Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

Agenda

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Market overview Covered Bonds

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EUR benchmark deals total EUR 8.1bn in May

Since the last edition of this publication on 19 May, three further transactions were placed in the EUR benchmark segment. In this context, BPCE from France issued its fifth EUR benchmark of 2021 on Tuesday last week. Previously, the issuer was active on the market with dual tranches in mid-January and at the start of March. On this occasion, however, investors were offered just a single bond, although this was in green format – the French institute's second such foray into this sub-segment. BPCE made its ESG debut just over 12 months ago with a deal for 10 years that featured a volume of EUR 1.25bn. The term to maturity for this most recent bond may have been six months shorter, but the volume was actually slightly higher. At ms +5bp, pricing tightened by three basis points during the book-building process, while the yield stood at +0.152%. In total, the order books came to EUR 2.7bn, with sustainable investors accounting for demand of approximately EUR 1.7bn. In terms of the allocation, a total of 78% of this deal was attributable to this investor group. In geographical terms, buyers primarily came from the German-speaking DACH region of Germany, Austria and Switzerland (36%), France (28%) and the Benelux countries (17%). Central banks/OI, Banks and Asset Managers & Funds each accounted for roughly a third of the allocation by investor type. The next day, a second New Zealand bank then accessed the market in 2021, presumably also spurred on by the ASB deal on 10 May. Westpac was last active in the EUR benchmark segment via its New Zealand subsidiary at the start of 2019. This bond, which featured a volume of EUR 850m and a term to maturity of seven years, went to market at ms +12bp despite having initially been guided three basis points wider. At +0.007%, the issuing yield had crept marginally into positive territory. Upon opening of the books, the volume was not yet known, and, due to the unusual volume, may have been made dependent on the existing demand (EUR 950 million), which ultimately meant that the transaction was only slightly oversubscribed. More than half of the volume was allocated to DACH investors, while 19% went to the Benelux region and 12% was snapped up by Scandinavian investors. Buyers were predominantly Banks (46%) and Central Banks/OI (35%). Overall, the total of ten EUR benchmark bonds placed in May contributed EUR 8.1bn to the volume recorded across 2021 as a whole. Finally, the Bank of Montreal then followed with a benchmark worth EUR 1.25m yesterday. The 8y deal, for which the volume was again unknown when the books were first opened, initially went into the marketing phase at ms +12bp area. This bond represented the fifth market appearance by a Canadian bank so far in 2021 (total volume: EUR 4.5bn). A greater volume of bonds has come only from France (EUR 8.5bn) and Germany (EUR 6.75bn) in the year to date. The final pricing for this deal eventually came in four basis points tighter at ms +8bp.

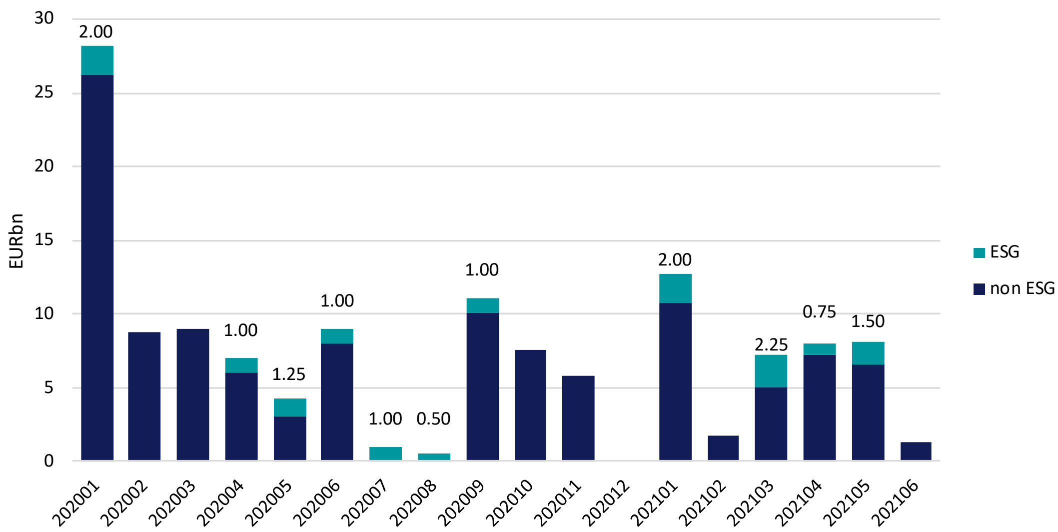
Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Bank of Montreal	CA	01:06.	XS2351089508	8.0y	1.25bn	ms +8bp	AAA / Aaa / -	-
Westpac NZ	NZ	26.05.	XS2348324414	7.0y	0.85bn	ms +12bp	AAA / Aaa / -	-
BPCE SFH	FR	25.05.	FR0014003RH7	9.5y	1.50bn	ms +5bp	- / Aaa / AAA	X

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research, (Rating: Fitch / Moody's / S&P)

Brisk issuance activity in ESG segment in 2021

With the latest BPCE transaction, another bond has also been recorded in the ESG segment, bringing the number of sustainable transactions within the EUR benchmark segment to eight bonds so far in 2021 in the process. Based on a total of 52 benchmarks, this produces an ESG share of 15.4%. In 2020, the share of ESG deals was just 9.0% (volume-weighted: 8.4%). The value recorded so far this year is being positively influenced both by comparatively brisk ESG issuance activity to date and a sluggish overall market. At EUR 6.5bn, the volume of ESG covered bonds placed on the market is creeping ever closer to the value registered in the prior year (EUR 7.75bn) and is likely, in our view, to be exceeded this year.

Issuance of EUR benchmarks in sustainable formats



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Latvian parliament approves covered bond law

On 27 May, the Latvian parliament adopted a revised version of the country's Covered Bond Act. The result is that a further key step on the way to realizing a pan-Baltic covered bond market in future has now been achieved. In 2019, legislators in the neighbouring country of Estonia adopted a law regulating the issuance of Estonian covered bonds for the first time. Since then, both Luminor Bank and LHV Pank have accessed the market for publicly placed covered bonds with a EUR benchmark and a sub-benchmarks consequently expanding the covered bond segment by a further jurisdiction in the process. The overarching objective of a Baltic covered bond market would be to promote cross-border bond deals between the three countries in the region, namely Estonia, Latvia and Lithuania. While the cover pool of the sub-benchmark issuer LHV Pank currently comprises exclusively Estonian assets, the cover pool operated by Luminor Bank has been supplemented by cover assets from Latvia (31.5% at present) and Lithuania (40.3%) since first being set up. This is a path that should be made possible and promoted by appropriately coordinated legal frameworks across the Baltic region.

Scope: house prices in Austria driven by COVID-19

Having recorded growth of 12.3% year on year, the property market in Austria experienced a highly dynamic Q1 2021. The risk experts from Scope put this growth primarily down to special effects from the pandemic, although at the same time they have recently identified minor risks related to sharp price corrections. The Scope analysts contextualize their assessment by citing factors including moderate debt levels, the functionality of the rental market and regulatory framework conditions. With regard to the covered bond valuation, Scope sees lower market value-based LTVs. However, the influence here on credit quality is limited, as inflated market values are accordingly taken into account for rating assessments. For borrowers, risks related to rising interest rates are also kept in check by the fact that the majority of agreements are based on fixed interest rates. The risk of being dependent on exchange rate movements (especially CHF) has also receded over the past few years. For example, Scope analysts report that the share of FX loans stands at 10%, while the equivalent value a decade ago was nearly four times as high. We share the assessment of the risk experts at Scope, especially regarding the credit quality of covered bonds. Nevertheless, overheating property markets may put pressure on financial market stability overall. Central bankers throughout the eurozone are also keeping a close eye on the negative side effects of the rising cost of housing, although the ECB does not directly include asset prices in its monetary policy (cf. Isabel Schnabel “Q&A on Twitter” from 28 April 2021).

Market overview SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

ECB teaser: spectre of inflation or real danger?

The inflation rate in Germany – measured as the change in the consumer price index (CPI) from the same month of the previous year – is expected to be +2.5% in May 2021. Based on results available so far, the Federal Statistical Office of Germany (Destatis) also reported that consumer prices are expected to rise by +0.5% compared with April 2021. According to Destatis, the ongoing coronavirus crisis continued to cause difficulties in conducting the price survey in May 2021 as some goods were not available on the market. Nevertheless, the quality of the preliminary overall results is still guaranteed. Final results for May are expected on 15 June. The spectre of inflation currently dominates the interest rate landscape and is also likely to be the main subject of Lagarde's press conference (see Cross Asset Article).

Update: NextGenerationEU

One topic is currently on the minds of many market players: when will the next major wave of refinancing by the EU commence? To finance the "NextGenerationEU" (NGEU) recovery package, the European Commission will be borrowing on the capital markets on behalf of the EU. Borrowing will take place between mid-2021 and 2026. Yesterday it was announced that a syndication will already start in June. Specifically, the European Commission has adopted its first Annual Borrowing Decision for 2021 and published a funding plan ahead of the commencement of borrowing under the NGEU programme. The exact timing will depend on the approval of the Own Resources Decision, the piece of legislation that will enable the Commission to borrow for NGEU. Until now, we had been assuming July, as some political mills grind rather slowly. However, we were correct to expect a volume of EUR 80bn by the end of the year, which is EUR 20bn more than the market had previously been expecting. From now on, funding plans will be updated twice a year and this information made available online. The annual borrowing decision will set a maximum ceiling for the planned borrowing operations over the planning period of one year. It will also set a range for maximum issuance amounts of long-term and short-term funding, the average maturity of the Union's long-term funding and a limit for the amount per issuance. The specific six-monthly funding plan will map the borrowing to be undertaken in the coming six months, within the boundaries set by the annual borrowing decision. The purpose of the funding plan is to ensure that the necessary funds are available to cover the relevant payment needs. Key elements of the funding plan will be communicated to market participants in order to offer the needed predictability. In particular, the Commission will publish on a regular basis: the targeted amounts to be financed by bonds, the target auction dates for bond and bill issuances and indications on the expected number and aggregate volumes of syndicated operations. The plan is for all borrowing (around EUR 800bn) to be repaid by 2058. Further syndicated transactions are foreseen to take place before the end of July. The EU intends to start issuing bonds and bills through auction procedures in September after the summer break.

Alberta: S&P downgrade to A with a stable outlook

Recently, S&P lowered Alberta’s long-term issuer rating from A+ (negative outlook) to A (stable outlook). This measure was not unexpected for the capital markets. According to the Bloomberg ticker, the rating agency had changed the outlook for ALTA to “negative” in May 2020, citing the deterioration of the budgetary situation due to the pandemic coupled with weak oil prices. S&P providing the following explanation: The downgrade is the culmination of the two powerful economic shocks that Alberta has endured in the past six years. The province entered the pandemic in a position of relative financial weakness due to the prolonged effects of the slump in oil prices that began in late 2014. From this starting point, steps taken to control the pandemic and to safeguard the health and safety of citizens drove up health care and education expenditures and trimmed revenues. Budgetary results deteriorated and Alberta’s tax-supported debt burden rose to a greater extent than was the case for all other Canadian provinces. Consequently, Alberta's operating and after-capital deficits, which are the largest of any local and regional government in the country this financial year and last, caused S&P to lower the SACP by one notch. However, where there is shadow, we also see light: the vaccination rates planned in Canada up to the end of September should allow for a gradual revival of the economy – and not just in Alberta. As the economy recovers in general, the budgetary balances of the respective local governments should also improve, which would have a positive impact on ratings as well as spreads.

Saskatchewan: Moody’s downgrade to Aa1 with a stable outlook

Shortly after, Moody’s also lowered Saskatchewan’s long-term issuer rating from Aaa (negative outlook) to Aa1 (stable outlook). Again, this move did not come unexpectedly for the capital markets. The rating agency had actually changed the outlook for SCDA (to use the Bloomberg ticker) to “negative” in September 2020, citing the deterioration of the budgetary situation due to the pandemic and the slow path back to a balanced budget. Moody’s provided the following rationalisation: the downgrade to Aa1 from Aaa reflects the cumulative weakening of the province’s credit profile reflected in multi-year operating deficits, elevated capital expenditures and the resulting continued rise in the province's debt burden that exceed Moody’s previous projections. The province's constrained financial position and growing debt coincide with lower liquidity levels and align the province more closely with Aa1-rated global peers (namely regions as well as provinces). Saskatchewan forecasts a slow return to a balanced budget by 2026/27. However, Moody’s notes that the other financial downward risks have reduced and emphasised the considerable budget flexibility of the province. The stable outlook also reflects low interest rates, which will cushion the rise in the interest and debt burdens. A province with a top rating (AAA or Aaa) is always at risk of losing this status, given the high standards that must be met to maintain a rating. Now, Saskatchewan belongs to the “AA” group with a stable outlook at all three major agencies and DBRS, and we do not expect investors to withdraw or for the province to suffer any disadvantage in raising funding in the focus currencies (especially CAD and some USD). A downgrade could even increase the appeal for a EUR transaction. Ontario’s recent deal shows that there is sufficient space for Canadian EUR transactions (see below).

Primary market

Although many market players are already turning their attention to the ECB meeting in eight days, the inflation debate, the tapering discussion and the start of "Next Generation EU" funding programme, in this section we intend to deal with the hard facts of the primary market. The first priced bond came from Caisse des Dépôts et Consignations. A sustainability bond with a five-year maturity was issued under the ticker CDCEPS. The benchmark was priced at interpolated OAT +13bp across the two reference bonds of FRTR 0% 02/25/26 and FRTR 0.25% 11/25/26. The order book amounted to more than EUR 2.2bn. France was the source of another bond deal, this time from SFILFR which opted for a maturity of eight years. A total of EUR 1bn was printed at OAT +18bp, although the books amounted to more than EUR 2.5bn. Both deals from France narrowed by around 3bp against the guidance. Also more of an infrequent guest on the market is Austria's Autobahnen- und Schnellstraßen-Finanzierungs-Aktiengesellschaft (ASFINAG), which opted for ten years and EUR 500m (WNG) in its bond mandate. The books exceeded EUR 4.9bn, causing the guidance to be only briefly in the region of ms +7bp. The bond was ultimately issued at ms +3bp. Furthermore, NRW placed a sustainable dual tranche consisting of 10y (EUR 2bn) and 20y (EUR 1.5bn). The order book of the shorter maturity amounted to more than EUR 10bn and was placed at ms flat, but the long deal was also significantly oversubscribed (EUR 7.4bn) and issued at ms +9bp. Versus the guidance, narrowing of 4bp and 3bp was respectively achieved for the bonds. Yet another deal originated in France: Bpifrance – OSEOFI – brought EUR 1bn to the market at OAT +15bp with an order book of EUR 3.6bn. Yesterday, the Spanish region CASTIL appeared with EUR 500m at SPGB +17bp (9y), a deal that was more than three times oversubscribed. Its Moody's rating is Baa1. The Spanish issuer is part of our "Beyond Bundeslaender" segment, to which we habitually refer. See also WALLOO, IDF, VDP and MADRID or BRCOL, ALTA and AUCKCN from overseas. It was also very fitting that Ontario opted to issue EUR 1bn at ms +20bp for a maturity of ten years. The ratings for this are AA, A+ and Aa3. Hesse, boasting a similar rating of AA+ from S&P, placed EUR 500m at ms -6bp for five years. The order book was EUR 2.4bn – a Laender deal being almost five times oversubscribed (order book: EUR 2.4bn) has otherwise mainly been seen for NRW with its sustainable bonds. There were also a few tap issues: EUR 460m from the EU (2036 maturity) and EUR 175m from NIESA (2027). A few other issuers are waiting in the starting blocks: the UK also plans to join the action in the green segment in September, with the framework for this expected to be in place by the end of June. Aside from the sovereigns that we only occasionally touch upon as part of this publication, other potential deals include Belgium's LCFB with investor calls for a social bond (11-14y) in benchmark format and Hungary's MFB (EUR 500m, WNG, 5y) as mandates.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
ONT	CA	01.06.	XS2351088955	10.0y	1.00bn	ms +20bp	AA- / Aa3 / A+	-
HESSEN	DE	31.05.	DE000A1RQD35	5.0y	0.50bn	ms -6bp	- / - / AA+	-
CASTIL	ES	31.05.	ES0001351586	8.8y	0.50bn	ms +46bp	- / Baa1 / -	-
OSEOFI	FR	27.05.	FR0014003U03	10.0y	1.00bn	ms +13bp	AA / Aa2 / -	-
NRW	DE	26.05.	DE000NRW0MZ8	20.0y	1.50bn	ms +9bp	AAA / Aa1 / AA	X
NRW	DE	26.05.	DE000NRW0MY1	10.0y	2.00bn	ms flat	AAA / Aa1 / AA	X
ASFING	AT	25.05.	XS2348690350	10.0y	0.50bn	ms +3bp	- / Aa1 / AA+	-
SFILFR	FR	25.05.	FR0014003S98	8.0y	1.00bn	ms +10bp	- / Aa3 / AA	-
CDCEPS	FR	25.05.	FR0014003RL9	5.0y	0.50bn	ms -2bp	- / Aa2 / AA	X

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research (Rating: Fitch / Moody's / S&P)

Cross Asset
ECB preview: Spectre of inflation fuelling tapering thoughts

Authors: Dr Frederik Kunze // Dr Norman Rudschuck, CIIA

ECB meeting set to take place against the background of dramatic rise in inflation rate

The next ECB interest rate decision is scheduled for 10 June. In our view, bearing in mind the focus of both the general public and market participants, the formulation of the interest rate decision and press conference are likely to include, in particular, concrete references to the current rise in inflation seen across a number of eurozone economies. For example, the Federal Statistical Office of Germany has recently reported a rate of inflation of 2.5% for the reporting month of May, which also marks the sharpest price rise in ten years. The rise should definitely be seen in the context of baseline and one-off effects from the temporary increase in VAT as well as increases in commodity and energy prices. Moreover, comments made by central bankers to date indicate that the ECB's view is mostly that this represents a temporary rise in inflation. This in turn supports the hypothesis that the ECB's decision-making body will not allow itself to be unduly influenced by the current inflation trend, but rather that it will stick to its own assessment of the situation.

