So who is left to buy Irish bonds?

Posted by **Joseph Cotterill** on Nov 05 17:24.

The European Central Bank probably dipped a toe into buying Irish bonds on Friday, halting (for the moment) a capitulation in Ireland's spreads.

No one else is joining in, though, and the ECB isn't inclined to help out forever. Worrying, that. Ireland would probably prefer to come back to markets in early 2011 without unsustainable yields as the new normal.

So who could give some immediate relief to Irish bonds before then? The cupboard is looking pretty bare to be sure, but here are two interesting candidates worth considering.

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1) Erm, Ireland itself.

Counter-intuitive, but strangely feasible. Here for example is a last-ditch idea from Harvinder Sian of RBS:

> *So is there a way out for Ireland that does not involve the EFSF? Yes, if new buyers of debt can be found. We cited previously that China may be important in this calculation for the EMU periphery in general. We also cited previously in research… that it may be wise for the state to (a) use the NPRF to buy IRISH paper, with resources here in the order of EUR 14 bn, of which say EUR 10 bn may be deployed.; (b) private pensions could be incentivised to buy Irish government paper and while Actuaries have publically said that this could be worth EUR 4-5 bn, we think this could be worth nearer EUR 10-15 bn.*

Private pension funds have already asked to do this, but would want the government to change the law — and to issue more longer-dated bonds, better able to assist with liability management. Unfortunately, the problem now is the sell-off in *short-dated* Irish bonds…

Ireland's SWF to the rescue — not

As for the NPRF, that's the National Pensions Reserve Fund — last seen propping up Allied Irish. This support has taken place within the Fund's portfolio of directed investments, as per a 2009 law that allows Ireland's finance minister to tell it to invest in 'specified securities of a listed credit institution' to 'remedy a serious disturbance in the economy of the State'.

You could say it's a short step from there to propping up Irish sovereign debt itself, then. But beyond the whole 'eating the future' queasiness in devoting the fund to this objective, there is another catch here too.

Here's a section of the NPRF's mission statement further to the Act that established the Fund in 2001:

> *…to maximise the terminal wealth of the Fund over the time scale as laid down in the Act through an investment strategy which has due regard to the purpose of the Fund as set out in Section 18 of the Act and the payment requirements as set out in Section 20 of the Act;* ***a supplementary objective will be to outperform the cost of five year government debt over rolling five year periods at a 75% probability level.***

On the other hand, that objective has already been relaxed given Irish government bonds' performance since the crisis. Although as Sian adds, there are two further points to consider for any domestic buying:

> *Speaking with investors, on the buying of IRISH debt by domestic pension funds, we have heard two responses.*
>
> *The first is that this is important in stabilising Irish debt as few see Ireland worth a 125 bp spread over Portugal – and so a technical factor to push yields down – this could be important. The second response is that this is how Greece stuffed its banks full of bad paper and so is merely kicking the can down the road.*
>
> *In our view, both these statements are correct and in line with our view Ireland needs time for the adjustment at non-penal interest rates which would in turn be provided by public and private pension fund buying. Ireland then needs growth to fundamentally turn the corner.*

Although there is a sting in the tail — the scale of Irish bank refinancing:

> *Supposing that Ireland has used the pensions and got rates down, this may still not be enough as the banks will have to fund in 2011, and rates*

anywhere near the levels that BoI issued at in the recent 3y deal (+420 bp over swaps) are not sustainable…

So any Irish effort to buy Irish bonds looks a little bit like using a bucket to bail out the Titanic, even if its own sovereign wealth fund got involved. You really need external buying, not least for the credibility this confers.

So on to our second potential investor…

2) China.

Something of a wild card, but Chinese intervention has already helped out Spain in a very sore spot of this crisis. Chinese buying lifted Spanish bonds back in July, just when panic over Spanish banks' sovereign exposure had reached fever pitch.

But the wild card is that the agency that would buy Irish bonds is the ultra mysterious State Administration of Foreign Exchange. SAFE might only be interested in overall regional asset allocation (i.e. euro diversification against the dollar, etc) rather than doing favours for individual sovereigns.

Although, if those sovereigns can offer infrastructure deals to China, as Greece has, this appears to unlock a specific buying commitment. Can Ireland offer deals like that? Hmm.

Interesting to note otherwise that the renminbi is currently at its weakest against the euro since March (chart via Bloomberg):

But the question of what China wants to do with the renminbi next, and where it wants to balance between the eurzone and the US, extends well beyond the problems of a small, indebted island in the North Atlantic.

Not the most encouraging of signs for those looking for a quick fix to the Irish buyers' strike, to be sure.

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