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Greek Government Bonds Lead Europe Gains as Debt Buyback Starts

Dec. 3 (Bloomberg) -- Greek bonds led gains from the euroarea's lower-rated nations amid optimism the country's offer to spend 10 billion euros ($13 billion) buying back securities will ease its debt burden and stem the region's debt crisis. Italian 10-year bonds rose for a fifth day, pushing the yield to the least in two years as the Greek buyback gave investors the confidence to purchase securities offering higher yields than benchmark German bunds. Greece invited investors to tender bonds, offering an average maximum purchase price of 34.1 percent of face value for debt maturing from 2023 to 2042, the Athens-based Public Debt Management Agency said on its website.

"Definitely it's seen as a positive development" for Greek bonds, said Elwin de Groot, a senior market economist at Rabobank Nederland in Utrecht, Netherlands. "I don't think that the market has changed its opinion that ultimately the Greek debt situation remains unsustainable, but this is a sign that everything will be done in order to keep Greece on board."

The yield on Greece's 2 percent bonds maturing in February 2023 dropped 142 basis points, or 1.42 percentage point, to 14.71 percent at 1:17 p.m. London time, pushing the price up to 39.06 percent of face value from 35.27 percent on Nov. 30. The yield on its 2042 securities fell 73 basis points to 11.85 percent. The price rose to 30.5 percent, from 28.22 percent. Greece wants to buy back the 2023 bonds at a minimum 38.1 percent and a maximum of 40.1 percent of face value, according to the document setting out its offer.

The success of the Greek buyback is key to releasing European Union aid that's been frozen since June. It is part of a package of measures approved by euro-area finance ministers last week to cut the nation's debt to 124 percent of gross domestic product in 2020 from the 190 percent it was projected to reach in 2014 without the measures

The International Monetary Fund has set the 2020 debt-reduction target as a condition for continuing to fund a third of Greece's bailout program. Volatility on Greek bonds was the highest in euro-region markets, followed by those of Ireland and Italy, according to measures of 10-year or equivalent-maturity debt, the spread between two- and 10-year securities, and credit default swaps.

Greek bondholder Martin K. Wilhelm, at the Frankfurt-based ACATIS IfK Value Renten UI, said the fund is "very, very likely" to participate in the debt buyback. "We own Greek bonds, we gained with them and it is very, very likely we will tender all of our bonds," Wilhelm, who oversees about 146 million euros, said in a telephone interview. "If there is someone like a politician or a decision maker who would like to own the bonds they can have them."

Italy's 10-year bond yield slipped 11 basis points to 4.39 percent, after dropping to 4.37 percent, the least since Dec. 3,2010. Spain's 10-year yield decreased 13 basis points to 5.19 percent. Yields on France's five-year notes dropped to as low as 0.716 percent, the least since the euro's 1999 debut. Austrian 10-year rates also fell to a euro-era record, dropping as much as three basis points to 1.728 percent.

Bunds underperformed as Chancellor Angela Merkel yesterday opened the possibility that Germany may ultimately accept a write-off of Greek debt, previously a taboo in the biggest contributor to euro bailouts. The extra yield, or spread, that investors get for holding Italian 10-year bonds instead of bunds dropped 15 basis points to 297 basis points, after falling to 294, the least since March. Spanish 10-year bonds yielded 376 basis points more than bunds, from 393 basis points on Nov. 30. […]

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