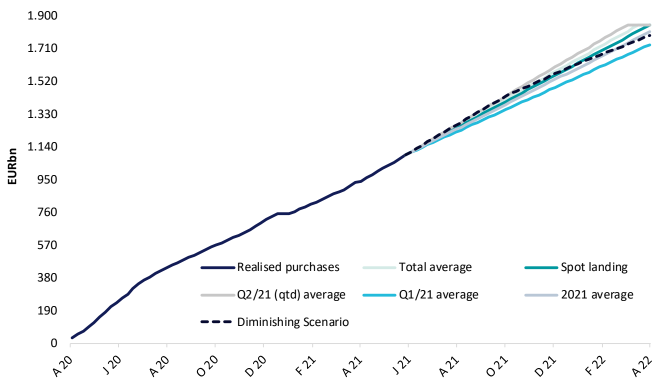
Optimism, yes – but end of the pandemic, no!

Against the backdrop of the latest economic developments in the eurozone, but also in the USA and Asian economies, one can definitely say that there is an improvement in the picture, although the fragility of the recovery cannot be ignored. ECB representative Isabel Schnabel also recently outlined her views on a reopening of the economy through an accelerated pace of vaccinations and falling infection rate, which have recently been leading not only to more activity in the manufacturing industries but also in the services sector. Growing consumer confidence is another major support factor, even though support from fiscal and monetary policy still plays a big part. The central banker also stressed that the pandemic is far from over – a view which we share, not least because of the threat from mutated virus strains. As regards the impending meeting of the central bank committee, the main focus is on inflation rate projections. In this context, Isabel Schnabel summed up by explaining how the recovery will still be dependent on continued policy support and therefore that any premature withdrawal of either fiscal or monetary support would be a mistake. At this point, we hardly need to repeat the mantra that the PEPP will continue until at least until March 2022 or until the end of the pandemic. Ms. Schnabel also reiterated the fact that ultimately, the volume of asset purchases was data-driven, and that it would depend on financing conditions, the seasonality of the markets and the inflation outlook. Both the issue of tapering and considerations related to extending the envelope of PEPP were questions for the more distant future, although it is important to stress at this point that the objective of the PEPP is not to bring inflation back to the 2% target, but rather to counter the downward impact of the pandemic on the transmission mechanism of monetary policy and the outlook for the eurozone. Klaas Knot has spoken about whether the current surge in inflation is likely to last. The ECB Governing Council member sees no sign as yet that the temporary inflation will lead to any second-round effects or substantial wage demands.

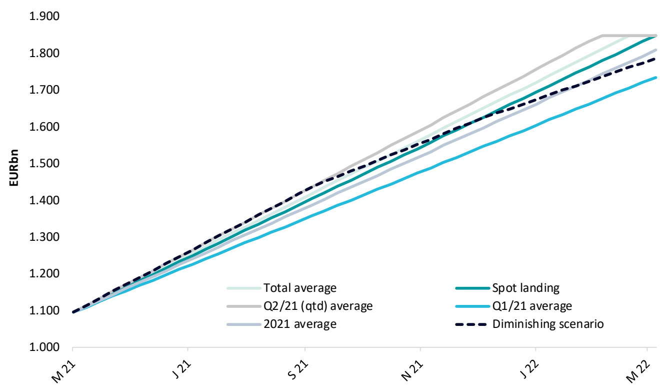
Will the “significantly higher pace” of asset purchases be maintained?

There is definitely potential for a lively and controversial debate to take place in the context of the June meeting of the ECB Governing Council in connection with the future pace of asset purchases. Once again, an assessment of the current situation and outlook in relation to inflation and financing conditions are likely to be at the heart of the arguments exchanged. In particular, a sustained rise in sovereign bond yields could be damaging for the latter, according to the ECB and therefore hit the transmission mechanism of monetary policy. To that extent, the pace of purchases under the PEPP is also likely to be an important part of actual financing conditions in so far as there would be a sharp rise in yields for some sovereign bonds in the eurozone without those asset purchases. High-ranking central bankers are not in any way recommending a reduced pace of purchases in the current conditions. In a recent interview, ECB Board Member Fabio Panetta indicated that he had not yet seen any changes in financing conditions or in economic outlook that would shift the inflation path upwards (and therefore above all also inflation expectations) over the long term. However, only a sustained increase in inflationary pressure would justify a reduction in the pace of purchases. Driven by energy prices, consumer prices in the eurozone rose by 2.0% year on year in May as against 1.6% in April, as detailed in an initial report from the EU statistical office, Eurostat. The core rate (excluding energy, food, alcohol and tobacco prices) rose from 0.7% to 0.9%. We therefore rule out any dramatic changes in the context of PEPP purchases, at least in Q3 2021. It is actually far more likely that purchases by the Eurosystem in the context of the pandemic programme will remain at their present level, although this does not in any way rule out significant variations in weekly purchases. A systematic reduction in Q4 2021 to the level of Q1 2021 (EUR 14.6bn per week) would make sense, whereas we expect a further reduction in weekly purchases to EUR 12.5bn in Q1 2022. Consequently, the current framework would be sufficient until the projected end of the programme in March 2022 and would be almost completely exhausted. This "diminishing scenario" is based on the assumption of a further economic recovery. In addition, our assumptions rule out any scenarios in which the crisis re-intensifies (for example through devastating effects of new mutations and fresh lockdowns).

PEPP: historical purchases and scenarios



PEPP: scenarios (range-zoomed)

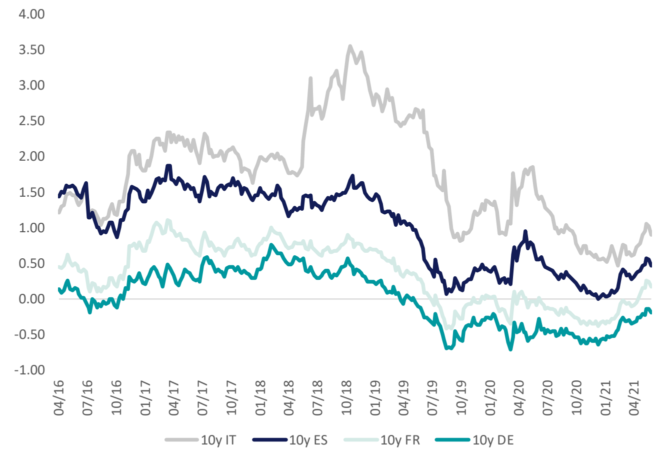


Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

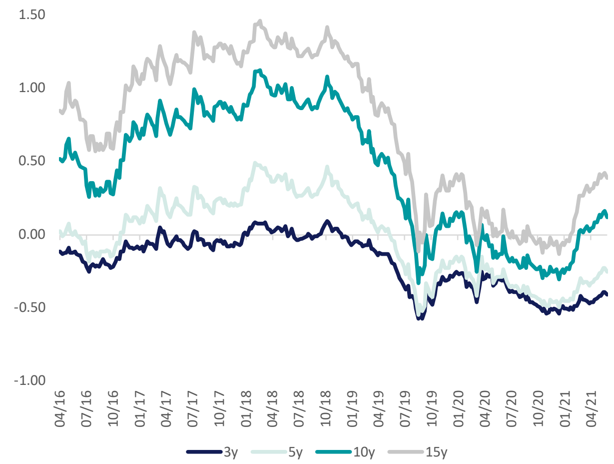
ECB Working Paper I: Impact of fiscal and monetary policies on sovereign yields

In a recent Working Paper, three ECB researchers turned their attention to the question of the impact of, among other factors, the ECB's own monetary policy. In the course of their analysis, authors Stefano Corradin, Niklas Grimm and Bernd Schwaab come to the conclusion that, in the context of the COVID-19 crisis, a number of vulnerable countries are benefiting more than others from the monetary policy and flexibility of the PEPP, whereas fiscal measures, or the announcement of such measures, have been able to exert a more uniform influence on the yields of member states. In our view, these results fit in completely with regular comments made by ECB central bankers who never tire of stressing the advantages of fiscal support. Nevertheless, the results, especially those relating to monetary policy, support the monetary policy approach in so far as the PEPP in particular has successfully counteracted a drifting apart of sovereign yields in the wake of the outbreak of the coronavirus crisis. In this respect, it is in our view important to stress that the latest yield movements should not be understood as the harbingers of a fresh drifting apart.

Sovereign bond yields (10y)



EUR swap rates (weekly)



Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

ECB Working Paper II: Advantages of inflation targets for monetary policy

The results of an ECB Working Paper by Michael Ehrmann are definitely likely to be relevant in relation to the ECB strategy review currently under discussion (see also the contribution by Philip R. Lane of 25 May 2021 on the ECB strategy review). After all, the author looks into hypotheses relating to the impact of inflation target bands for the anchoring of inflation expectations. It is conceivable that target ranges can be less effective in anchoring expectations because they provide more flexibility to the central bank or provide better anchoring because monetary policy is more reliable. The results support the second version, which per se (i.e. not taking other influence factors into account) suggests that target ranges can act as the more advantageous inflation target. All in all, Ehrmann's analysis contrasted three targets ("point targets", "point targets with relevance bands" and "target ranges"). Even so, the economic context also plays an important part so that, for example, a distinction has to be made between industrial countries, emerging markets and developing countries. The sample includes ten advanced economies and ten emerging market economies respectively.

We expect the ECB's monetary policy to remain unchanged

In principle, our expectations of the forthcoming interest rate meeting are unchanged in relation to the April meeting, in spite of the inflation trend. This mainly applies to monetary policy indicators. To that extent, we do not expect either adjustments in the PEPP framework and/or related formations with respect to a full use of or extension of the volume. We also expect key interest rates to remain unchanged and that projections will still only be made in relation to the distant future. Moreover, we do not expect any adjustments in the staggered interest rate or in the TLTRO III tenders. However, we do anticipate a growing forecast risk in relation to the tiering multiplier, but are sticking to the view that we are more likely to see steps being taken in the second half of the year. As regards fresh TLTRO III tenders or adjustments to current or still outstanding transactions, we see less likelihood of a threat of adjustments. ECB decision makers are more likely to initially stick to their role of observers, with any interventionism left for a later date.

June ECB meeting: Ample supply still meeting high demand

Ample supply from SSA issuers (above all from the EU), with a further rise in the second half of the year, continues to meet high demand from investors (primary market) and from the ECB (secondary market). All the major players are extensively represented in the market, with the German Bundeslaender also continuously opting to approach investors. Apart from sub-sovereign issuers, this is true especially of the usual representatives of E-supras (especially EU and EIB, bit also EFSF and ESM) along with the KfW. The PSPP with EUR 20bn per month of fresh money is also unjustly in the shadow of the more recent, but much faster-growing PEPP.

Still no clarification on the part of the ECB

We are still worried by the discussions surrounding the ISIN limit which the ECB has imposed itself for the APP and PSPP. As outlined on several occasions, a limit of 33% per issuer and issue generally applies; the figure only stands at 50% for supranationals. In this respect, in the context of the PEPP, the ECB has not given any explanations and is resisting calls for urgently needed transparency. To date, there has been no answer to an enquiry from us. However, the question of a blocking minority is an important one should tensions flare up again in the public sector. Greater transparency would be good for the ECB, since it lives to a large extent from its credibility and market confidence. Otherwise, effective verbal interventions would not be possible.

Covered bond market: Still caught in the ECB's grip, but there are signs of life

The covered bond market remains caught in the ECB's grip. The Eurosystem is likely to retain a strong presence both in the primary and secondary market, irrespective of the upcoming ECB meeting. In fact, asset purchases in the context of CBPP3 are likely to have been a stabilising factor in the covered bond market in the wake of the widening of spreads in the last few weeks. Tapering should not be an issue for covered bonds for the time being, a fact which also reflects the well-known parameters of the purchase programme. The ECB is therefore likely to continue to be responsible for a marked negative net supply in the covered bond market. However, we do not expect any further negative impetus for the issue volume of covered bonds for the moment, but, as a precaution, we are turning our attention towards the next TLTRO III tender (TLTRO III.8 this month, cf. ECB calendar). Nevertheless, renewed strong demand from eurozone commercial banks is rather unlikely in this context.

First information on "strategic review" to be released in September

Aside from the ECB's short to medium-term impetus for the segments which we analyse, it is also important to evaluate the central bank's long-term direction and the Eurosystem's monetary policy. Ultimately, the ECB's strategy review is more likely to have far-reaching implications for monetary policy and hence for the SSA segment and the covered bond market in the mid to long term. The composition of the 13 work streams alone shows the potential scope of the project which goes far beyond formulating and adhering to the inflation target. Among other things, the work streams also include topics such as digitalisation, employment, globalisation and climate change. The focus of the strategy thereby is fundamentally on the interactions between monetary policy, inflation and the central bank decision variables. In our view, the debate alone about possible activities and controls around the ESG segment – as an example – clearly shows potential new interactions with the asset classes which we cover. Results of the strategy review are expected before the end of the year. We mention this issue at each meeting of the Governing Council especially in view of the scope of the review (not just in relation to the question of the inflation target), even though not much has leaked out yet and results are already being keenly anticipated for after the summer. We expect the first details to emerge in September 2021.

Summary and comments

High ranking ECB representatives have again been expressing their views ahead of the ECB council meeting next week (see above). Although we do not wish to elevate the current inflation debate, we do see short-term statistical one-off effects as the main reason behind the temporary overshooting of inflation rates in Germany and the eurozone, a trend which is unlikely to have peaked as yet. President Lagarde is highly likely to be asked more questions on the inflation debate at the press conference in eight days' time. She could already take some of the wind out of the sails of reports (and market participants) with updated projections. According to the March forecasts, the ECB still expects to continue to miss its inflation target until 2023 (unchanged +1.4%). Likewise, as of now, inflation rates well below the ECB's target are expected for the years before this point (2021: still +1.5% vs. 1.0%; 2022: +1.2%). On balance, therefore, no adjustment to the monetary policy parameters is likely, whereas once again, the wording of the press release will be of great importance. In our view, the PEPP and TLTRO are likely to determine the scenarios in 2021. This is where the tapering debate is likely to pick up momentum. We assume that there will be no dramatic changes in PEPP purchases, at least in Q3 2021. Instead, purchases by the Eurosystem under the pandemic programme are likely to remain at the current level, although this by no means rules out significant variations in weekly purchases. In Q4 2021, a systematic reduction to the level of Q1 2021 (EUR 14.6bn weekly) would make sense, while we assume a further reduction in weekly purchases to EUR 12.5bn in Q1 2022.

Covered Bonds
FX covered bonds: Same symptomatology as EUR benchmarks?

Authors: Dr Frederik Kunze // Henning Walten, CIIA

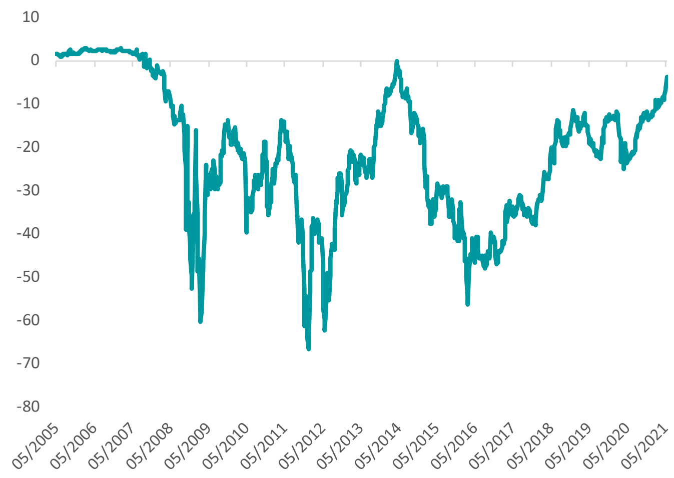
Market for FX covered bonds in 2021

Especially in market phases during which issuers have a comparatively high funding requirement, which can at times extend over several currencies, the FX segment for covered bonds often gains in popularity. For the years 2020 and 2021, which were and are undoubtedly under the significant influence of COVID-19, the issuance pattern is not very dynamic. While the primary market volume in the currencies of US dollar, pound sterling and Australian dollar totalled the equivalent of EUR 21.4bn in 2020 (conversion basis is the exchange rate on the date of issue), these currencies have so far accounted for just EUR 3.22bn in 2021, divided exclusively into deals in USD and GBP. In the context of this article, we would like to discuss the FX segment and also possible causes of the weak momentum.

Specifics of the FX market for covered bonds

In general, it can be stated without exaggeration that covered bond benchmarks are dominated by EUR transactions. Conversely, this does not mean that non-EUR bonds are not seen as relevant for issuers or investors, although the respective sub-markets (as part of our analysis, we focus on the USD, GBP and AUD) have a significantly lower outstanding volume. Issues in foreign currencies or non-EUR covered bonds can be based on the original funding requirements of issuers in the corresponding currency and on cost-specific factors alike. An original funding requirement can be due to a high proportion of financing being in the corresponding currency, for example. Mirroring the EUR market, where issuers such as Singapore and Canada regularly present themselves to investors with benchmark transactions, a regular appearance can also be linked to investor maintenance for FX markets. After all, it is – depending on the market phase – also opportunistic considerations that make an FX issuance seem a sensible funding option. A decisive factor in this is the market prices for the maturity-dependent and currency-specific cross-currency basis swap spreads, which reflect the "synthetic" transformation costs into the domestic currency. For these cross-currency basis swap spreads, a high variability of the financial market time series can be observed (see figures below for EUR/USD and EUR/GBP). However, in principle, the fact that the funding requirements of the issuers must be met is also true of the FX market. In the current market phase, we are seeing increased momentum in the EUR segment. This cannot yet be established for the FX sub-markets we have examined.

