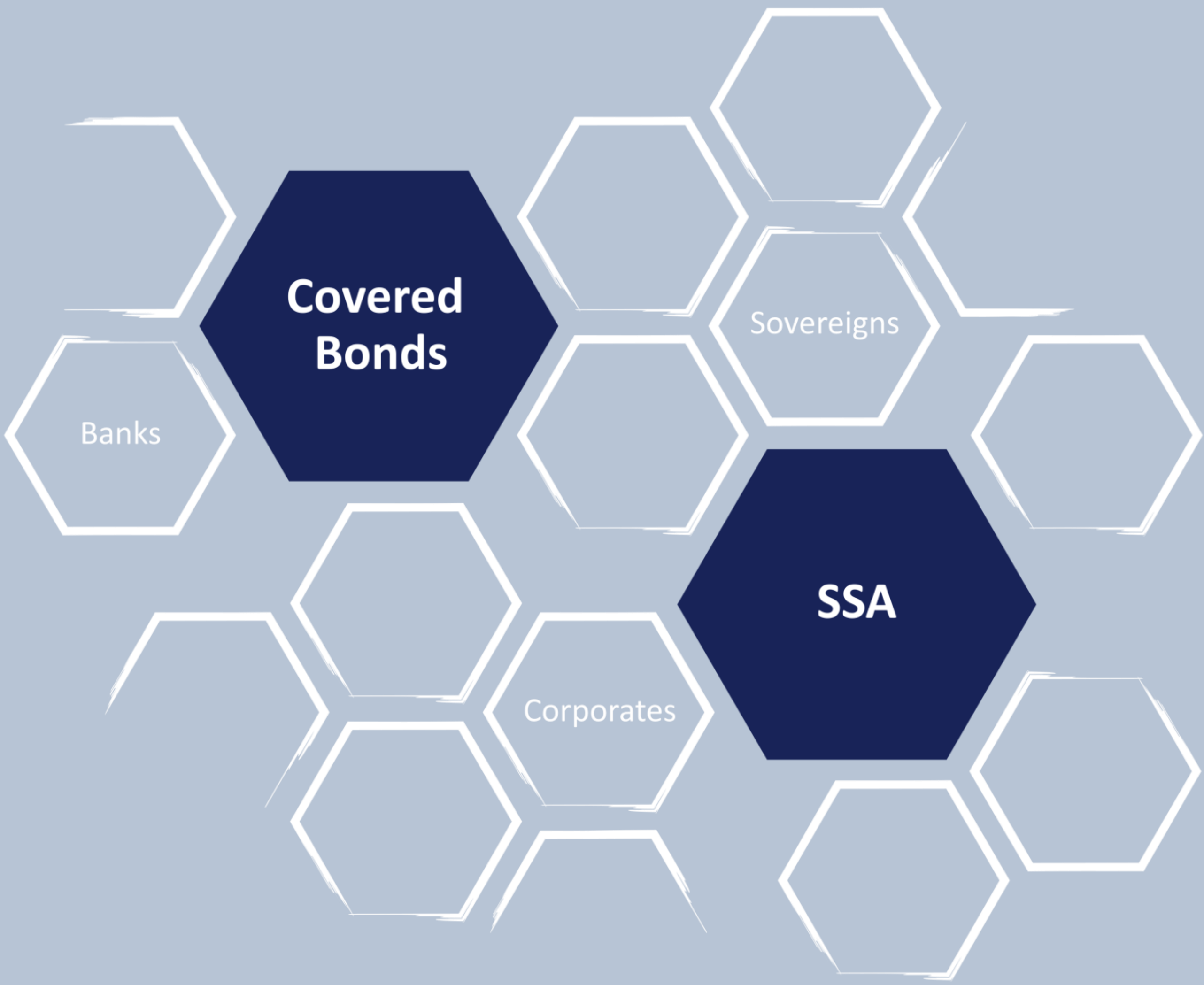

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

14 July 2021 ♦ 25/2021

Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

Author: Dr Frederik Kunze

Primary market: just a couple of new benchmark deals

The past five trading days were again characterised by a relatively calm dynamic on the primary market for EUR benchmarks. In this context, just two issuers, namely DZ HYP and Crédit Mutuel Home Loan SFH, approached the market to place covered bonds in EUR benchmark format. To start with, DZ Hyp kicked things off last Wednesday by issuing a mortgage Pfandbrief. The deal for EUR 750m attracted an order book of EUR 1.65bn after being priced at ms +2bp (guidance: ms +5bp area), meaning that the bond was more than twice oversubscribed. The lion's share of the issuance (65%) went to investors from the German-speaking DACH (Germany, Austria and Switzerland) region, followed by the Nordics (13%), the CEE region (8%) and the UK/Ireland (6%). In terms of investor type, Banks dominated at 45%, with Central Banks/OI and Asset Managers claiming shares of 28% and 27% respectively. Just a day later, Crédit Mutuel Home Loan SFH stepped up to the plate to issue the 16th French covered bond of the present year. For its second benchmark in 2021, the issuer opted for a term to maturity of seven years (after having selected a term of ten years in April). The bond, which featured a volume of EUR 1.0bn, was eventually placed at ms +3bp, having originally entered the marketing phase at ms +6bp area. The order book totalled EUR 1.1bn (bid-to-cover ratio: 1.1x). Despite the apparent differences with regard to the investor-side demand, a continuation of the trend towards positive new issue premiums (NIP) over the long term was evident for both deals. Here, we calculate a NIP of three basis points for both the DZ HYP deal as well as the CM Home Loan SFH bond. In view of the huge presence of the Eurosystem, we can certainly not begin to talk about a buyer's market, although as with last week, we do take the view that the trend in NIPs represents an indication of a return to something approaching normal market behaviour.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
CM Home Loan	FR	08.07.	FR0014004KP3	7.0y	1.00bn	ms +3bp	AAA/Aaa/AAA	-
DZ HYP	DE	07.07.	DE000A3E5UU2	9.3y	0.75bn	ms +2bp	/Aaa/AAA	-

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

Secondary market: negative net supply

Over on the secondary market, we still believe that our forecast of spreads remaining in a sideways movement across jurisdictions and maturities is confirmed and expect things to remain this way up to the start of next year. This forecast is also based on the expectation of negative net supply over the remaining months of the year. For example, in 2021 we still expect to see issues totalling EUR 28.5bn, offset by bonds falling due amounting to EUR 37bn. For EMU covered bonds eligible for the CBPP3, we still expect a total of EUR 20bn to be issued, resulting in a negative net supply of EUR 6.6bn. By way of comparison: based on the assumption that a total of EUR 2bn per month will be purchased under the CBPP3 and a total of EUR 30bn will be reinvested over the calendar year, the Eurosystem would purchase bonds in the order of EUR 27bn on the primary and secondary markets over the course of the second half of the year. Covered bonds are hardly being bought at all under the PEPP at present, with the result that only an indirect influence on spreads is likely to arise here.

