

Review of Bond Market Developments

(with a focus on market liquidity)

ECB Bond Market Contact Group

Marco Brancolini

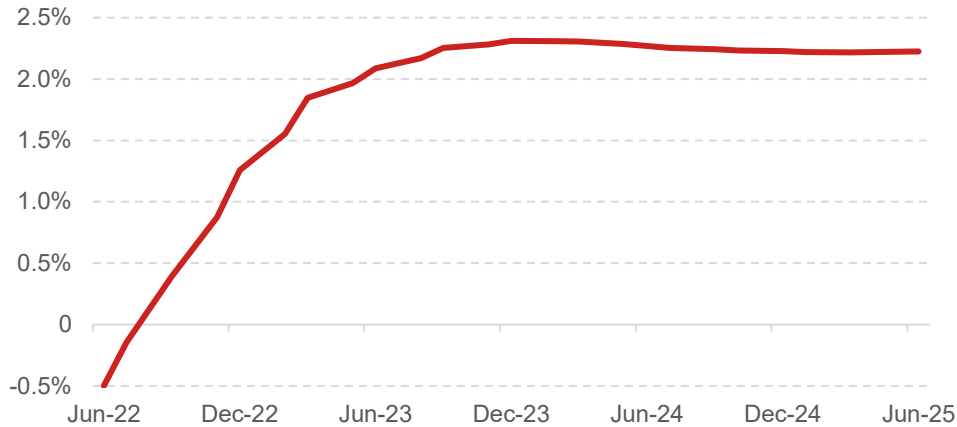
23 June 2022

STRICTLY PRIVATE AND CONFIDENTIAL

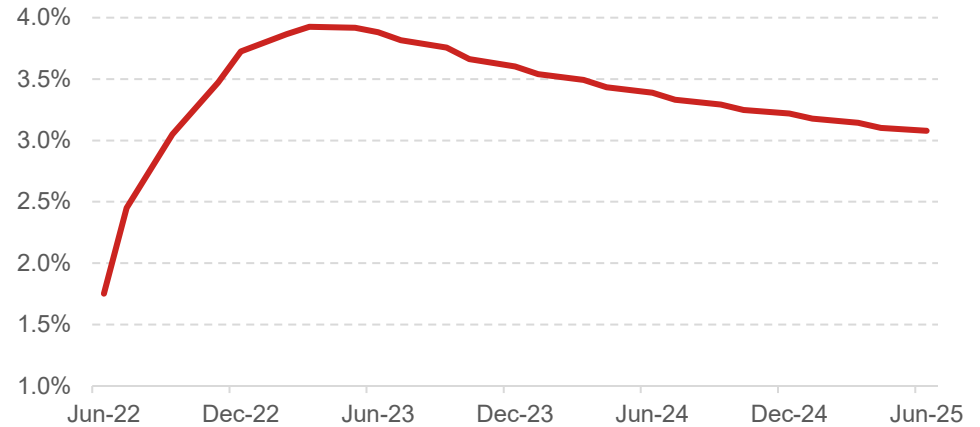
© Nomura

A Reassessment of Short-Term Prospects

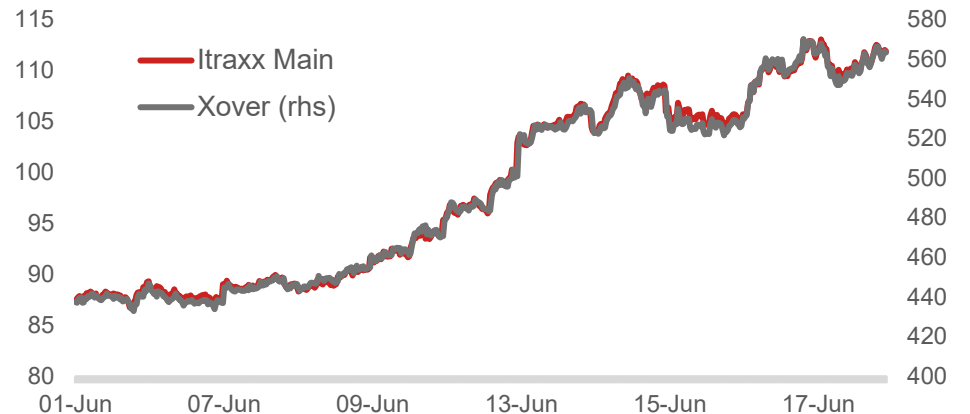
Markets are pricing 175bp of ECB hikes in 2022, 100bp in 2023



In the US markets are pricing cuts after March 2023



The ECB and Fed scheduled meetings have led to a reassessment of prospects for risk assets, both equity and credit



Unchained or Unanchored?