EUR/USD XCCY (weekly)



EUR/GBP XCCY (weekly)

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

When it comes to benchmarks in USD and GBP, 2021 is clearly subdued

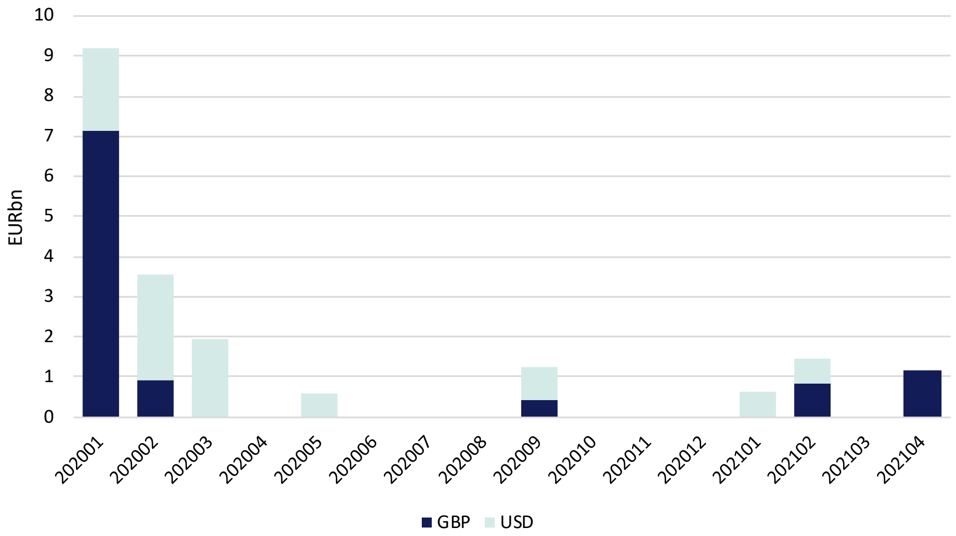
Looking at the market for USD and GBP benchmarks, issuance activity will, as previously implied, be significantly more restrained in 2021, analogous to the EUR benchmark segment. In the first quarter of 2020, deals worth the equivalent of EUR 14.71bn were issued on the market for publicly placed covered bonds. The books contained 13 deals (7x USD and 6x GBP). In the current year, however, there have been just five transactions worth the equivalent of EUR 3.22bn to date. With the Nationwide Building Society, only one bank came from the UK, compared with seven bonds from the UK in 2020. The Nationwide deal was certainly something special: the ten-year maturity marks a significant deviation from the maturities of between three and five years usually chosen. Since 2015, only Santander UK (7y) has issued above the five-year mark with its bond in February 2020. With Aareal Bank and Deutsche Pfandbriefbank, the other two banks issuing bonds in 2021 so far have been active in the market with a GBP and USD benchmark each. Aareal Bank had also already been active in EUR. Unlike GBP benchmarks, their USD counterparts have traditionally been issued with a maturity of three or four years in the past. In 2020, only one transaction (WSTP 2 01/16/25) had a five-year maturity.

USD and GBP benchmarks in 2021

Issuer	Country	Timing	Currency	ISIN	Maturity	Size	Spread	ESG
Aareal Bank	DE	22.04.	GBP	XS2337339977	4.0y	0.50bn	SONIA +31bp	-
Deutsche Pfandbriefbank	DE	20.04.	GBP	DE000A3H2Z80	3.0y	0.50bn	SONIA +27bp	-
Nationwide BS	GB	16.02.	GBP	XS2305266137	10.0y	1.00bn	SONIA +40bp	-
Aareal Bank	DE	03.02.	USD	XS2297684842	4.0y	0.75bn	ms +24bp	-
Deutsche Pfandbriefbank	DE	13.01.	USD	DE000A3H2ZW1	3.0y	0.75bn	ms +23bp	-

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Issuance history of USD and GBP benchmarks

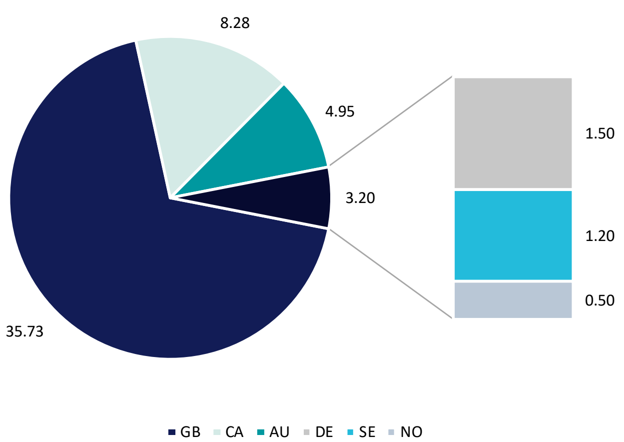


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

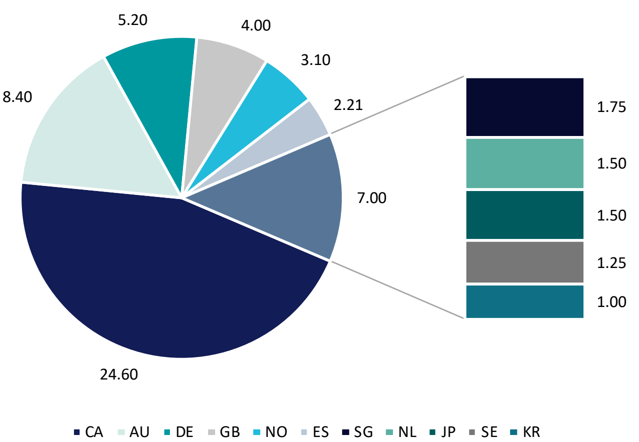
USD benchmarks as fixed coupon transactions; GBP opts for FRNs

With regard to the two markets, it can be said that they are structured differently. Eleven jurisdictions are currently represented in the market for USD benchmarks, which is five more than in the segment for GBP benchmarks, but with 50 outstanding benchmarks, there are significantly fewer deals than in the GBP market (68 deals). There is also a significant difference in the structure of coupon payments. While GBP benchmarks here rely on a variable interest rate, USD benchmarks are by a large majority – though not exclusively – furnished with a fixed coupon, as is the case for EUR benchmarks. All GBP benchmarks issued since September 2019 are based on pricing against the SONIA reference rate, which has consequently emerged as a new market standard in recent years.

Market for GBP benchmarks (GBP bn)



Market for USD benchmarks (USD bn)



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Primary market: Canada absent up to now

The primary market for non-EUR benchmark transactions has therefore been at least as sluggish in 2021 as the issuance activity seen for EUR benchmarks. This is not least due to non-currency macro factors (e.g. customer deposits, large number of market-based funding alternatives). Nevertheless, there are some differences between the sub-markets. For example, the absence of the Canadian institutions in the USD sub-segment so far is striking. The extent to which issuers from the jurisdiction with the largest share of the USD market and the second largest share of the GBP segment will still appeal for investors with GBP and USD placements in 2021 remains to be seen. We deem it highly probable that Canadian institutions are more likely to turn towards the EUR segment, which we would put down to the even narrower spreads – also for non-EMU jurisdictions – and the prevailing hedging conditions. In this, we assume a (possibly synthetic) transformation of the EUR issue proceeds into USD. With regard to issuers who have been active so far, it is our assessment – at least in principle – that there is still a demand for the respective foreign currency. This applies both to the UK issuer active in GBP and to the two Pfandbrief banks that have resorted to both USD and GBP transactions.

Conclusion

The market for FX issuances has been very quiet with regard to covered bond benchmarks in 2021. According to our understanding, this is the consequence of a fundamentally low funding requirement, alternative funding instruments and the relative appeal of bonds in EUR (at least for some institutions). As the framework conditions will at best change gradually, we would also assume that the market for FX bonds will not play catch up in the further course of the year. Rather, we will at most probably see isolated bond placements – after the summer break, for example.

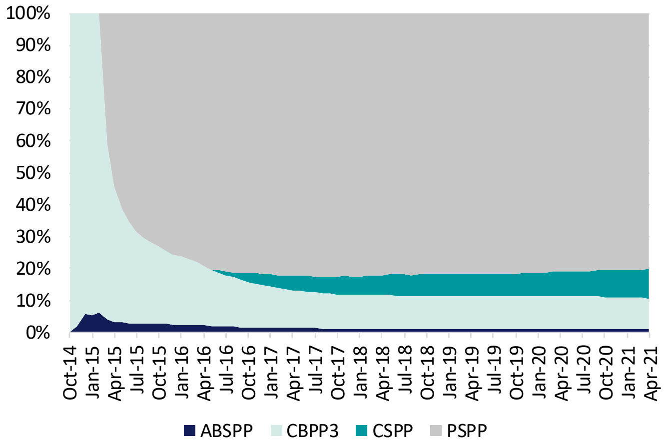
ECB tracker

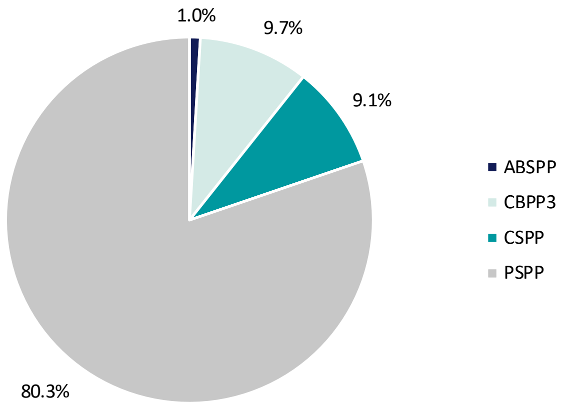
Asset Purchase Programme (APP)

Holdings (in EURm)

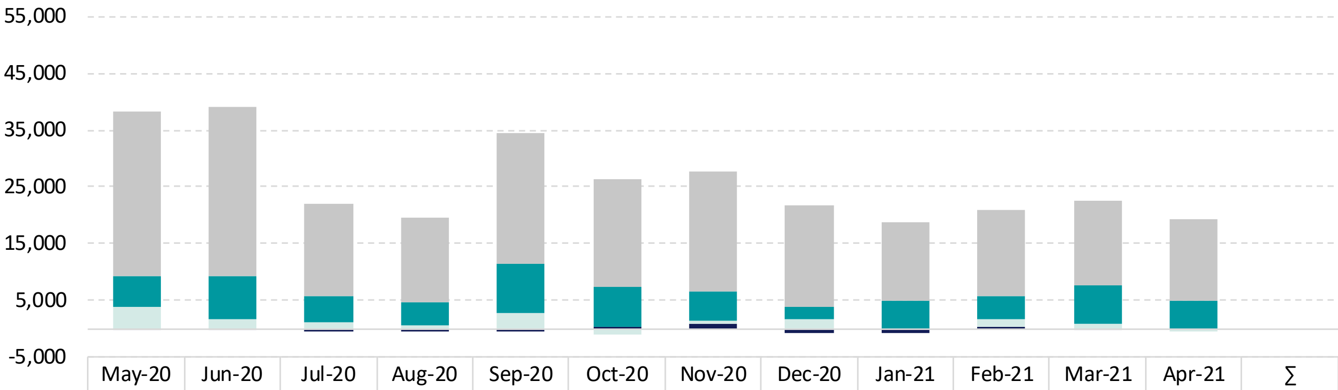
	ABSPP	CBPP3	CSPP	PSPP	APP
Mar-21	28,709	289,424	266,060	2,379,053	2,963,246
Apr-21	28,443	289,418	271,075	2,393,239	2,982,176
Δ	-266	-5	+5,015	+14,186	+18,930

Portfolio structure





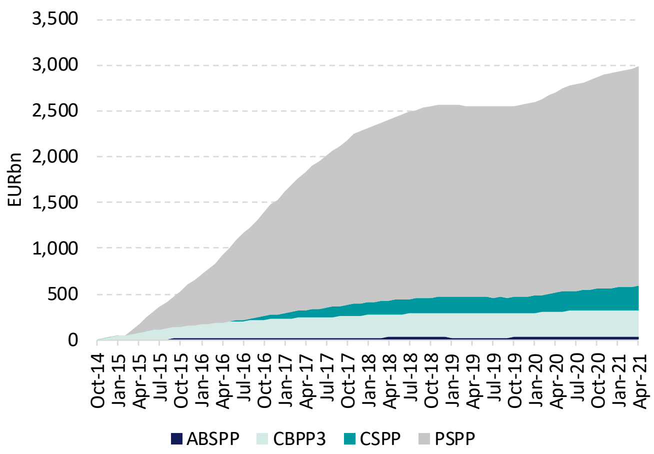
Monthly net purchases (in EURm)



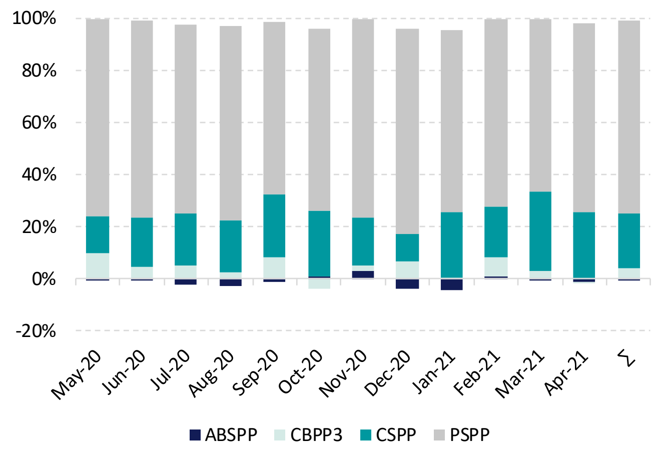
	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	∑
APP	38,170	38,770	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,915	22,561	18,930	305,860
PSPP	28,961	29,779	16,370	15,150	23,102	19,182	21,241	17,822	13,655	15,129	14,955	14,186	229,532
CSPP	5,438	7,515	4,502	4,004	8,496	6,983	5,009	2,378	4,924	4,064	6,929	5,015	65,257
CBPP3	3,785	1,731	1,198	500	2,839	-1,041	646	1,529	74	1,539	684	-5	13,479
ABSPP	-14	-255	-541	-527	-423	225	824	-800	-807	183	-7	-266	-2,408

Source: ECB, NORD/LB Markets Strategy & Floor Research

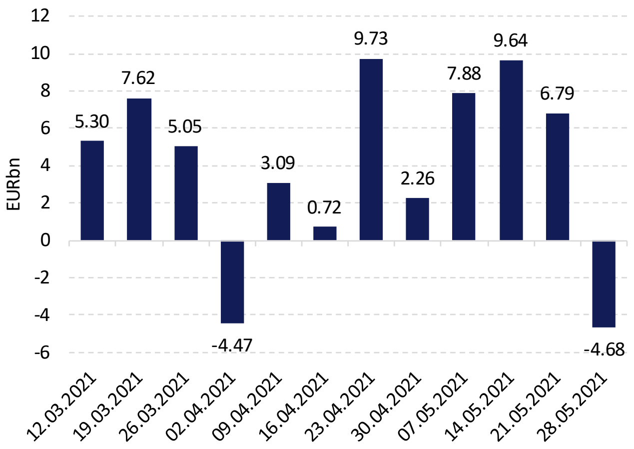
Portfolio development



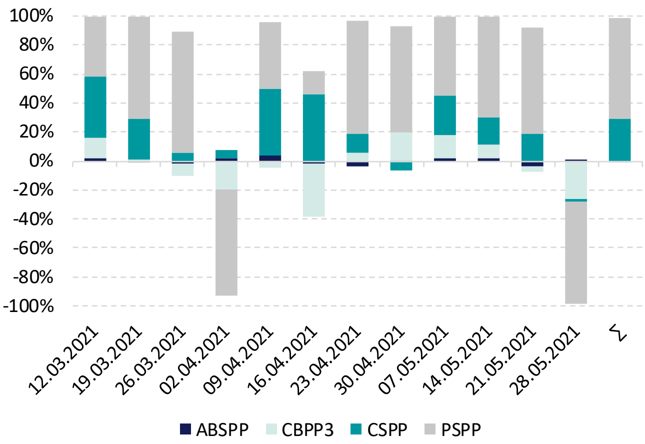
Distribution of monthly purchases



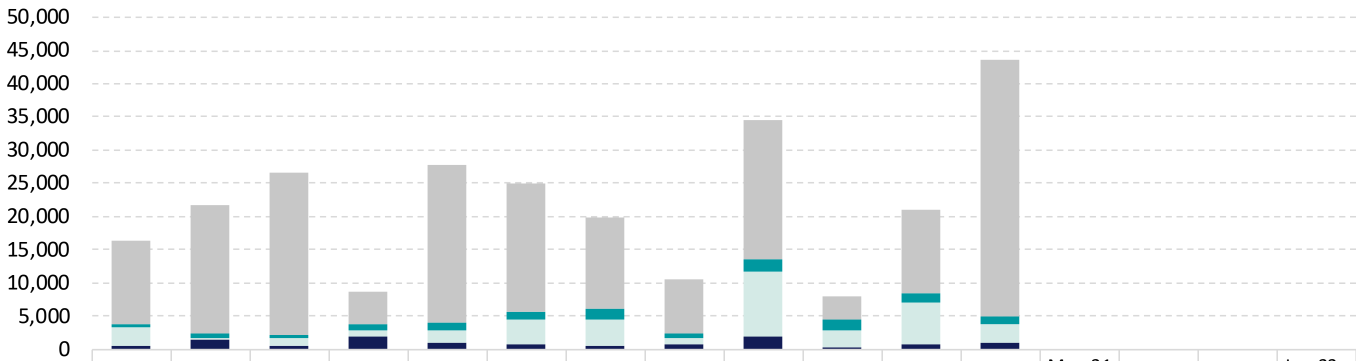
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

