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Italian five-year debt yields at new high

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Italy paid another euro-era record for debt at an auction on Wednesday as yields remained stuck at levels many analysts believe to be unsustainable.

Rome paid 6.47 per cent for five-year bonds, up from 6.29 per cent last month, and issued €3bn in total, the upper end of guidance. The bid-to-cover ratio, an indication of investor demand, was 1.42 times, slightly lower than last month.

"Given the large concession given ahead of today's tap, we expected demand to be a touch stronger. However, uncertainties on the future of the debt crisis remain high and the market seems to be mainly driven by flight-to-quality this morning," said Annalisa Piazza, analyst at Newedge Strategy.

Italy has been sucked into the heart of the two-year long eurozone sovereign debt crisis. Purchases of its debt by the European Central Bank and a new technocratic government led by Mario Monti have done little to stem the rise in bond yields.

Italy's new benchmark 10-year offering is trading above 7 per cent, seen by many market participants as the critical level that has pushed Greece, Ireland and Portugal into accepting international bail-outs.

Italy has about €350bn of debt to issue next year with a third of that due in the first quarter. The Italian parliament is set to vote on a package of reforms proposed by Mr Monti before the end of the year. But the ECB has cut back its purchases of Italian and Spanish debt in recent weeks, providing Rome with little respite.

At the other end of the eurozone spectrum, Germany sold €5bn in two-year bonds on Wednesday at a yield of just 0.29 per cent. Analysts said the bid-to-cover ratio of 1.4 times suggested investors saw current yields as unlikely to go much lower.