10y BTP spreads: no prizes for guessing the timing of the conventional and the 'ad hoc' ECB meetings

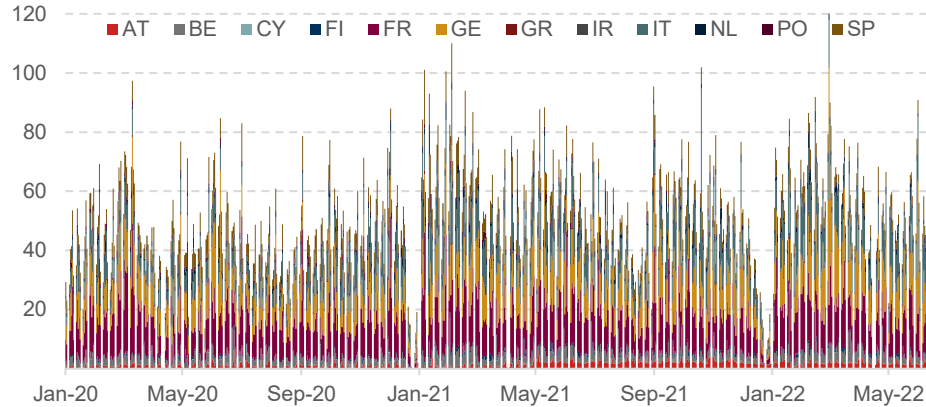


9f1y swaps and the quest for neutral

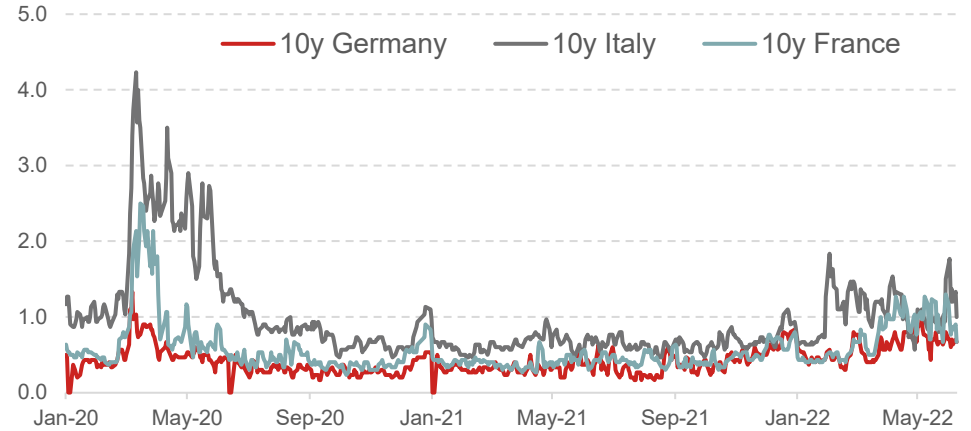


The Price for Liquidity

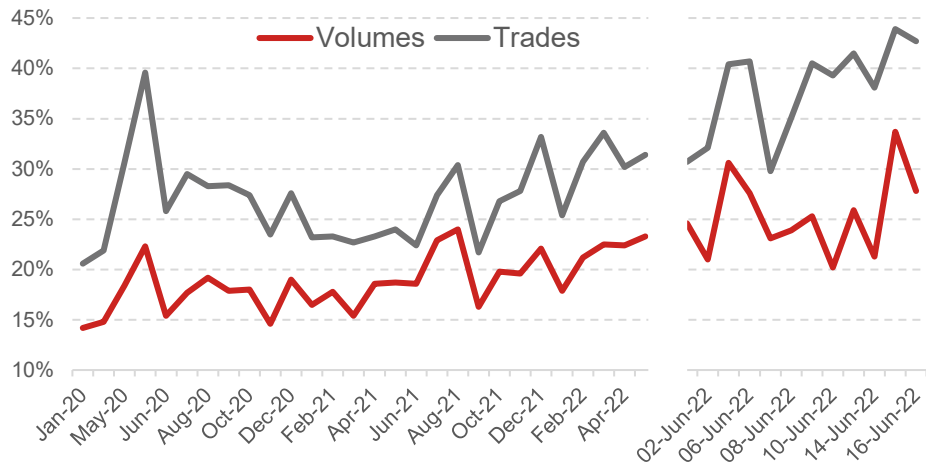
Government Bonds Traded in TRAX (€bn)