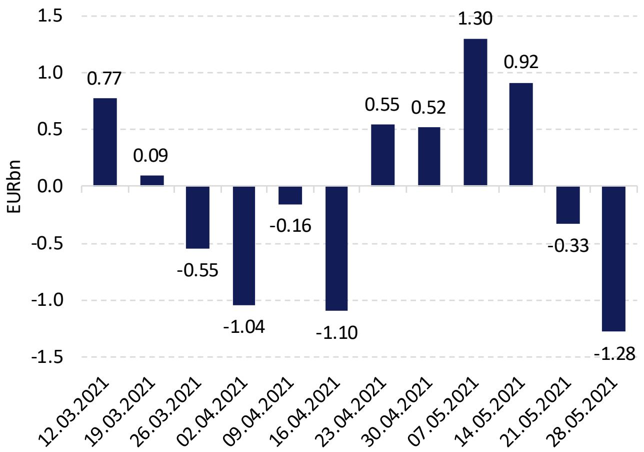


	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-21 - Apr-22	2020	2021	Jan-22 - Apr-22
APP	16,410	21,790	26,618	8,638	27,750	24,923	19,929	10,604	34,553	8,002	21,057	43,621	263,895	262,253	246,190	107,233
PSPP	12,637	19,519	24,536	4,858	23,645	19,224	13,774	8,177	20,906	3,625	12,603	38,619	202,123	201,482	189,271	75,753
CSPP	384	531	334	966	1,229	1,280	1,673	826	1,942	1,544	1,416	1,125	13,250	18,267	16,144	6,027
CBPP3	2,894	367	1,132	1,002	1,902	3,774	4,048	937	9,711	2,452	6,333	2,972	37,524	33,236	30,124	21,468
ABSPP	495	1,373	616	1,812	974	645	434	664	1,994	381	705	905	10,998	9,268	10,651	3,985

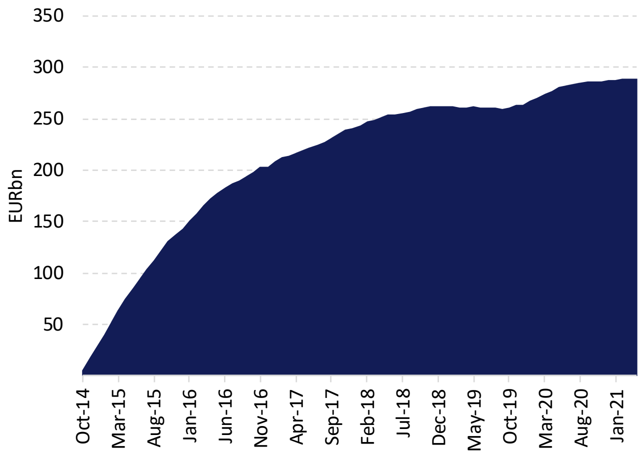
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

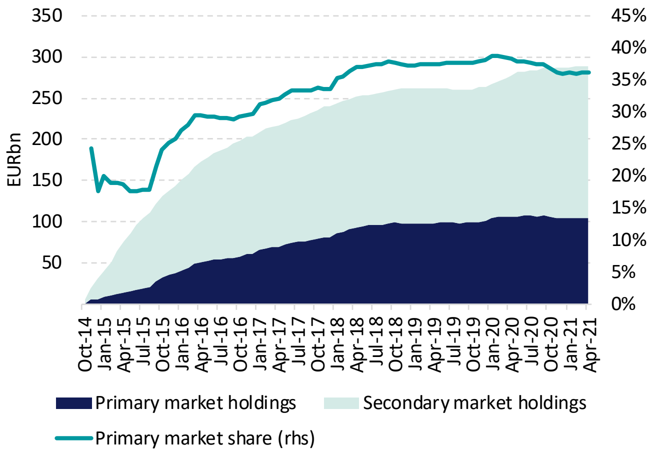
Weekly purchases



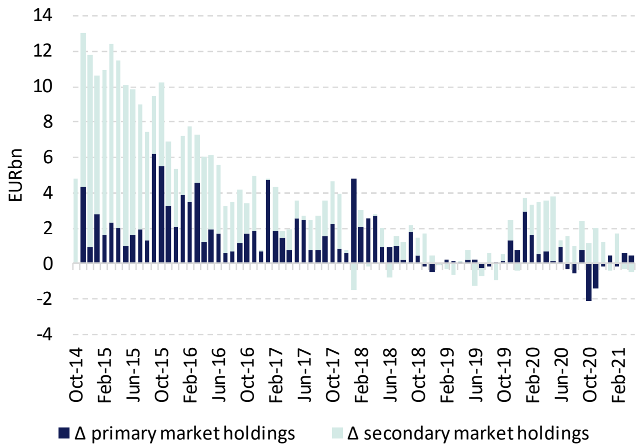
Development of CBPP3 volume



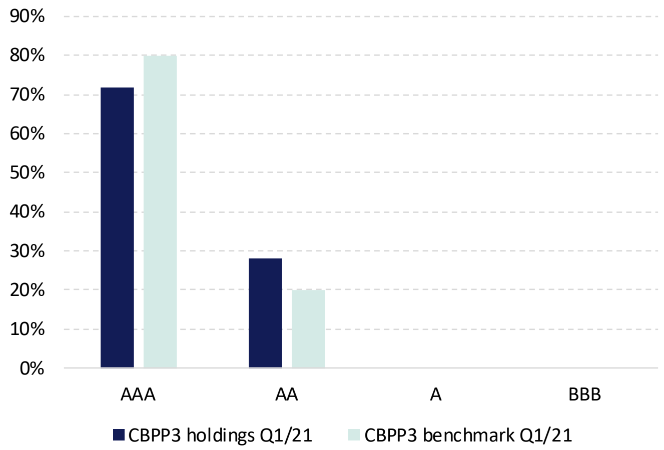
Primary and secondary market holdings



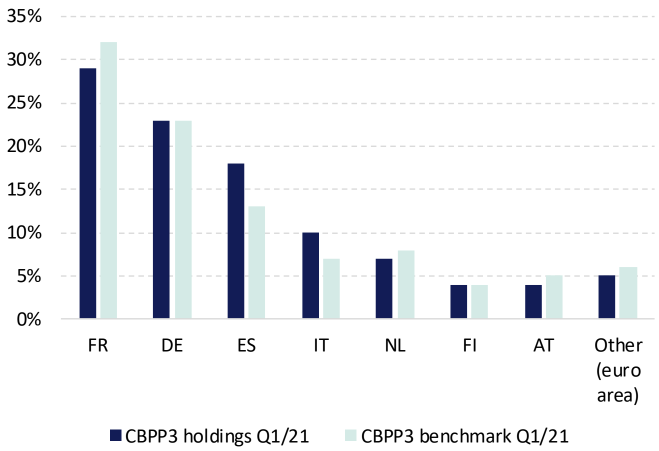
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



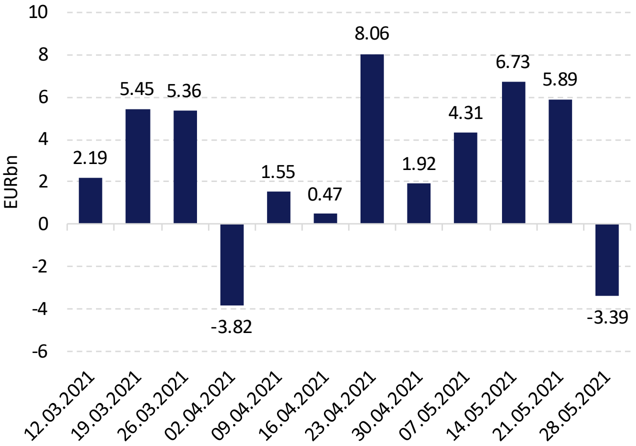
Distribution of CBPP3 by country of risk



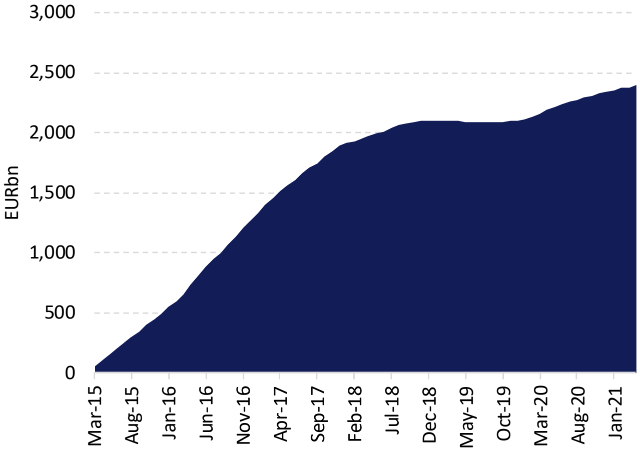
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



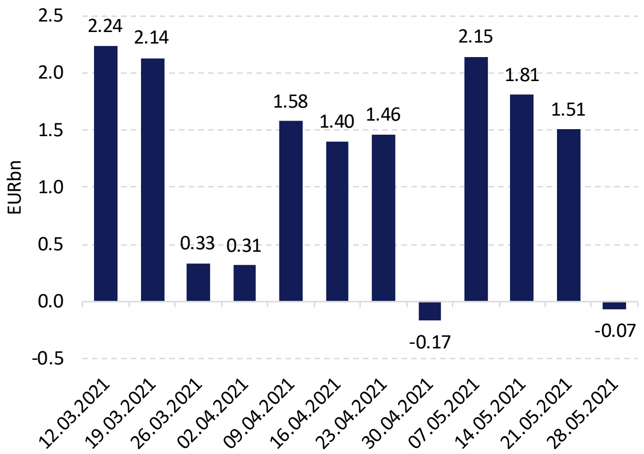
Overall distribution of PSPP buying at month-end

Jurisdiction	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Avg. time to maturity[3] (in years)	Market average[3] (in years)[3]	Difference (in years)
AT	2.7%	70,653	68,094	2,559	7.5	7.6	-0.1
BE	3.4%	89,126	84,760	4,366	8.0	10.2	-2.2
CY	0.2%	3,611	5,006	-1,395	9.9	8.8	1.1
DE	24.3%	598,996	613,295	-14,299	6.6	7.6	-1.0
EE	0.3%	372	6,554	-6,182	9.2	7.5	1.7
ES	11.0%	296,991	277,424	19,567	8.0	8.4	-0.4
FI	1.7%	36,318	42,734	-6,416	6.9	7.7	-0.8
FR	18.8%	494,566	475,168	19,398	7.2	8.1	-0.9
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	38,881	39,396	-515	8.5	10.1	-1.6
IT	15.7%	424,762	395,235	29,527	7.1	7.9	-0.8
LT	0.5%	4,927	13,465	-8,538	10.2	10.6	-0.4
LU	0.3%	3,301	7,664	-4,363	5.6	7.2	-1.7
LV	0.4%	2,808	9,065	-6,257	11.3	10.4	0.9
MT	0.1%	1,229	2,440	-1,211	9.5	9.2	0.3
NL	5.4%	122,372	136,342	-13,970	7.7	9.0	-1.4
PT	2.2%	46,005	54,451	-8,446	7.0	7.2	-0.2
SI	0.4%	9,112	11,202	-2,090	9.9	10.2	-0.3
SK	1.1%	15,494	26,644	-11,150	8.2	8.3	-0.1
SNAT	10.0%	261,517	252,104	9,413	7.7	8.9	-1.2
Total / Avg.	**100.0%**	**2,521,042**	**2,521,042**	**0**	**7.3**	**8.2**	**-0.9**

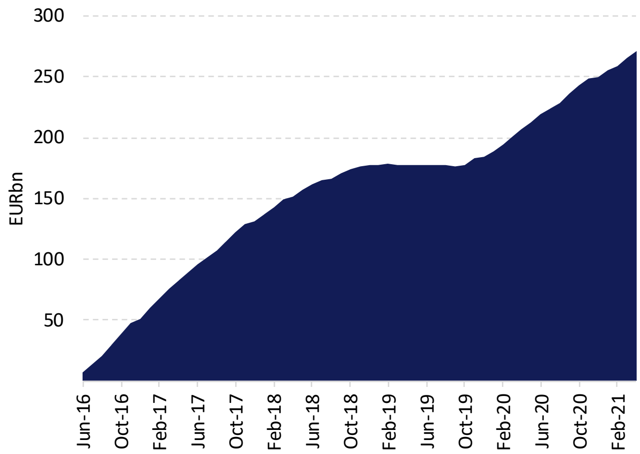
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q1/2021)
Source: ECB, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

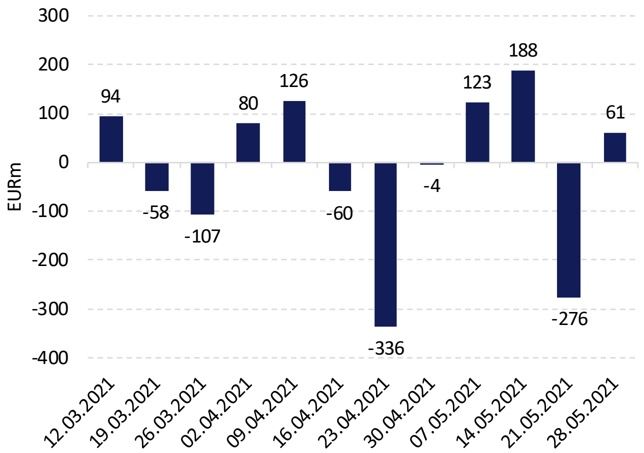


Development of CSPP volume

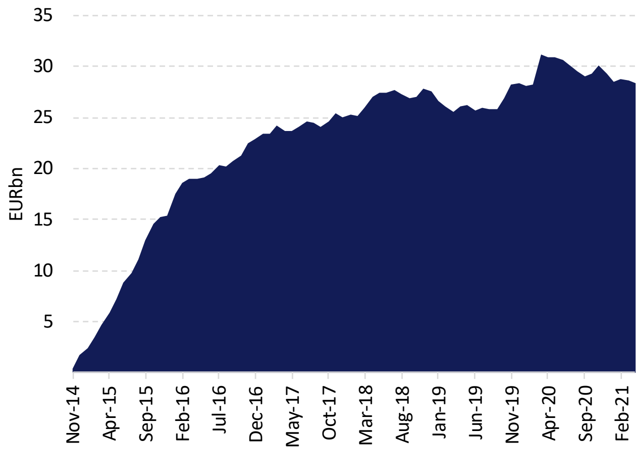


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



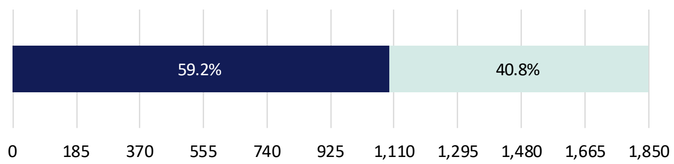
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Mar-21	943,647
Apr-21	1,023,766
Δ	+80,118

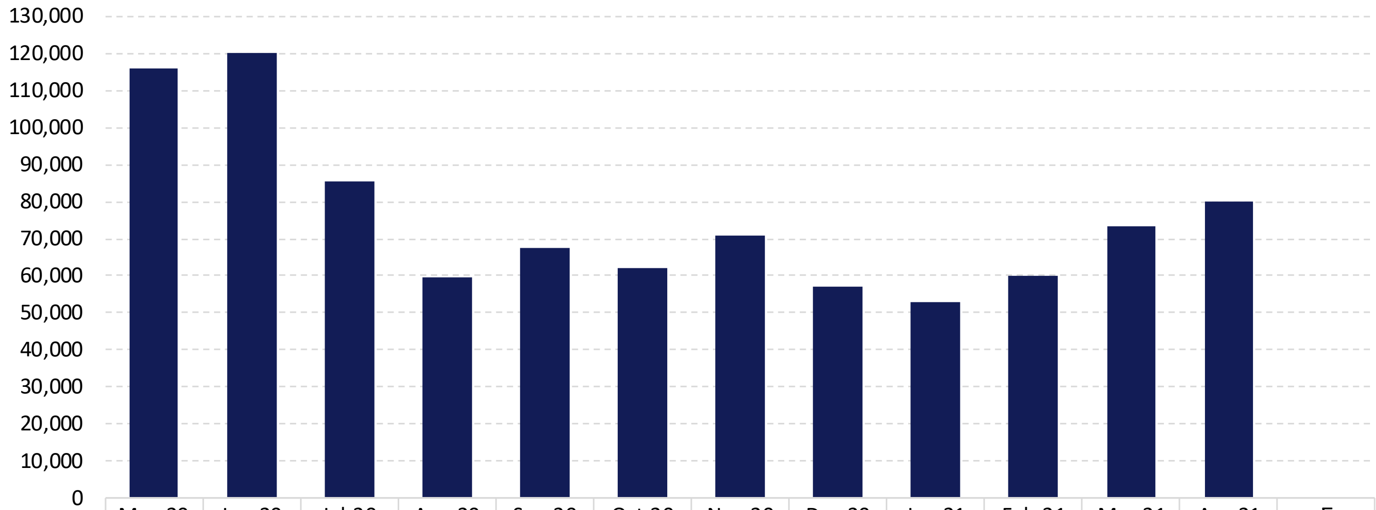
Volume already invested (in EURbn)



