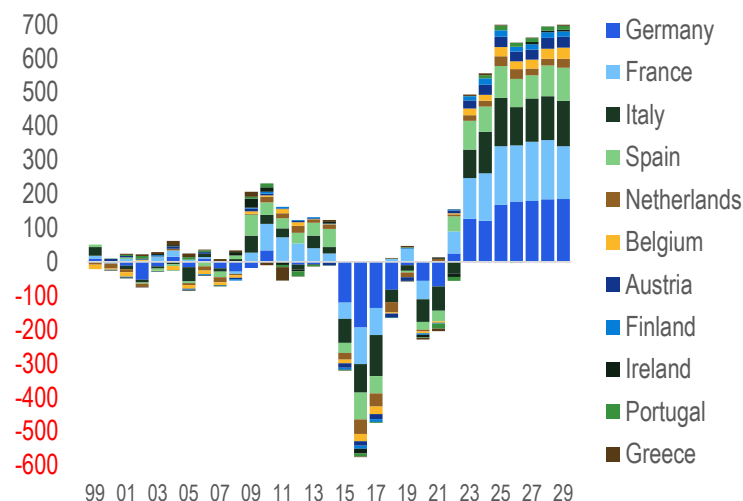
...but 10s30s remain in lockstep on the global fiscal/issuance story.



Global sovereign net supply will likely peak in 2025 but remain at elevated levels for several years to come.



Euro area net supply is likely to have seen a 26% increase in 2025 and will likely stabilise around that level.

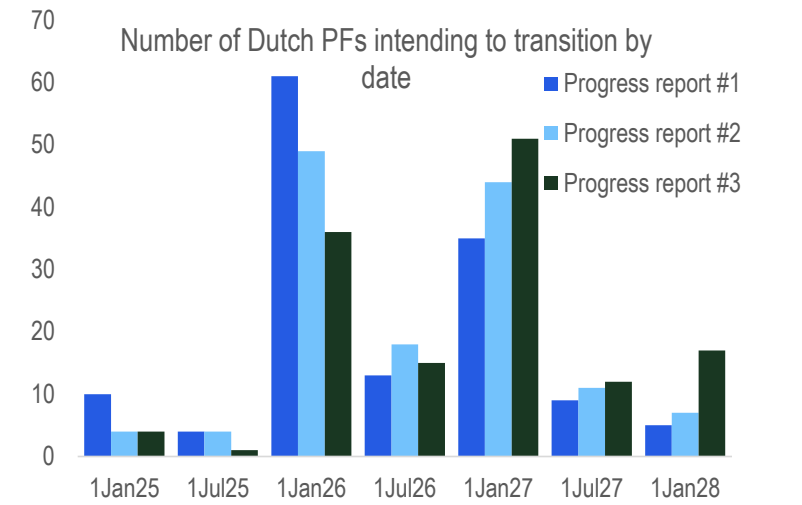


The bottom charts show net cash requirement, defined as gross supply less redemptions, free float coupons, change in QE holdings.

