

ECB Bond Market Contact Group

25 September 2025
Summary of the discussion

1) Review of recent bond market developments

Zoeb Sachedi (Citi) reviewed the most recent developments in bond markets. He noted the past few months had seen short-dated yields diverge across jurisdictions, but longer-dated maturities were more correlated. Euro area sovereign ratings tended to converge between periphery and semi-core, reflecting changes in fundamentals, while issuance remained elevated, and the Dutch pension fund reform was a further factor influencing the long end of the yield curve. Finally, foreign investor inflows into the euro area have been higher since the April tariff announcement.

Members considered that high debt burdens across advanced economies meant that the outlook for bond markets would remain challenging. However, they had a more positive view on the euro area market, with France being more volatile in an otherwise benign picture. While the trajectory of French debt compares poorly to peers, most members noted that it benefits from structural strengths (such as rating level, bond market size and liquidity) which makes it not easily substitutable. They were also of the view that price sensitive buyers would put a lid on further spread widening.

Market concerns around central bank independence are difficult to identify in current market pricing. The impact, so far, is mostly visible in gold appreciation and dollar depreciation. Long-end term premia have been less sensitive, which could mean that bond markets may not act as a disciplining mechanism to the same extent as in the past, particularly given the new debate around the Fed's "third mandate" to maintain moderate long-term interest rates. More generally, central bank independence was seen as a continuum, rather than a binary state, with many different forms apparent across developed economies and over time.

There were split views on how the steepening of yield curves will evolve and on the impact of the Dutch pension fund reform. While it was agreed that structural demand at the long-end is likely to be reduced, particularly in light of the Dutch pension fund reform, views on how long-dated yields would evolve in the short-term were more varied. Some highlighted that the steepening trade is extremely crowded and that hedge funds may be tempted to take profits on it ahead of year-end, with risks of elevated volatility or even dislocations. Others thought steepening may have further room to go, emphasizing that over a longer time horizon current curve slopes were not historically steep.

Members also discussed the typology of recent inflows into euro area bond markets. Some members shared anecdotal evidence of increased interest of non-Japanese Asian investors. However, changes in strategic asset allocations for large investors remained a slow-moving process and, for the

time being, global investors tended to retain their allocation to US assets, and instead hedge the currency risk.

2) Implications of the emergence of stablecoins for bond markets

Antonio Cavarero (Generali) provided an update on stablecoins. He gave an overview of the current market and its likely evolution, especially following the passing of the GENIUS Act in the US.

The market impact of stablecoin adoption will be primarily on Treasury bills, but knock-on effects on longer maturities were possible, in particular if sovereign issuers tweak their issuance more towards shorter maturities to take advantage of stablecoin demand. Furthermore, the origin of stablecoin inflows (e.g. from money market funds or from bank deposits) was seen to have varying impacts on bond and money markets.

Members had mixed views to what extent the non-interest-bearing nature of stablecoins would actually impede their take up, noting it can already be circumvented today by providing stablecoins to decentralised finance platforms that generate return. Multiple members highlighted differences between MiCA and the GENIUS Act, with particularly the requirement for euro stablecoins to hold comparatively more reserves/bank deposits seen as likely to mitigate the impact on euro area bond markets.

More generally, tokenisation combined with the use of blockchain technology was seen as transformative for bond and repo markets in the medium term, given that it could give rise to a wide variety of use cases including bonds, money market funds, bank deposits and central bank reserves.

3) Debt management offices in the current market environment

Marco Brancolini (Nomura) presented the challenges faced by euro area Debt Management Offices (DMOs) at the current juncture. The impact of structural changes in demand for long-dated bonds were examined, with the increase in DMO's weighted average maturities over the past decade seen as likely to reverse course. Several public data-based auction metrics exist, but none were seen to fully capture auction success or the strength of investor demand in the way that granular, non-public bidding information can.

Members agreed that euro area DMOs had adapted to the evolving landscape they have faced in the past few years, but the road ahead was seen to continue to be challenging, requiring further flexibility from DMOs. Some made the point that foreign investors might welcome more homogeneity in DMO approaches to primary dealer frameworks and auction modalities across the euro area, while others recognised that local market traditions and investor bases varied across the continent, limiting the scope for harmonisation. The structural erosion of the natural investor base in the long end of the curve was seen to likely reverse the increase in the maturity of issuance seen over the past decade. More broadly, DMOs were expected to be more demand-sensitive across curve segments.