Estimated portfolio development

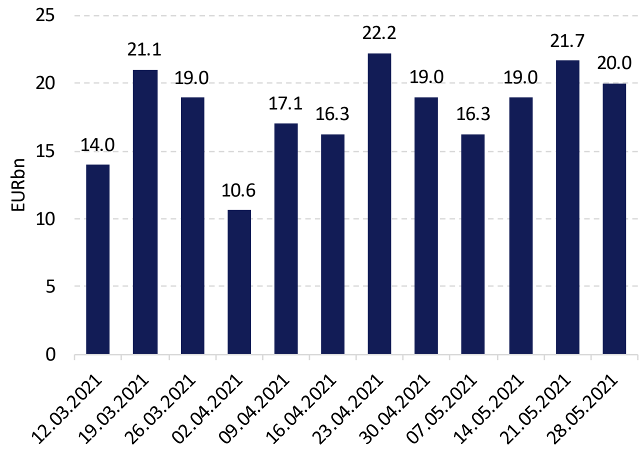
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in …
Average weekly net purchase volume so far	EUR 17.9bn	42 weeks (18.03.2022)

Monthly net purchases (in EURm)

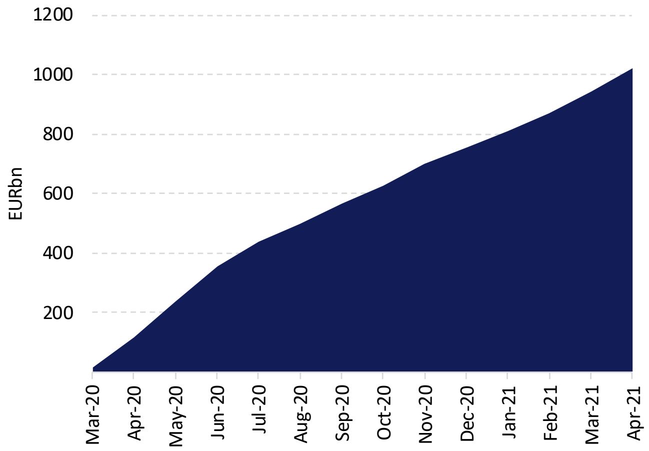


	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	∑
PEPP	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	73,521	80,118	904,955

Weekly purchases



Development of PEPP volume



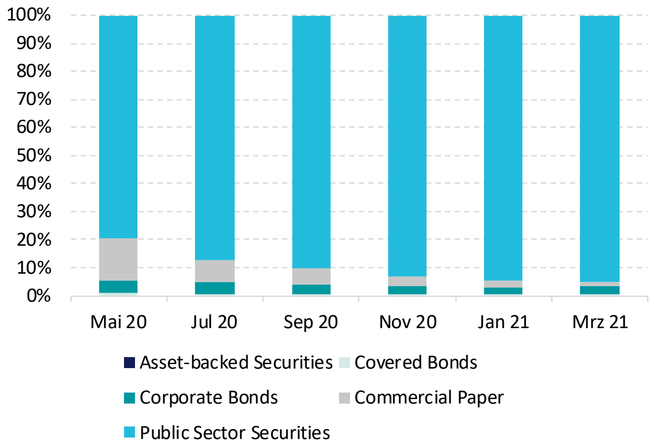
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

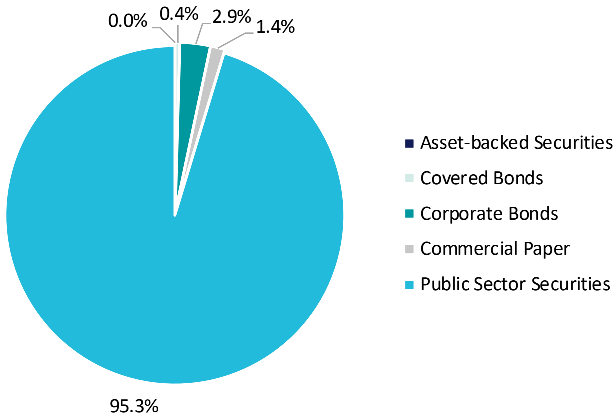
NORD/LB

Holdings under the PEPP (in EURm)

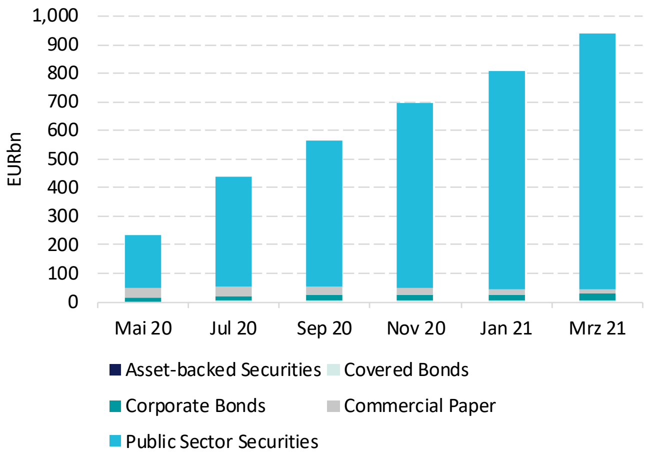
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Jan-21	0	3,120	22,315	16,611	764,710	806,756
Mar-21	0	4,055	27,058	12,766	893,844	937,723
Δ	0	+935	+4,743	-3,845	+129,134	+130,967

Portfolio structure

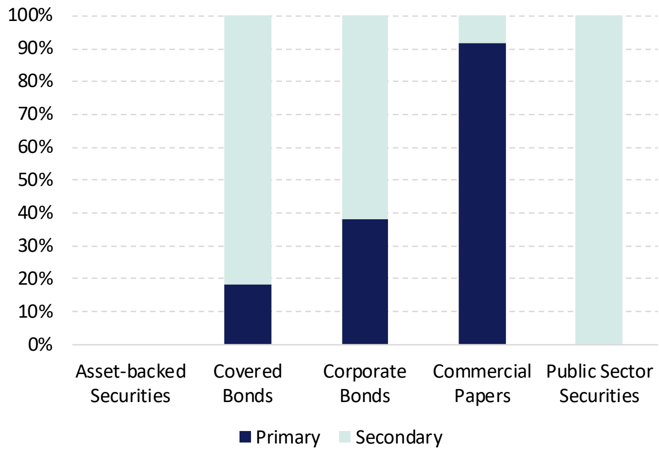




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP as of March 2021

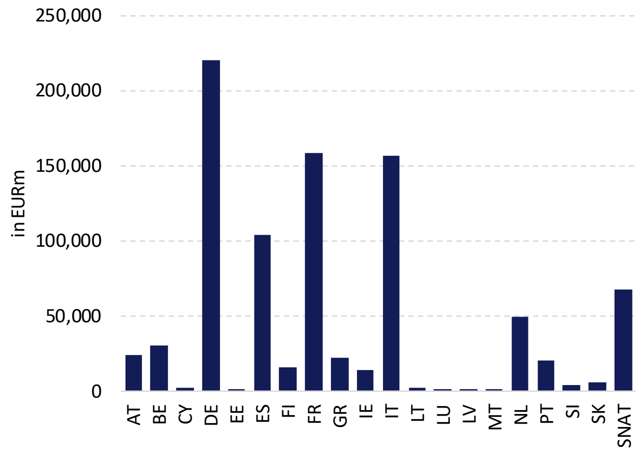
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Holdings in EURm	0	0	745	3,310	10,333	16,725	11,716	1,050
Share	0.0%	0.0%	18.4%	81.6%	38.2%	61.8%	91.8%	8.2%

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

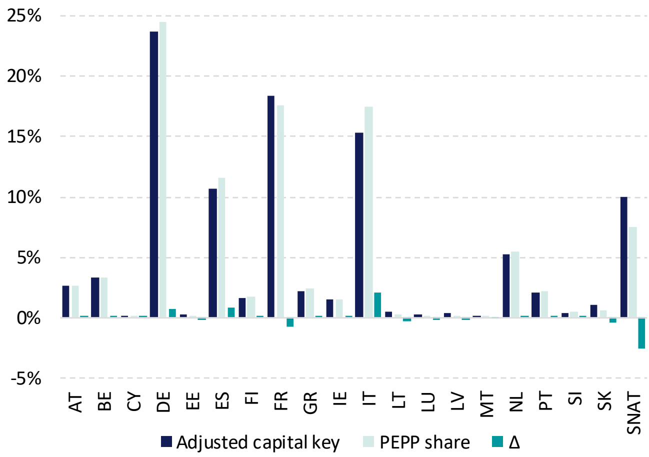
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	ø time to maturity (in years)	Market average[3] (in years)	Difference (in years)
AT	24,225	2.6%	2.7%	0.1%	9.7	7.0	2.7
BE	30,478	3.3%	3.4%	0.1%	6.7	9.3	-2.6
CY	1,899	0.2%	0.2%	0.0%	10.1	8.4	1.7
DE	220,519	23.7%	24.5%	0.8%	5.6	6.7	-1.1
EE	255	0.3%	0.0%	-0.2%	8.8	7.5	1.4
ES	104,227	10.7%	11.6%	0.9%	8.4	7.5	0.9
FI	15,347	1.7%	1.7%	0.1%	7.2	7.1	0.1
FR	158,231	18.4%	17.6%	-0.8%	8.4	7.5	0.9
GR	21,936	2.2%	2.4%	0.2%	8.8	10.1	-1.3
IE	14,162	1.5%	1.6%	0.0%	9.0	9.4	-0.4
IT	156,819	15.3%	17.4%	2.1%	6.8	7.0	-0.2
LT	2,365	0.5%	0.3%	-0.3%	11.5	10.2	1.3
LU	1,371	0.3%	0.2%	-0.1%	6.6	6.7	-0.2
LV	1,105	0.4%	0.1%	-0.2%	9.7	9.9	-0.3
MT	290	0.1%	0.0%	-0.1%	7.7	8.1	-0.4
NL	49,023	5.3%	5.4%	0.2%	5.1	7.9	-2.8
PT	20,126	2.1%	2.2%	0.1%	6.7	6.8	-0.1
SI	4,224	0.4%	0.5%	0.0%	9.6	9.5	0.1
SK	5,892	1.0%	0.7%	-0.4%	8.8	8.3	0.6
SNAT	67,236	10.0%	7.5%	-2.5%	10.3	8.2	2.1
Total / Avg.	**899,731**	**100.0%**	**100.0%**	**0.0%**	**7.3**	**7.4**	**0.0**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



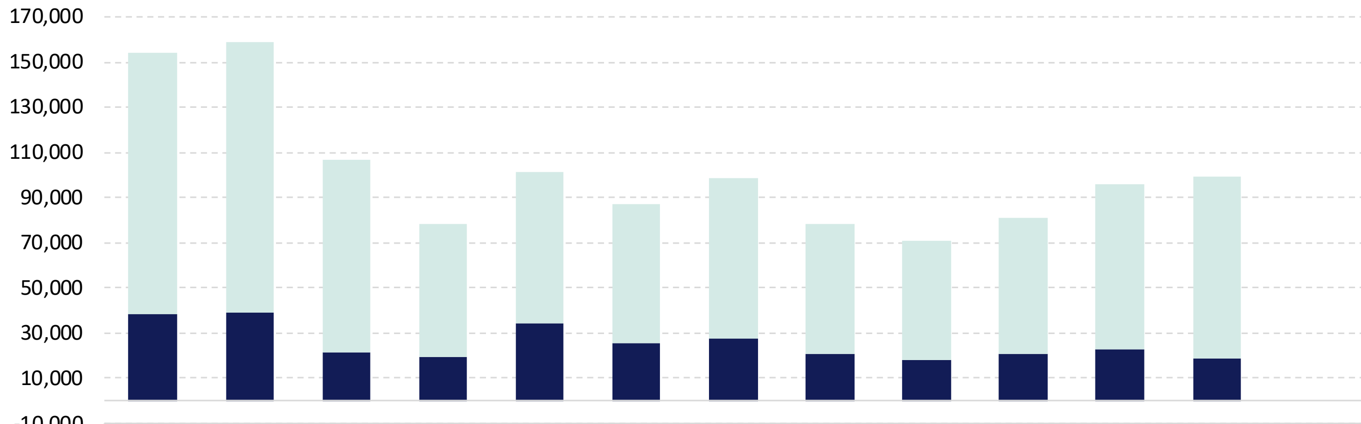
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

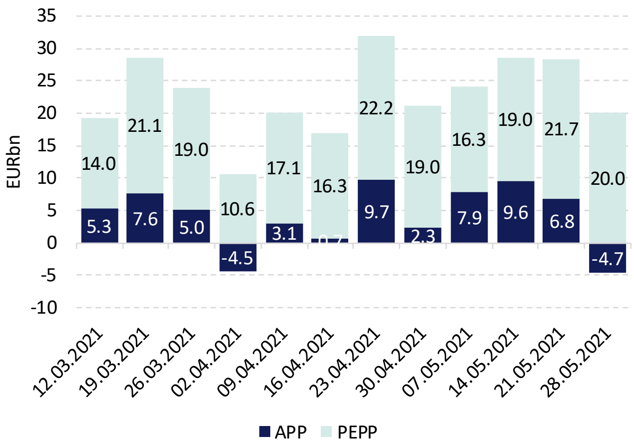
	APP	PEPP	APP & PEPP
Mar-21	2,963,246	943,647	3,906,893
Apr-21	2,982,176	1,023,766	4,005,942
Δ	+18,930	+80,118	+99,048

Monthly net purchases (in EURm)

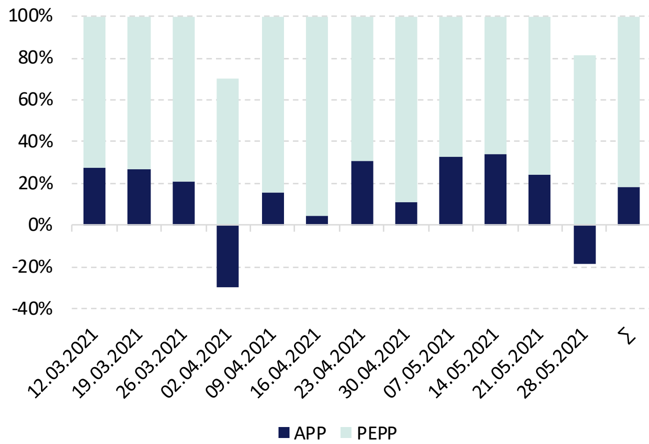


	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	∑
∑	154,025	159,091	106,952	78,593	101,322	87,334	98,555	78,092	70,892	80,829	96,082	99,048	1,210,81
PEPP	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	73,521	80,118	904,955
APP	38,170	38,770	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,915	22,561	18,930	305,860

Weekly purchases



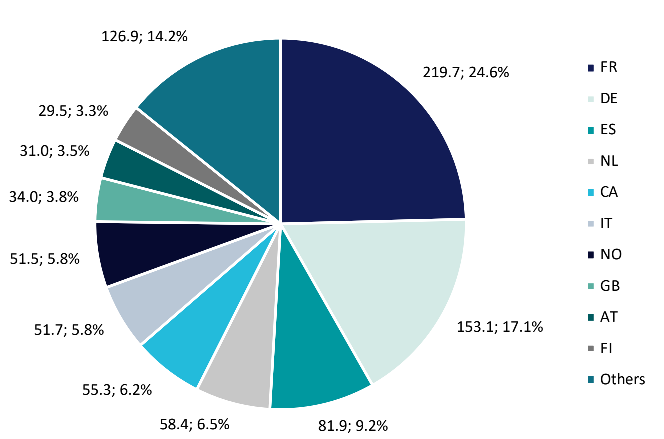
Distribution of weekly purchases



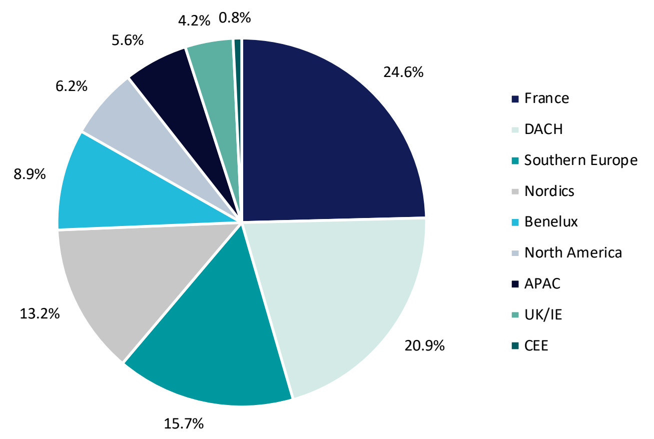
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



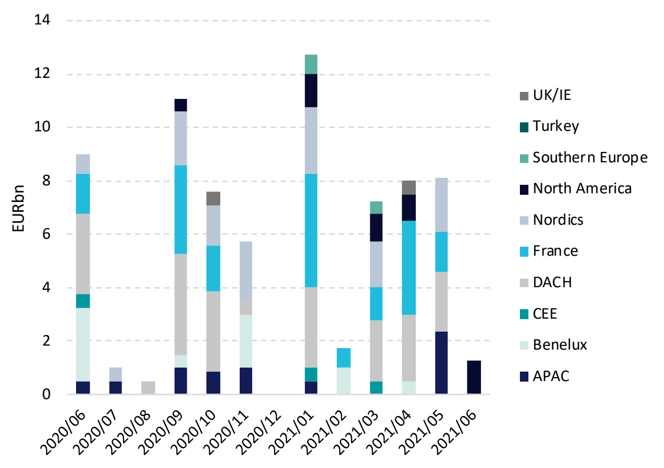
EUR benchmark volume by region (in EURbn)