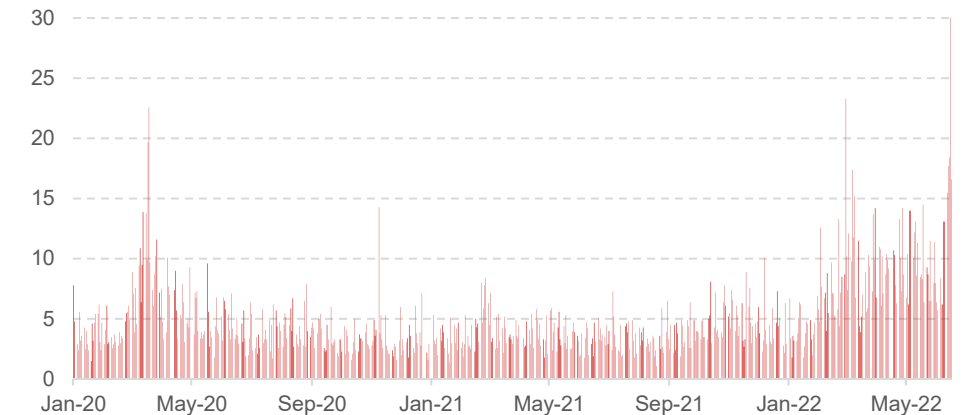
Bid/Ask Spread (in bp)



No Quotes (in % of total)



Intraday Volatility of 10y bonds (in bp)



Discussion Points

- Is the recent deterioration in market depth and volatility the temporary result of a macro transition or a persistent feature of a new regime without QE and more limited capacity for intermediation?
- Should central banks attempt to anchor the long end by discussing neutral rates? Is guidance on the terminal rate necessary?
- Is the main aim of recent ECB decisions to signal commitment to price stability or to deflate demand? Would a slowdown in economic activity slow or stop the tightening cycle?
- Is an anti-fragmentation tool necessary? If so, should the ECB respond to spreads widening too much or too disorderly? What communication would soothe markets? Will the tool be used?

Disclaimers

The information contained herein (the "Information") is provided to you by the Sales, Structuring and or Trading Departments of Nomura International plc ("NIP"). NIP is part of the Nomura group of companies ("Nomura") and the Information may contain contributions from employees of the Nomura group of companies. NIP authorised by the Prudential Regulation Authority ("PRA"), regulated by the UK Financial Conduct Authority and the PRA and is a member of the London Stock Exchange. The Information is confidential and has been furnished solely for your information and must not be referred to, disclosed, transmitted, reproduced or redistributed, in whole or in part, to another person.

The Information is subject to the following terms:

- It is provided to you to promote investment services generally and Nomura and/or connected persons do not accept any liability whatsoever for any direct, indirect or consequential loss arising from any direct or indirect use of the Information or its content.
- It is intended for (a) professional clients and eligible counterparties as they are defined under the regulatory rules in the European Economic Area ("EEA") and (b) institutional investors as defined in the U.S. and is not subject to the independence and disclosure standards applicable to debt research reports prepared for retail investors.
- Nomura is not a designated investment adviser and the Information is therefore provided on the basis that you have such knowledge and experience to evaluate its merits and risks and are capable of undertaking your own objective analysis of the Information with respect to your specific requirements.
- It is based on sources Nomura believes to be reliable, but we do not represent that it is accurate or complete.
- Any prices, yields, figures, projections and examples or opinions expressed are subject to change without notice and may:
 - be derived from public or Nomura sources (which may not be representative of any theoretical or actual internal valuations employed by us for our own purposes) and based on various factors including, but not limited to, current prices quoted, valuation of underlying assets, market liquidity, Nomura and its affiliates' proprietary models and assumptions, economic, market, regulatory and other conditions as they exist and can be evaluated at the relevant time;
 - not include adjustments for transaction and hedging costs, accounting offsets and provisions, liquidity or credit considerations or other significant factors which may materially change actual values; and
 - refer to past or simulated past market performance neither of which is a reliable indicator of future market performance.
- Consequently Nomura does not represent the Information is accurate or complete and makes no representations, warranties or undertakings (express or implied) as to the accuracy, completeness, timeliness or validity of the Information and the Information should not be regarded as implying a value for any instruments referenced in the Information for which there may not be a liquid market; nor used to determine interest payable or other sums due under loan agreements or under other financial instruments or the price or performance of any financial instrument.
- It may have been prepared in accordance with regulatory requirements which differ from those demanded under applicable jurisdictions where you are located.
- Nomura is not soliciting any action based on the Information and it should not be considered as an offer to buy or sell any financial instruments or other products which may be mentioned in it.
- It does not constitute a personal recommendation under applicable regulatory rules in the EEA or take into account the particular investment objectives, financial situations or needs of individual investors nor does it constitute tailor made investment advice as this term may be defined under applicable regulations in any jurisdiction.
- It has not been prepared in accordance with legal requirements designed to promote the independence of investment research, it is not subject to any prohibition on dealing ahead of the dissemination of investment research and any views expressed in the Information may differ from the views offered in Nomura's independent research reports prepared for investors including retail investors or from views that may be expressed by other financial institutions or market participants on the same subject matter as the Information.
- It may not be independent of the proprietary interests of Nomura. Nomura trades, or may trade, any financial instruments mentioned in the Information for its own account and such trading interests may be contrary to any recommendation(s) offered in the Information. Nomura also may have acted as an underwriter of financial instruments or other products mentioned and may currently be providing investment banking services to the issuers of such financial instruments or products.
- For the avoidance of doubt, Nomura and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of the Information, may from time to time, have long or short positions in, and buy or sell, financial instruments, or derivatives (including options) thereof, of any companies mentioned in the Information or related financial instruments or derivatives.
- Nomura manages conflicts identified through our Confidentiality and Chinese Wall policies, by maintaining a restricted list, a personal account dealing policy and policies and procedures for managing conflicts of interest arising from the allocation and pricing of financial instruments and impartial investment research and disclosure to clients via client documentation. Disclosure information is available at <http://www.nomuranow.com/disclosures/>.

- It is not independent investment research for the purposes of applicable regulatory rules in the European Economic Area (“EEA”)
- It is not research under applicable rules in Hong Kong.
- It does not fall within the definition of an analyst report as defined by the Japan Securities Dealer’s Association.
- With respect to U.S. regulation, it may constitute a debt research report and therefore it is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors. The views expressed herein may differ from the views offered in Nomura’s debt research reports prepared for retail investors. This report may not be independent of the proprietary interests of Nomura. Nomura trades, or may trade, the securities covered in this report for its own account. Such trading interests may be contrary to the recommendation(s) offered in this report.
- It has been approved for distribution in Australia by Nomura Australia Ltd (“NAL”), which is authorised and regulated in Australia by the Australian Securities and Investment Commission (“ASIC”).