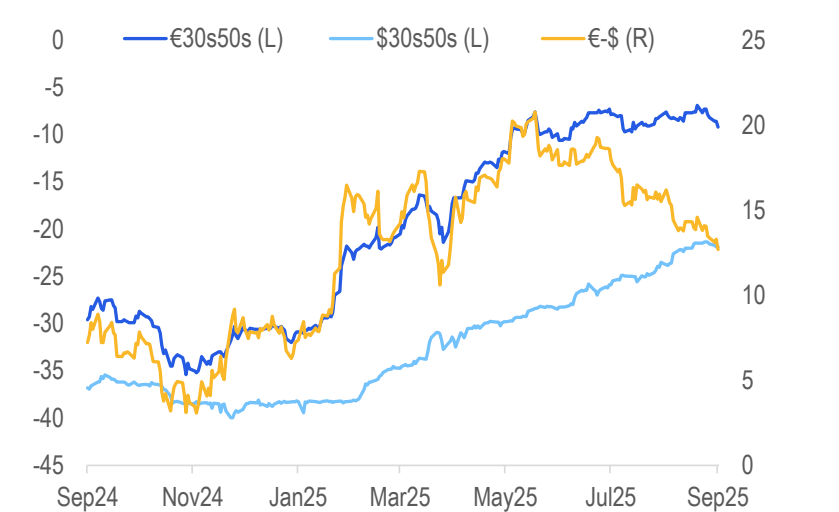
Source: Citi Research, Bloomberg, DMOs

€ Themes: 1) Dutch PFs 2) Ratings convergence

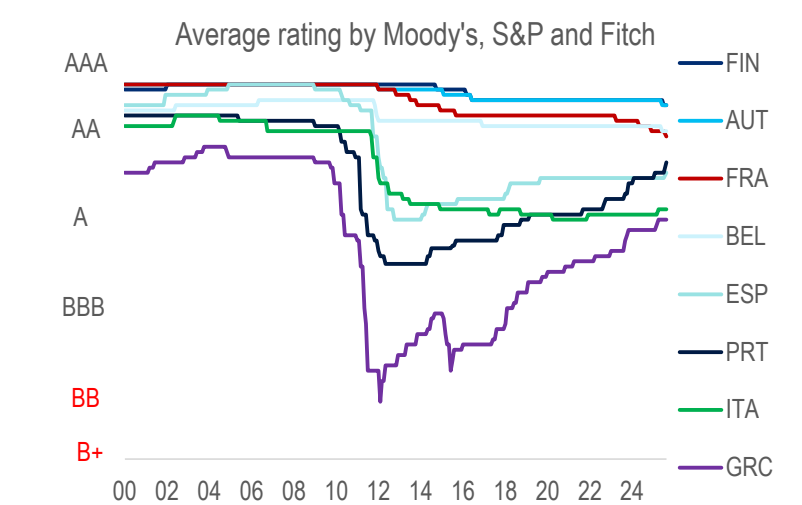
The number of Dutch PFs planning to transition in 2026 has declined sharply in favour of 2027/28...



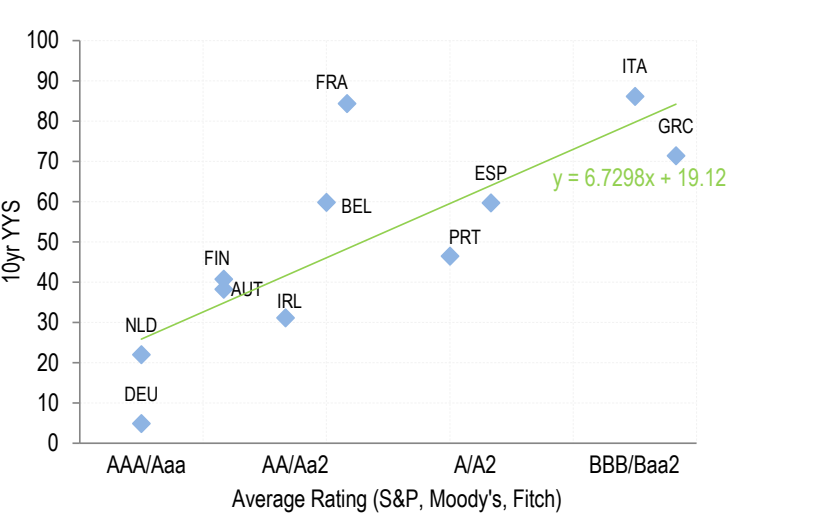
...HF positioning into the Dutch transition likely steepened €30s50s vs \$ during Jan-May but is now reversing.



EA periphery and semi-core ratings are converging, with 7 periphery upgrades and 4 semi-core downgrades YTD...

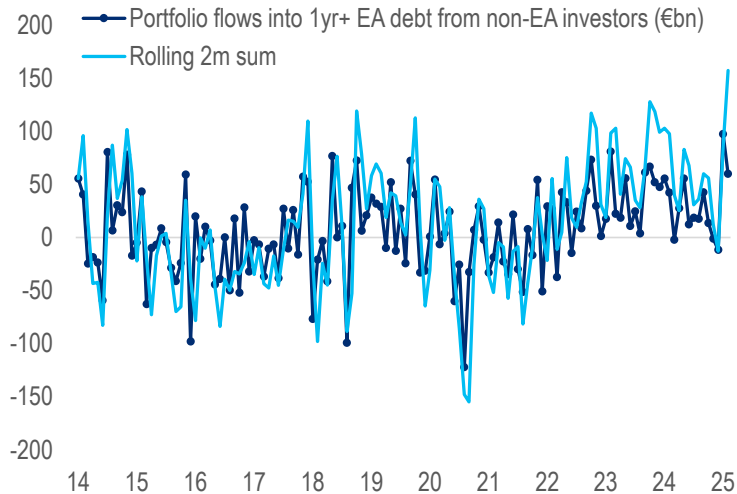


...and the trend looks set to continue. This may be better reflected in semi-core valuations than in the periphery.