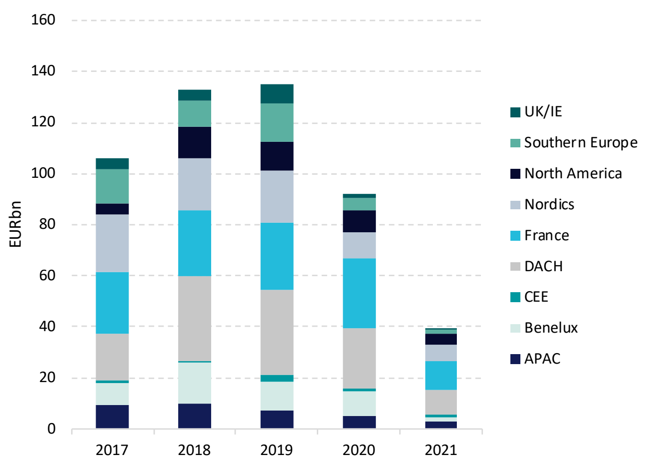
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	219.7	205	205	0.95	10.1	5.6	1.06
2	DE	153.1	229	229	0.60	8.4	4.8	0.43
3	ES	81.9	67	67	1.13	11.4	3.9	1.79
4	NL	58.4	59	59	0.93	11.2	7.3	0.90
5	CA	55.3	48	48	1.12	6.1	3.2	0.26
6	IT	51.7	60	60	0.83	9.1	4.2	1.41
7	NO	51.5	57	57	0.90	7.3	3.9	0.52
8	GB	34.0	40	40	0.88	8.5	3.5	1.02
9	AT	31.0	57	57	0.54	10.0	6.5	0.64
10	FI	29.5	31	31	0.95	7.8	4.0	0.48

EUR benchmark issue volume by month

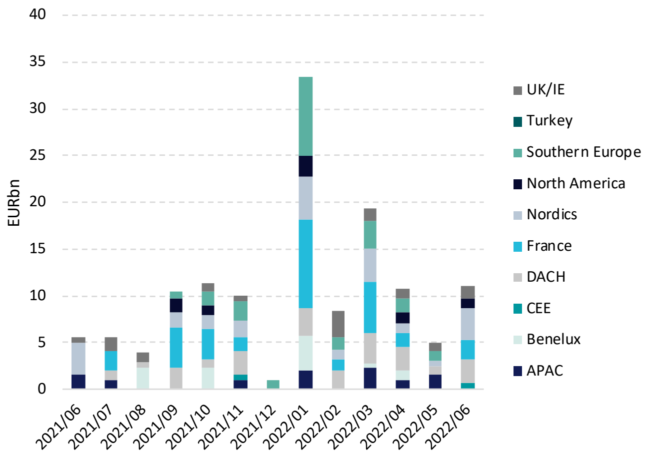


EUR benchmark issue volume by year

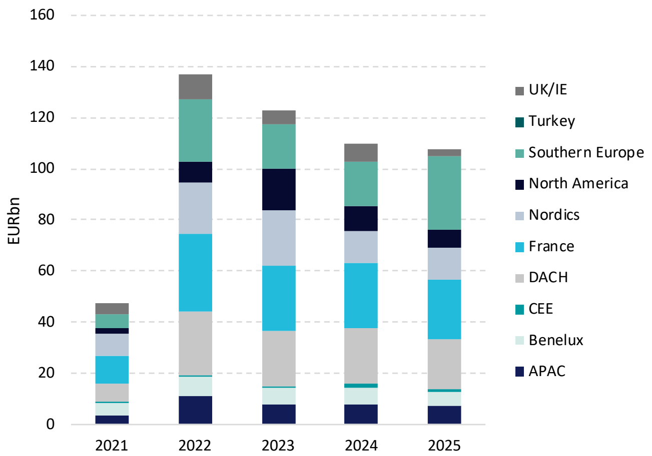


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

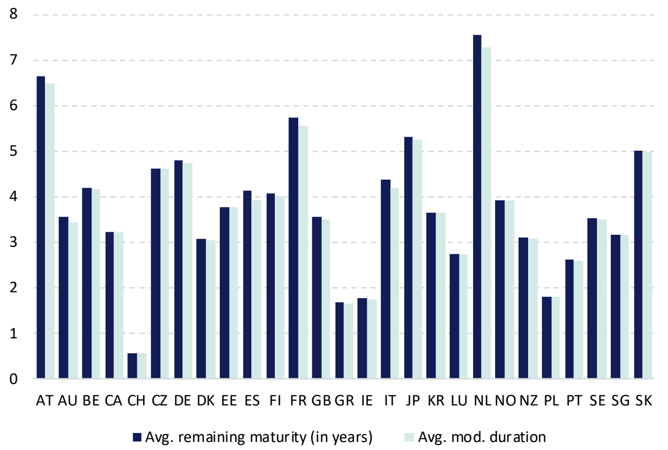
EUR benchmark maturities by month



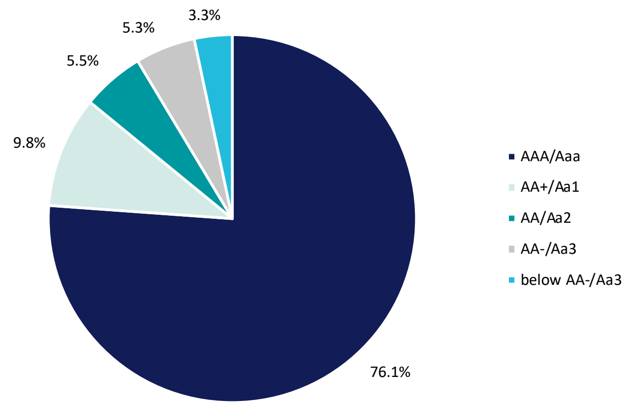
EUR benchmark maturities by year



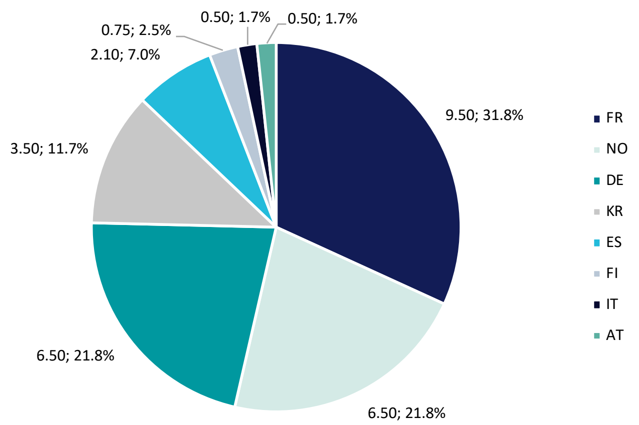
Modified duration and time to maturity by country



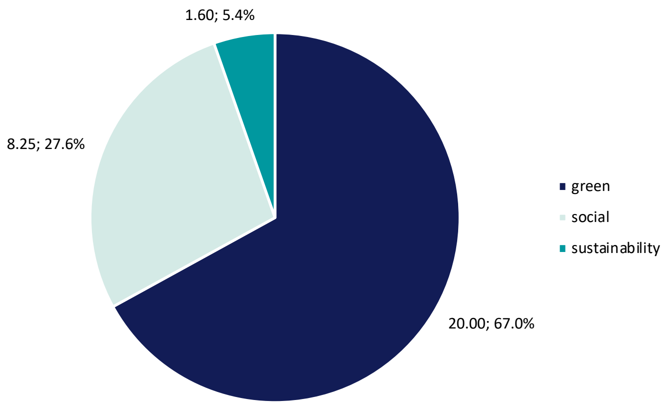
Rating distribution (volume weighted)



EUR benchmark volume (ESG) by country (in EURbn)

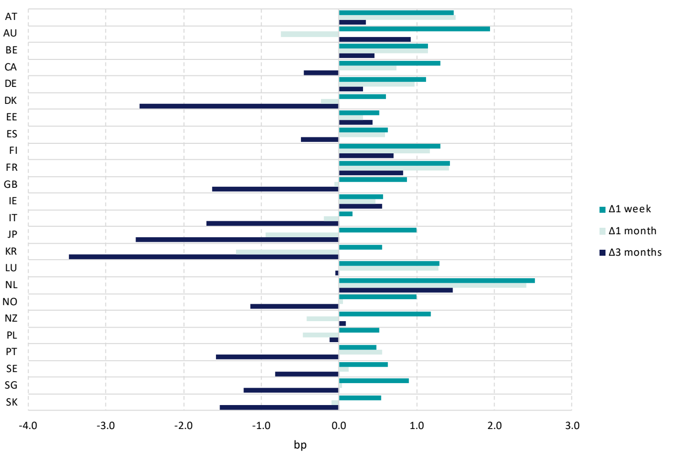


EUR benchmark volume (ESG) by type (in EURbn)

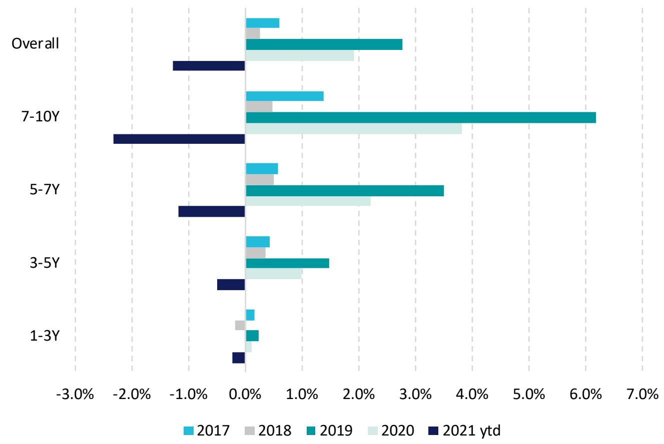


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

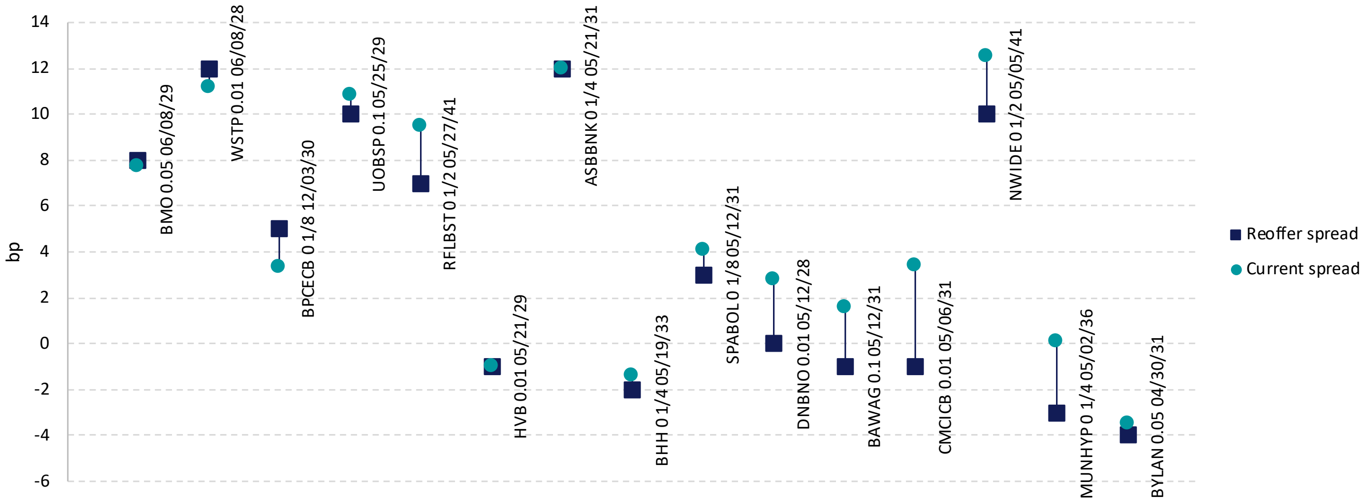
Spread development by country



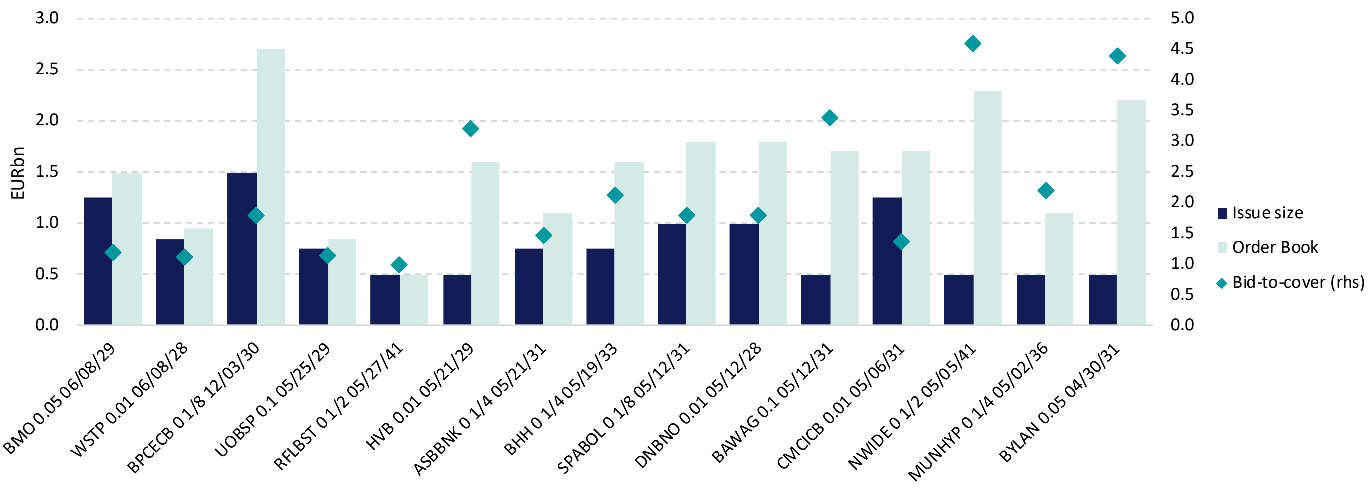
Covered bond performance (Total return)



Spread development (last 15 issues)



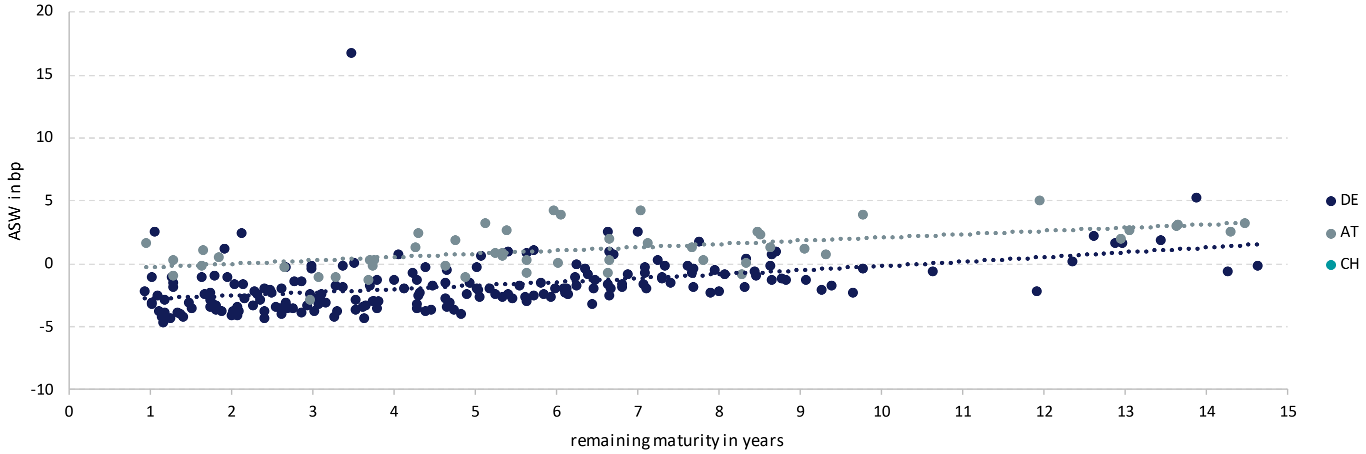
Order books (last 15 issues)



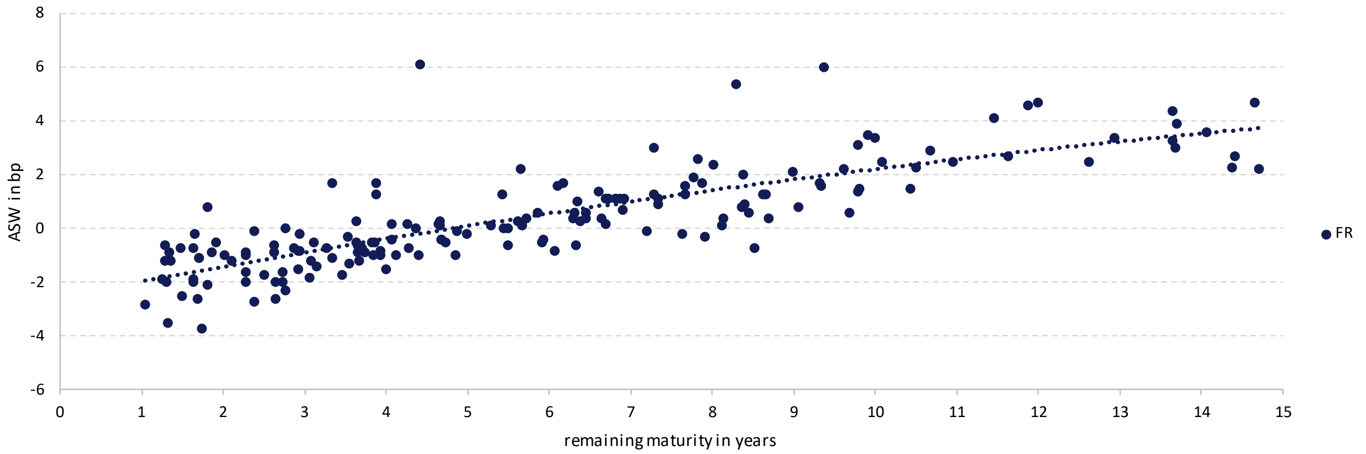
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