Nomura International (Hong Kong) Limited (“NIHK”) is regulated by the Hong Kong Securities and Futures Commission, and Nomura Securities International, Inc. Nomura Securities Co, Ltd. (“NSC”) is regulated by the Japan Financial Services Agency (“JFSA”), Nomura Singapore Limited (“NSL”) is regulated by the Monetary Authority of Singapore (“MAS”), P.T. Nomura Indonesia (“PTNI”) is regulated by Otoritas Jasa Keuangan (“OJK”), Nomura International (Hong Kong) Limited, Taipei Branch, (“NIHK Taipei Branch”) is regulated by Securities and Futures Bureau of Financial Supervisory Commission (“SFB”), Taiwan Stock Exchange (“TSE”) and Gretai Securities Market (“GSM”), Nomura Securities Malaysia Sdn Bhd (“NSM”) is regulated by the Companies Commission of Malaysia, Nomura Financial Advisory and Securities (India) Private Limited (“NFAS”) is regulated by Securities and Exchange Board of India (“SEBI”), Nomura Financial Investment (Korea) Co., Ltd Korea (“NIFK”) is regulated by the Korea Financial Investment Association (“KOFIA”) (Information on Nomura analysts registered with the Korea Financial Investment Association (“KOFIA”) can be found on the KOFIA Intranet at <http://dis.kofia.or.kr>), Nomura Securities International, Inc. (“NSI”) is a registered broker-dealer in the United States and a member of Financial Industry Regulatory Authority (“FINRA”) and Securities Investor Protection Corporation (“SIPC”). Nlplc in the Dubai International Financial Centre (“DIFC”)(Registered No. 0777) is regulated by the Dubai Financial Services Authority (“DFSA”). Nlplc-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Nlplc in the Qatar Financial Centre (“QFC”) (Registered No. 00106) is authorised by the Qatar Financial Centre Regulatory Authority (“QFCRA”). Principal place of business in Qatar: Qatar Financial Centre, Office 804,8th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 23245 , Doha, Qatar. Nlplc-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence.

Nomura International plc (Nlplc) in the Dubai International Financial Centre (“DIFC”) (Registered No. 0777) is regulated by the Dubai Financial Services Authority (“DFSA”). Nlplc - DIFC Branch may only undertake the financial services activities that fall within the scope of its existing DFSA licence. This is not investment research as defined by the DFSA. Related financial products are intended only for a ‘Market Counterparty’ or a ‘Professional Client’ as defined by the DFSA and therefore no other person should act upon it. The information is not intended to lead to the conclusion of a contract of any nature what so ever within the territory of the DIFC. The recipient of the information understands, acknowledges and agrees that the contents of this document have not been approved by the DFSA or any other regulatory body or authority in the United Arab Emirates. Nothing contained in this report is intended to constitute ‘Advising on Financial Products’ or ‘Arranging Deals in Investments’ or ‘Arranging Credit and Advising on Credit’ as defined by the DFSA and is not intended to endorse or recommend a particular course of action. By accepting to receive this document, you represent that you are a ‘Market Counterparty’ or a ‘Professional Client’ and you agree to be bound by the foregoing limitations.

Nomura International plc (Nlplc) in the Qatar Financial Centre (“QFC”) (Registered No. 00106) is authorised by the Qatar Financial Centre Regulatory Authority (“QFCRA”). Principal place of business in Qatar: Qatar Financial Centre, Office 804,8th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 23245 , Doha, Qatar. Nlplc - QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. This is not investment research as defined by the QFCRA. Related financial products are intended only for a ‘Market Counterparty’ or a ‘Business Customer’ as defined by the QFCRA and therefore no other person should act upon it. The information is not intended to lead to the conclusion of a contract of any nature what so ever within the territory of the QFC. The recipient of the information understands, acknowledges and agrees that the contents of this document have not been approved by the QFCRA or any other regulatory body or authority in Qatar. Nothing contained in this report is intended to constitute ‘Advising on Investments’ or ‘Arranging Deals in Investments’ or ‘Arranging Credit Facilities’ as defined by the QFCRA and is not intended to endorse or recommend a particular course of action. By accepting to receive this document, you represent that you are a ‘Market Counterparty’ or a ‘Business Customer’ and you agree to be bound by the foregoing limitations.

This document has not been approved for distribution to persons other than ‘Authorised Persons’, ‘Exempt Persons’ or ‘Institutions’ (as defined by the Capital Markets Authority) in the Kingdom of Saudi Arabia (‘Saudi Arabia’) by Nomura International plc. Neither this document nor any copy thereof may be taken or transmitted or distributed, directly or indirectly, by any person other than those authorised to do so into Saudi Arabia. By accepting to receive this document, you represent that you are not located in Saudi Arabia or that you are an ‘Authorised Person’, an ‘Exempt Person’ or an ‘Institution’ in Saudi Arabia and agree to be bound by the foregoing limitations. Any failure to comply with these restrictions may constitute a violation of the laws of Saudi Arabia.