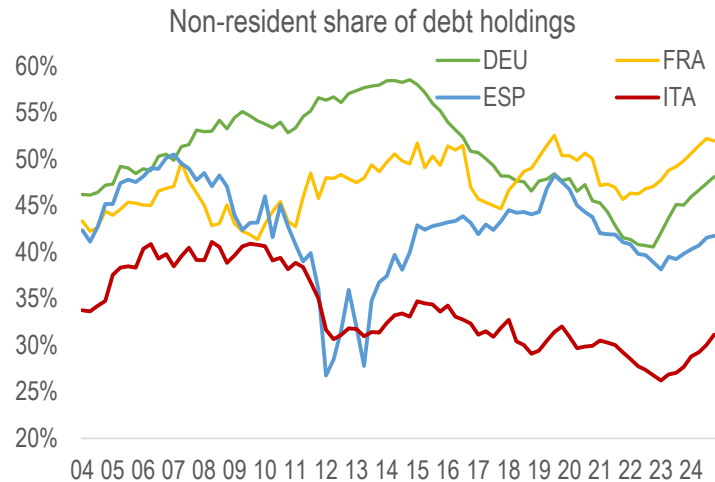


Shifting demand trends and French impact

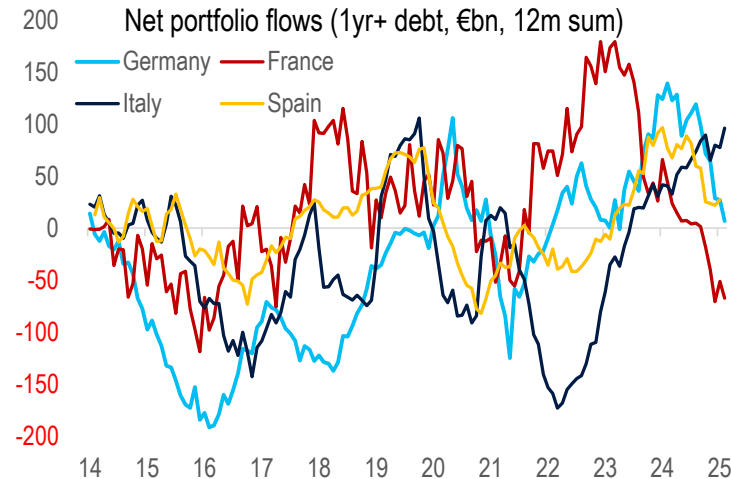
Record inflows into euro area debt (not necessarily all sovereign) by non-euro area investors over May-June.



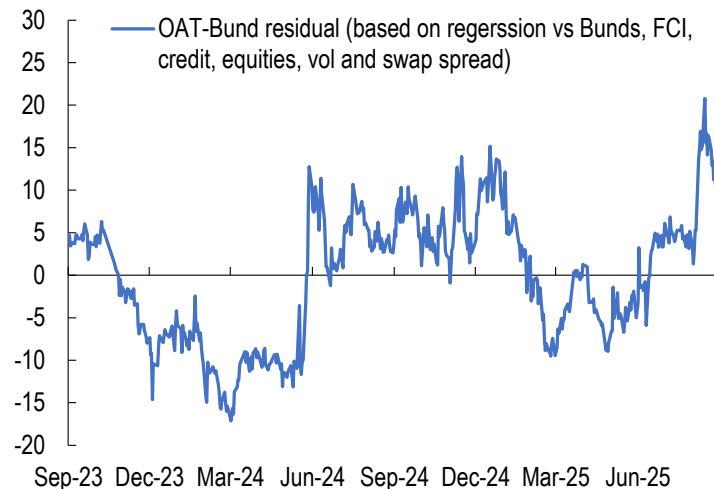
...which might continue given overseas investors hold a relatively high share of French sovereign debt vs Italy.



Net portfolio flows into France turned negative since February, in contrast to Italy...



Risk premium in OATs has reduced, but the risk of a snap election remains.



Group Discussion

- If and how will the market price in the risk to central bank independence?
- How do you assess French risk and the impact on liquidity and market functioning?
- How do you think the interplay of global supply pressures, Dutch pension fund reform and declining vol/convexity will impact the euro curve on a net basis?

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