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The Fixed-income markets: MOT and EuroMOT

he fixed-income instruments on the Borsa Italiana regulated markets are listed and traded in two different regulatory contexts according to their characteristics: the Electronic Bond and Government Securities Market (MOT) and the electronic market for eurobonds, foreign bonds and Asset Backed Securities (EuroMOT).

In the course of 2001, the MOT continued to be affected by the reduced interest shown by the market, ever since 1999, with regard to investments in public sector securities and traditional private sector bonds. Conversely, attention was focused on eurobonds taking the EuroMOT to record an increase of over 400% in terms of number of trades executed and 280% in terms of turnover.

MOT: THE TREND OF TRADES

In 2001 the MOT continued the downward trend in both public and private sector securities, resulting in a negative impact on the market's volume of trades and turnover.

• Overall trades carried out on the MOT amounted to 136 billion euro, down by 11.7% compared to 2000, while the number of trades dropped by 14.7%, to 3,364,324. This decrease particularly concerned corporate bonds: the 10 billion euro traded overall in 2001 was 16.5% less than in 2000. The fall off was confined to 8.8% if we consider the number of trades executed, down from 592,771 to 540,535. As regards Government securities, the downward trend which began in 1998, continued in 2001, with 126 billion euro and a decline of 11.2% compared to 2000. The number of trades decreased from 3,350,353 in 2000 to 2,823,789 in 2001, down by 15.7%.

The percentage of turnover on Government securities with respect to the total MOT was basically stable (from 92.1% in 2000 to 92.6% in 2001), while there was a slight increase if compared to 1999 (91.6%).

• The daily average turnover showed a similar trend, down from 606 million euro per day in 2000 to 540 in 2001; trades on the other hand dropped from 15,526 per day in 2000, to 13,350 in 2001. Regarding corporate bonds: the decrease amounted to 17.2% in terms of turnover (from 48 million euro in 2000 to 40 in 2001) and 8.1% in terms of trades (from 2,334 in 2000 to 2,145 in 2001). Government securities, with a daily average down from 559 million euro per day in 2000 to 500 in 2001, showed a decline in turnover, limited to 10.5%. Daily average trades on the other hand, were down from 13,192 in 2000 to 11,206 in 2001, with a reduction of 15.1%.



- The liquidity of corporate bonds was concentrated on top securities of the official list, though to a lesser extent than in 2000. The Olivetti International bond (previously called Tecnost) represented 12.9% of turnover (20.1% in 2000), whereas the top three securities represented 18.2% (22.8%), the top five 21.8% (25.2%) and the top ten 27.6% (30.6%). Government securities, on the other hand, saw liquidity more uniformly distributed, with a breakdown basically similar to that of 2000: the top three securities represented 12.2% of overall turnover (12.7% in 2000), the top five 16.7% (17.4%) and the top ten 26.7% (25.8%).
- In keeping with the 2000 results, the market showed a growing preference for the conclusion of contracts during the continuous trading phase, compared to the opening auction and the recourse to fill-or-kill (FOK) methods of execution (charts 13 and 14). As far as private bonds are concerned, trades concluded during the continuous trading phase equalled 74.3% of the total in terms of turnover, compared to 67.3% in 2000. Turnover during the opening auction represented 18.6% (23.1% in 2000) and fill-or-kill orders were used for 7.1% (9.6% in 2000) of the total. The distribution over the three methods of trading was similar for trades in Government securities: 80.2% of overall turnover was negotiated during the continuous trading phase (70.7% in 2000), 14.6% during the opening auction (20.2% in 2000) and 5.2% using fill-or-kill methods (9.1% in 2000).
- Excluding the trades carried out using the fill-or-kill method designed for large-scale orders, the average size of trades was up by 10% for Government securities (from 38,536 million euro in 2000 to 42,310 million euro in 2001) and down by 7% for private bonds (from 18,462 to 17,206 million euro). As regards the FOK orders, the average value per trade was 2.5 million euro for private bonds (2.1 million euro in 2000) and 3.8 million euro for Government securities (3.5 million euro in 2000).



CHART 13 - MOT: MONTHLY TURNOVER OF TREASURY BONDS



• For continued confirmation of the typically banking nature of the market, the trading on the MOT fell sharply on days when the market was open for trading during national holidays, when the banks were therefore closed: with respect to the average for the respective months in question, trading was down by 93% on April 25th and 88% on November 1st.