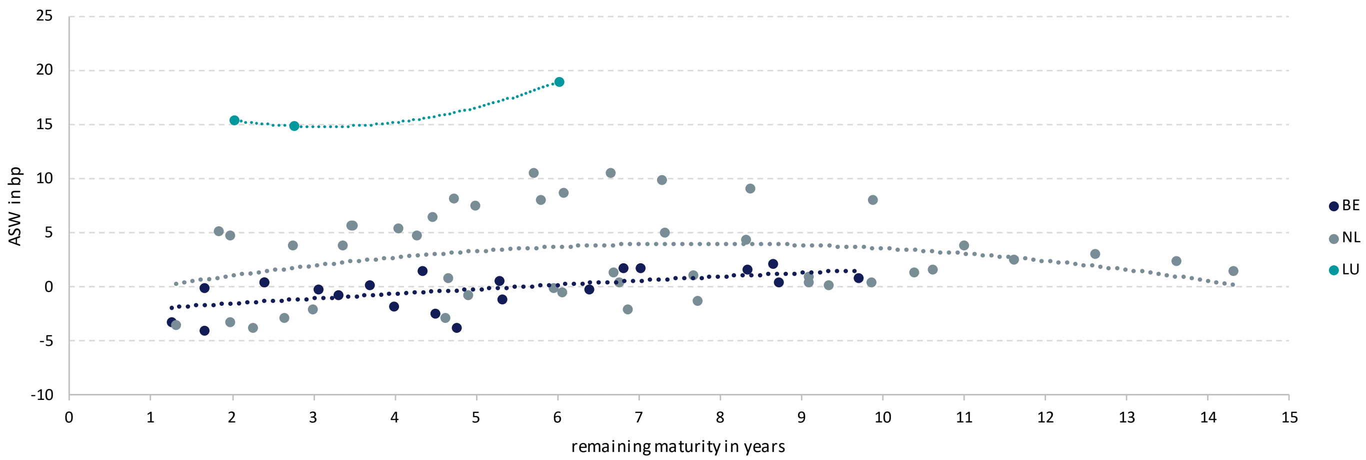
DACH



France

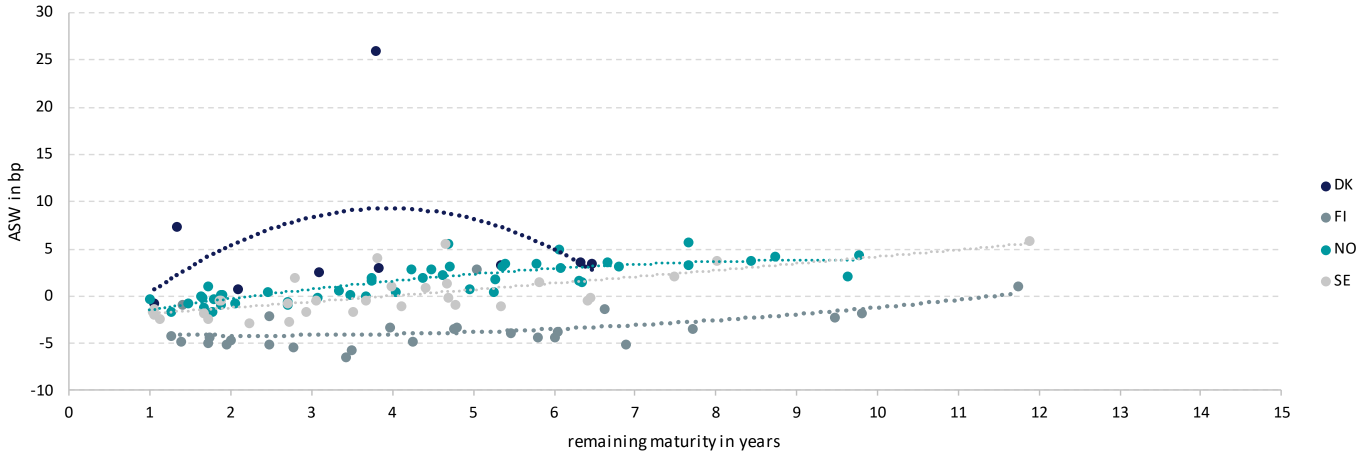


Benelux

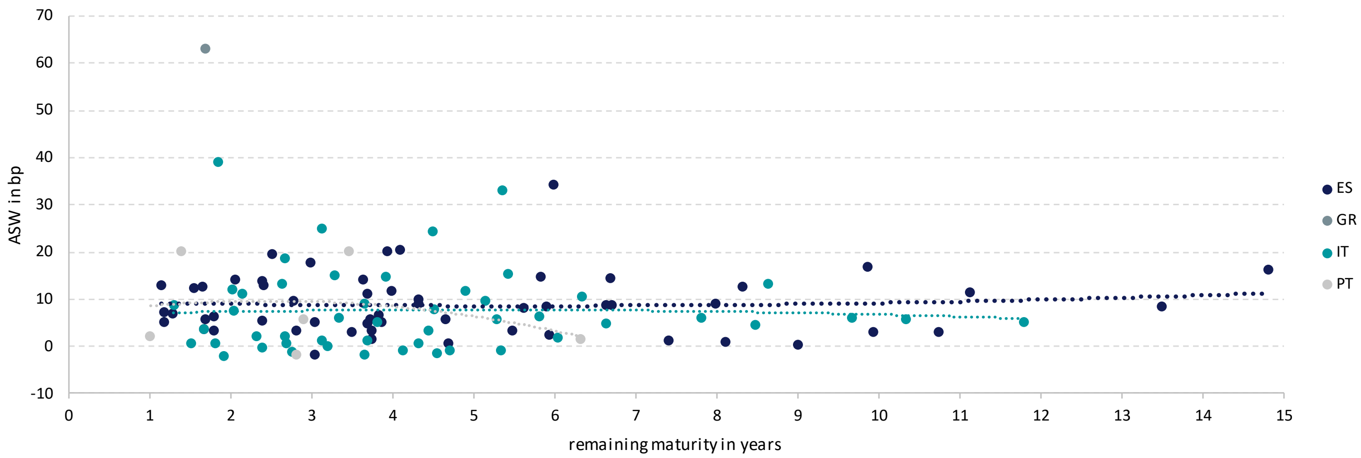


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

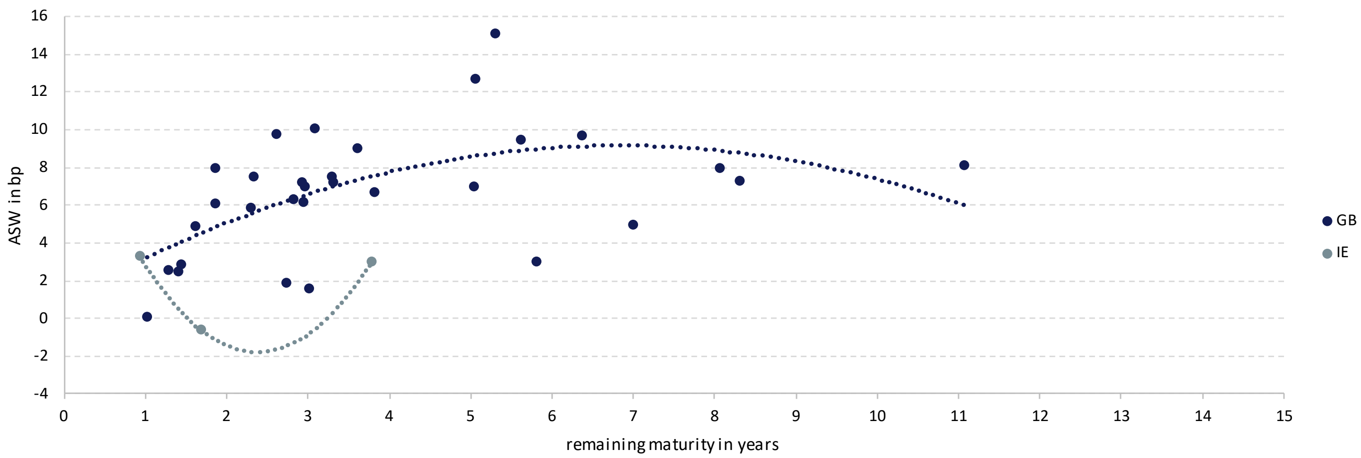
Nordics



Southern Europe

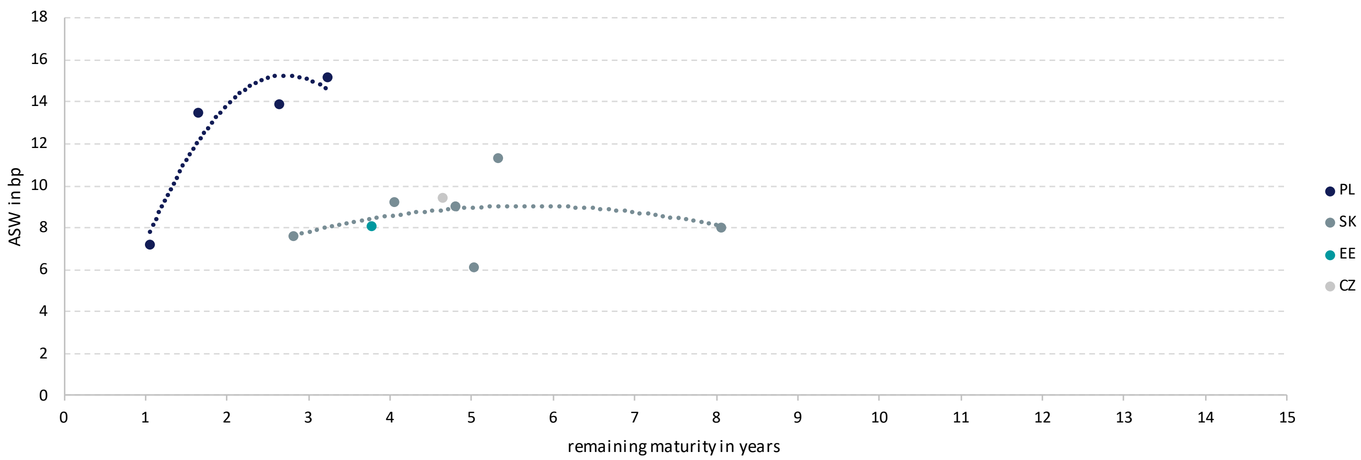


UK/IE

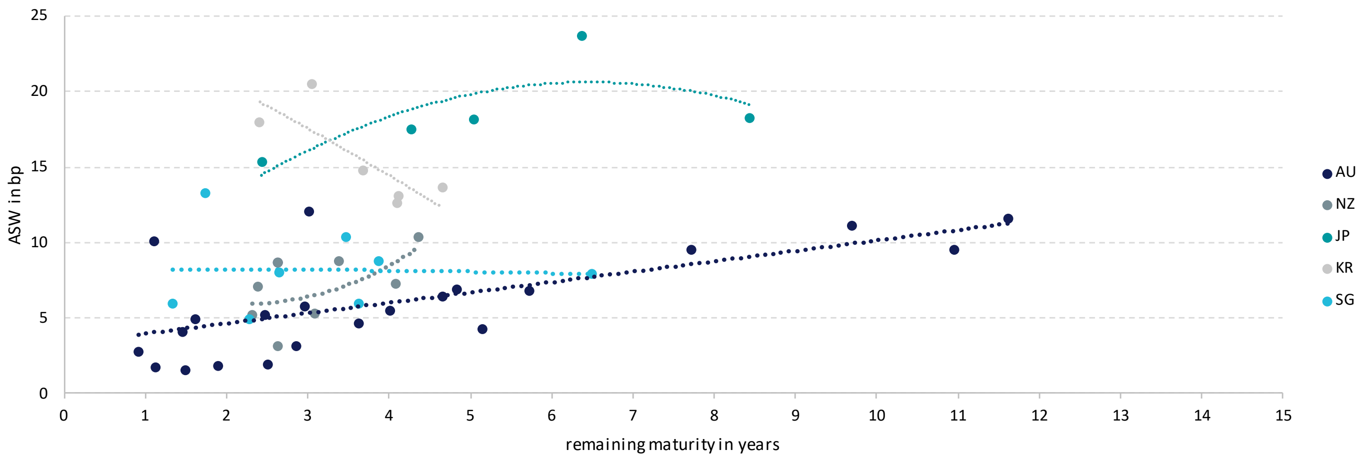


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

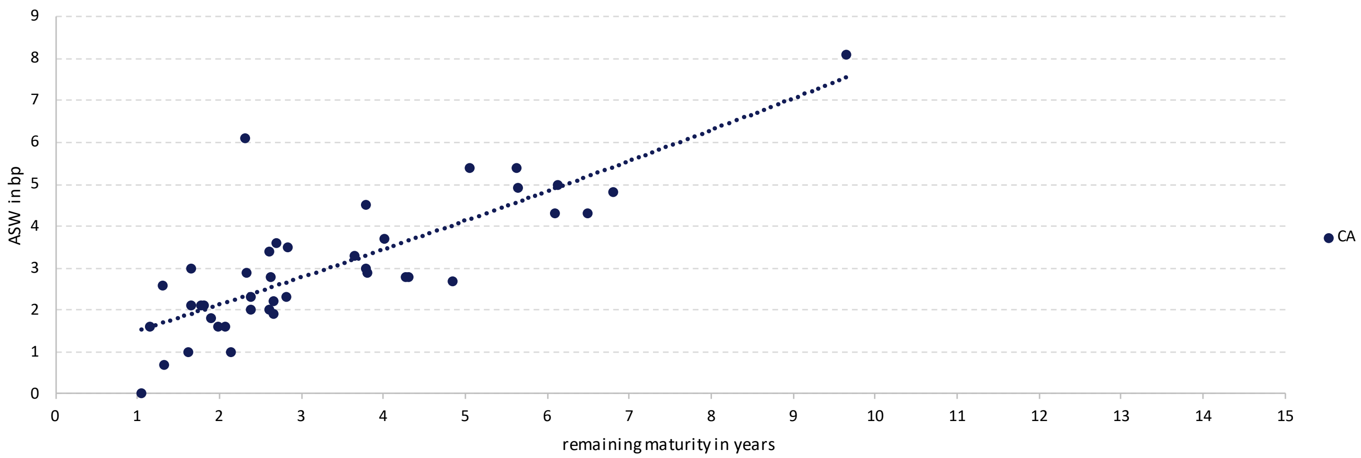
CEE



APAC



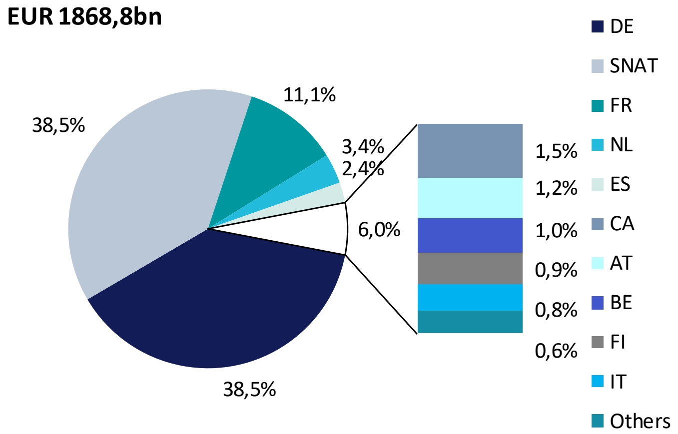
North America



Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
SSA/Public Issuers

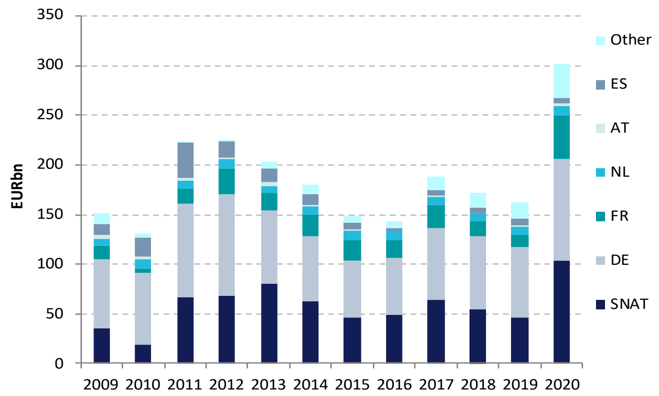
Outstanding volume (bmk)



