

European bonds rise on ECB stimulus speculation

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European government bonds advanced this week, with Italian and Irish yields falling to the lowest levels on record, as prospects of further European Central Bank stimulus fueled demand for the region's debt securities.

Portugal's 10-year yield dropped to the least since 2006 and Spain's to a level not seen since 2005 as reports showing euro-area inflation at a four-year low and a decline in German investor confidence added to signs the region's recovery is stalling. Investors bought the securities as a refuge as they shunned emerging markets amid turmoil in Ukraine, less than two years after ECB President Mario Draghi deemed it necessary to pledge unlimited support for Europe's most-indebted nations.

"The bond fundamentals are constructive," Paresh Upadhyaya, Boston-based director of currency strategy at Pioneer Investment Management Inc., which oversees \$236 billion, said in a telephone interview on April 16. "You have an ECB that is looking to ease policy, either conventionally or unconventionally, as inflation remains very low."

Italy's 10-year yield dropped nine basis points, or 0.09 percentage point, this week to 3.12 percent at 5 p.m. London time on April 17. It touched 3.068 percent, the lowest level since Bloomberg started collecting the data in 1993. The 4.5 percent bond due in March 2024 climbed 0.765, or 7.65 euros per 1,000-euro (\$1,382) face amount, to 111.83.

ECB speculation

Bonds from Italy to Portugal are being buoyed by speculation ECB policy makers will expand stimulus to fuel an inflation rate that's a quarter of their 2 percent goal. Investors also bought the bonds this week after Ukraine's government said April 15 it identified Russian military in the eastern Donetsk region towns of Slovyansk and Kramatorsk.

Italy's securities also advanced as the Treasury in Rome sold 20.6 billion euros of inflation-linked bonds maturing in April 2020, dubbed BTP Italia and aimed mainly at retail investors.

Portugal's 10-year yield dropped 23 basis points this week to 3.74 percent after declining to 3.66 percent on April 17, the least since February 2006.

The euro area's annual inflation rate fell to 0.5 percent in March from 0.7 percent the previous month, the European Union's statistics office confirmed April 16. The rate has been below 1 percent for six months. German investor confidence dropped for a fourth month in April, a report showed a day earlier.

Ireland, Spain

Ireland's 10-year yield fell to 2.83 percent on April 17, the least since Bloomberg began compiling the data in 1991. The rate on similar maturity Spanish bonds dropped to as low as 3.04 percent. Germany's 10-year bund yield was little changed on the week at 1.52 percent.

The extra yield, or spread, that investors demand for holding Spanish 10-year bonds instead of benchmark German bunds shrank to 1.56 percentage points on April 17, the narrowest since October 2010.

Trading in euro-area government bonds was closed for Good Friday and also will be closed on April 21 for Easter Monday. Trading resumes April 22.

Belgium plans to sell five-, 10- and 20-year debt on April 22, while Spain is scheduled to auction bonds due in 2017, 2019 and 2024 on April 24.

Italian bonds returned 6.5 percent this year through April 16, according to Bloomberg World Bond Indexes. Spain's gained 6.9 percent and Germany's earned 3.1 percent.

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