MOT: COMPOSITION OF LISTING

As with previous years, again during 2001 there were no significant changes in the composition of the MOT listing. In spite of this, the nominal capital increased by 2%, despite a drop of 10% in the number of instruments listed.

At the end of 2001, following 53 admissions and 64 delistings, there were 117 Government securities listed, down by 11 instruments compared to 2000. New admissions involved 37 BOT, 8 BTP, 4 CCT and 4 CTZ. The trend in bonds was also negative, taking the market, as a result of 41 admissions and 91 delistings, to close the year with 416 securities, 50 less than the number of bonds present on the market at the end of 2000. The listing of private bonds was primarily from the banking sector, with 35 bonds, while 3 bond loans were issued by foreign governments and 3 by private corporations.

• Despite the fall off in the number of listed financial instruments, the nominal capital increased, up from 70,472 million euro to 71,359 million euro for private bonds (+1.3% compared to 2000) and from 976,169 million euro to 998,538 million euro for Government securities (+2.3% compared to 2000). The average size of securities was also up: from 151 to 172 million euro (+13.4%) for bonds and from 7,626 to 8,354 million euro (11.9%) for Government securities. The composition ratio between private and public sector securities



CHART 14 - MOT: MONTHLY TURNOVER OF PRIVATE BONDS

showed no change with respect to 2000: 6.7% of nominal capital listed on the MOT is represented by private bonds, while 93.3% is represented by Government securities.

- Regarding the currency of denomination, the nominal value of the majority of fixed-income instruments listed on the MOT was expressed in euro. While all Government securities have been denominated in euro since the beginning of 1999, it was not compulsory for private bonds to adopt the community currency for either securities originally expressed in lire or those newly admitted during the three-year period 1999-2001. Almost all of the securities able to be re-denominated have been converted to euro and new listings, especially during the last year, have been carried out in euro. At the end of 2001, there were 270 bonds expressed in euro (65% of the bond listing), for a nominal capital corresponding to 86% of the total. There are still 139 bond loans in lire (103 of which do not have the qualities for re-denomination), corresponding to 13% of listed nominal capital. The remaining securities are in British pounds (1), Polish zloty (1) and US dollars (5), representing 1.4% of nominal capital.
- The listed nominal capital is concentrated on the top securities of the bond listing. The top bond in order of nominal capital is Olivetti International, which represents 10.2% of total capital. The top three securities in order of nominal capital represent 13.8% of the bond listing, the top five, 16.9% and the top ten, 22.5%. The top 48 bonds take up half of the total nominal capital, which numerically represent 11.5% of the official list (in 2000 this took 64 securities, representing 13.7% of the listing).

As regards Government securities the distribution is more uniform. Similar to 2000, it takes 37 Government securities (32% of listed Government securities) to reach 50% of listed nominal capital.

Regarding the issuers of bonds other than Government securities, 2001 confirms the predominance of bank issuers: with 350 bonds representing 84% of the official list. The remainder is made up of 25 bonds issued by international bodies, 24 by private companies, 15 by foreign government issuers and 2 by public administration issuers.

EUROMOT

During 2001 the EuroMOT - whose activity started in January 2000 - showed a strong growth (chart 15): trades increased from 244 million euro in 2000 to 929 million euro in 2001, with

The EuroMOT showed strong growth with a rise of 417% in terms of daily average trades and 284% in terms of daily turnover a daily average turnover up from 1 to 4 million euro; trades increased from 4,240 to 22,634, with a daily average rising from 17 to 90 trades per day. The growth was particularly strong during the months of November and December, these two months alone representing 31% of the entire turnover for 2001.

At the end of 2001 there were 21 loans listed on the EuroMOT. During 2001, against one delisting, 9 eurobonds were admitted to listing. At the end of the year, the EuroMOT listing was made up

of 21 eurobonds, comprising 10 Republic of Italy, 2 Enel issues, 8 Fiat and 1 Deutsche Bahn. Considering the breakdown of nominal capital by currency of denomination, the listing was almost equally distributed between euro and dollar bonds, although the latter are larger in average size: the total of 31,686 million euro is represented by 14 eurobonds denominated in euro (49.8%) and the remaining 7 eurobonds denominated in dollars (50.2%).



CHART 15 - EUROMOT: MONTHLY TRADES AND TURNOVER