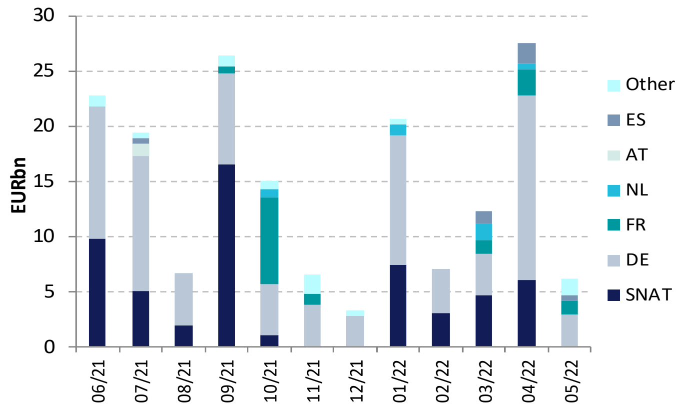
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	720,2	560	1,3	6,8
SNAT	720,1	188	3,8	8,3
FR	207,2	143	1,4	5,5
NL	64,4	65	1,0	6,6
ES	44,2	54	0,8	5,3
CA	28,5	20	1,4	5,5
AT	22,3	24	0,9	5,2
BE	18,7	22	0,9	14,9
FI	17,0	22	0,8	5,9
IT	14,5	18	0,8	6,0

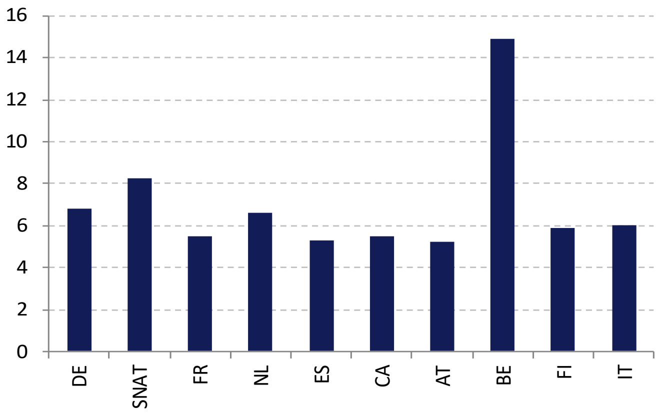
Issue volume by year (bmk)



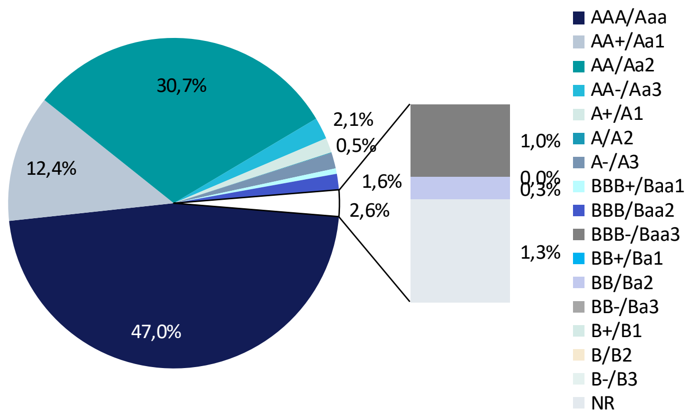
Maturities next 12 months (bmk)



Avg. mod. duration by country (vol. weighted)

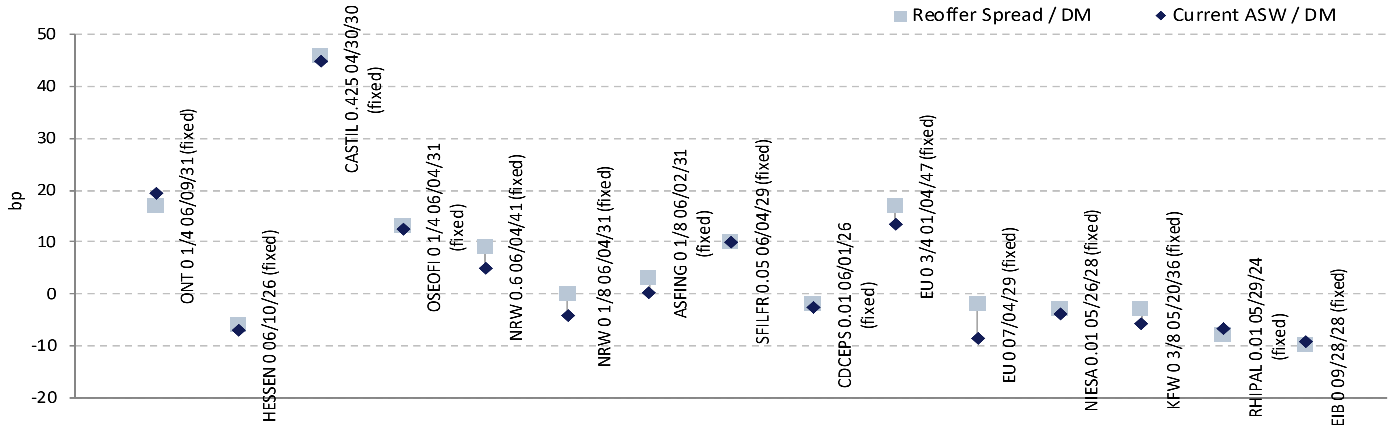


Rating distribution (vol. weighted)

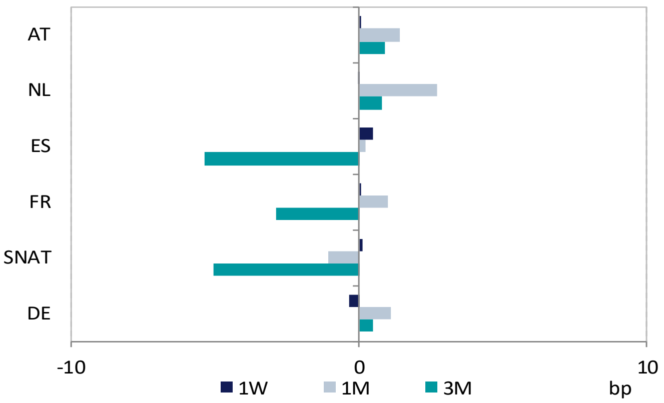


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

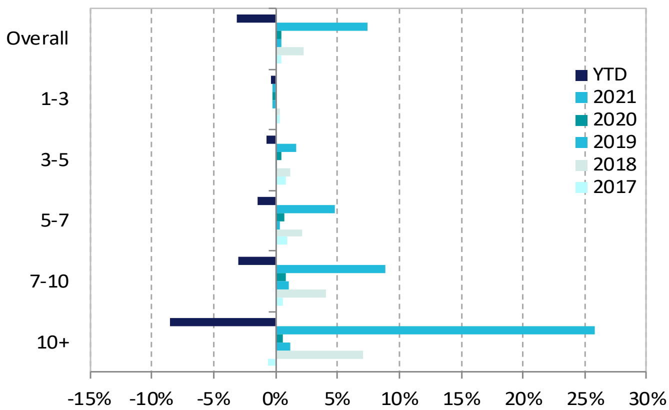
Spread development (last 15 issues)



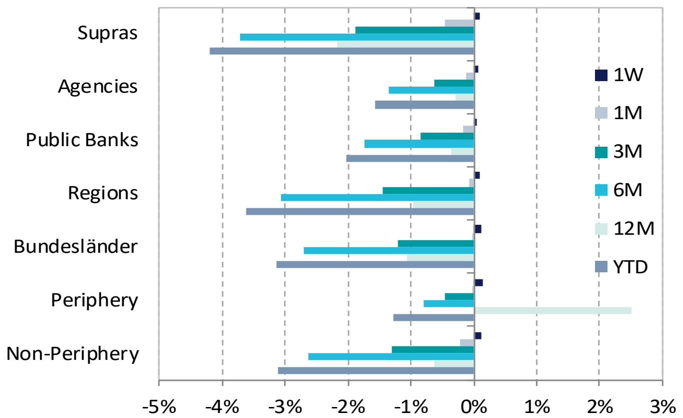
Spread development by country



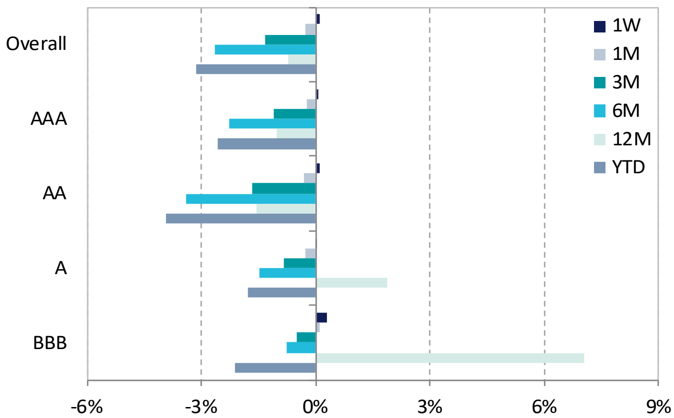
Performance (total return)



Performance (total return) by regions

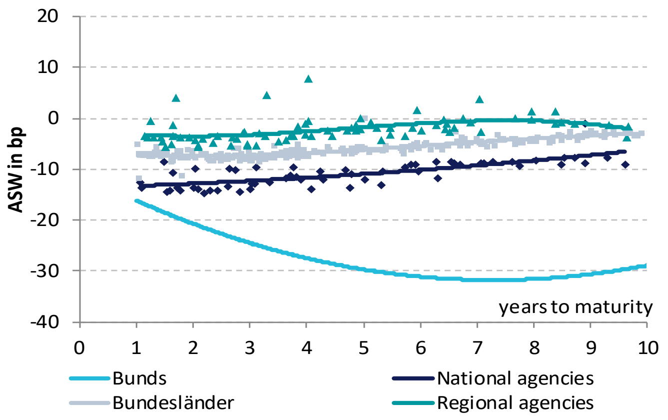


Performance (total return) by rating

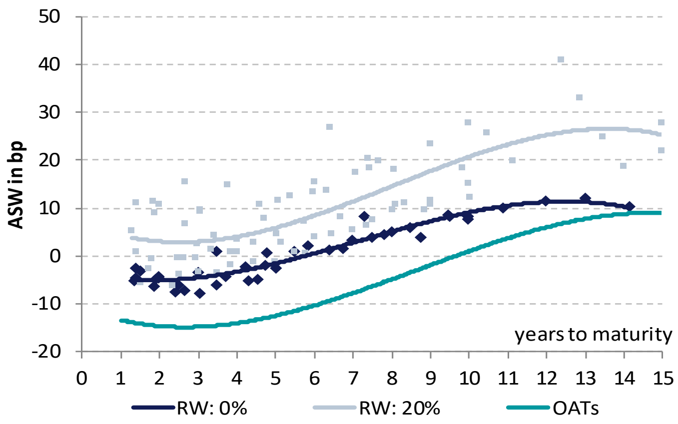


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

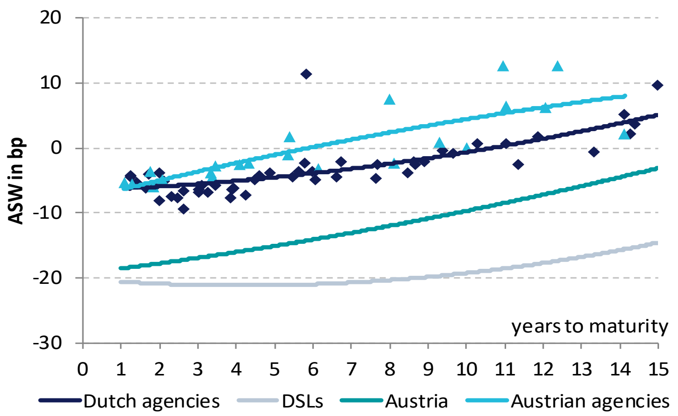
Germany (by segments)



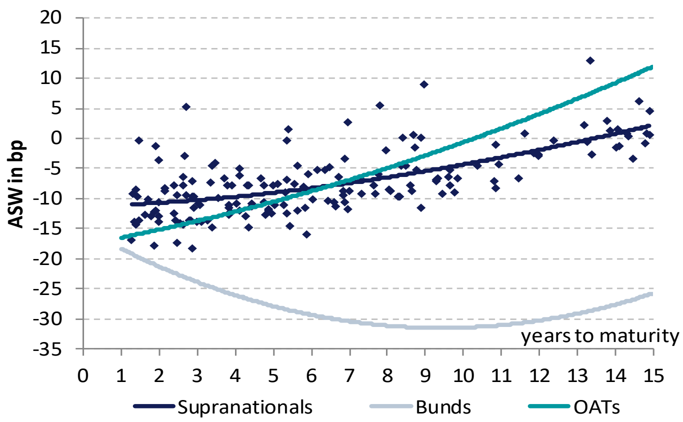
France (by risk weight)



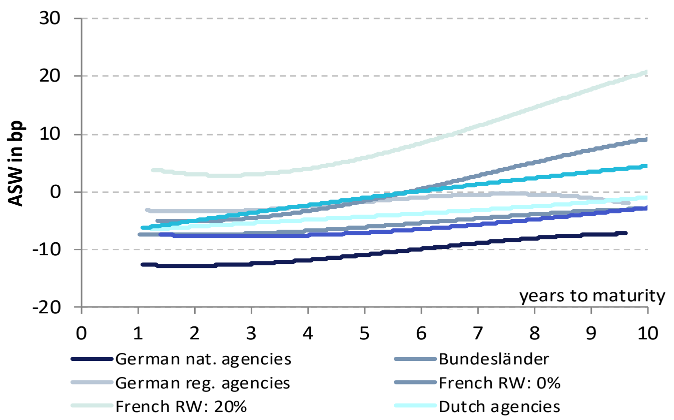
Netherlands & Austria



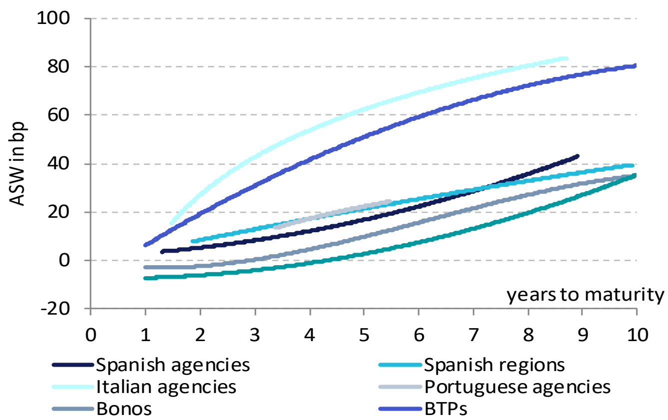
Supranationals



Core



Periphery



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
18/2021 ♦ 19 May	▪ United Overseas Bank reinvigorates the market in Singapore ▪ Transparency requirements §28 PfandBG Q1 2021
17/2021 ♦ 12 May	▪ ASB Finance opens primary market “Down Under”: Our outlook for the rest of the year ▪ Development of the German property market
16/2021 ♦ 05 May	▪ Austria implements requirements of the covered bond directive and harmonises existing legal framework ▪ EIB goes Blockchain
15/2021 ♦ 28 April	▪ EU Taxonomy meets the market for sustainable covered bonds
14/2021 ♦ 22 April	▪ LCR levels and risk weights of EUR benchmarks ▪ NextGenerationEU: NGEU is taking shape
13/2021 ♦ 14 April	▪ Predominant ECB strategy: wait-and-see but remain proactive ▪ PEPP reporting: First year done; a second (at least) now follows ▪ OSFI abandons temporarily increased 10% limit with immediate effect: (in)direct implications for Canadian benchmarks
12/2021 ♦ 31 March	▪ Unusual Q1 and revised supply forecast for 2021 ▪ Collective Action Clauses (CACs)
11/2021 ♦ 24 March	▪ Surprising dynamic: Eurosystem lends EUR 331bn to EMU banks via TLTRO III.7 ▪ German Pfandbrief savings banks in Q4 2020
10/2021 ♦ 17 March	▪ Transparency requirements §28 PfandBG Q4/2020 ▪ Credit authorisations for German Bundeslaender in 2021
09/2021 ♦ 10 March	▪ Moody’s covered bond universe – an overview ▪ Oldenburgische Landesbank expands sub-benchmark segment
08/2021 ♦ 03 March	▪ Repayment structures on the covered bond market ▪ ECB in a tight spot: litmus test for PEPP flexibility and preview of the second interest rate meeting of the year
07/2021 ♦ 24 February	▪ An overview of the EUR sub-benchmark segment ▪ ECB: crowding-out effects take hold ▪ PEPP vs. PSPP: Similarities and differences
06/2021 ♦ 17 February	▪ Insights into the iBoxx EUR Covered ▪ Development of the German property market
05/2021 ♦ 10 February	▪ PEPP reporting: upswing in public sector assets continues; covered bonds inconsequential
04/2021 ♦ 03 February	▪ Argenta Spaarbank expands Belgian market for EUR benchmarks ▪ An overview of the Fitch covered bond universe ▪ January 2021 packs a punch to kick off the new year
03/2021 ♦ 27 January	▪ An unusual – albeit expected – start to the year? ▪ A look at USD benchmarks ▪ ESM reform – restructuring continues

NORD/LB: Markets Strategy & Floor Research

NORD/LB: Covered Bond Research

NORD/LB: SSA/Public Issuer Research

Bloomberg: RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

- **Issuer Guide Covered Bonds 2020**
- **Risk weights and LCR levels of covered bonds**
- **Transparency requirements §28 PfandBG**
- **Transparenzvorschrift §28 PfandBG Sparkassen (German only)**

SSA/Public Issuers:

- **Issuer Guide – Supranationals & Agencies 2019**
- **Issuer Guide – Canadian Provinces & Territories 2020**
- **Issuer Guide – German Bundeslaender 2020**
- **Issuer Guide – Down Under 2019**

Fixed Income:

- **ESG update**
- **Analysis of ESG reporting**
- **ECB holds course, but ups the ante – PEPP running until 2022**
- **ECB launches corona pandemic emergency**
- **ECB responds to corona risks**

Appendix
Contacts at NORD/LB

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Additional information
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