EU Green Bond Standard

On 06 July, the European Commission presented its new strategy for a more sustainable financial system and in this context also outlined its proposal for a new EU Green Bond Standard (cf. press release). The sustainable finance strategy sets out several initiatives aimed at tackling climate change and other environmental challenges, among other aspects. The European Green Bond Standard (EUGBS) was additionally established as a voluntary standard for bonds used to finance sustainable investments. Issuers of these bonds can take the form of both private enterprises and public bodies. Although the EU has identified high-level investor demand for green bonds, it seems that Brussels still sees potential for expanding the market for green bonds and aiming for loftier ecological ambitions. In the eyes of the EU, the EUGBS will set a "gold standard" to protect investors from the danger of greenwashing. We have already noted elsewhere that the success of another new green bond standard will also be dependent on simultaneous acceptance on the part of the issuer and customer. There are four key requirements under the proposed EUGBS framework for EU green bonds: "1.The funds raised by the bond should be allocated fully to projects aligned with the EU Taxonomy; 2.There must be full transparency on how bond proceeds are allocated through detailed reporting requirements; 3.All EU green bonds must be checked by an external reviewer to ensure compliance with the Regulation and that funded projects are aligned with the Taxonomy. Specific, limited flexibility is foreseen here for sovereign issuers; 4.External reviewers providing services to issuers of EU green bonds must be registered with and supervised by the European Securities Markets Authority. This will ensure the quality and reliability of their services and reviews to protect investors and ensure market integrity. Specific, limited flexibility is foreseen here for sovereign issuers"

Commercial real estate financing: S&P evaluates risks related to CRE cover assets

Following the outbreak of the coronavirus crisis and the adjustment processes on the real estate markets triggered and/or accelerated by this, the potential downside risks for commercial real estate financing have been regularly highlighted. This is entirely understandable in the context of the expectation that demand for office capacities and retail space will in part start to flatten off. To what extent these expectations will have implications for the covered bond market also formed part of a recent report presented by S&P, in which the rating agency confirmed that the commercial real estate (CRE) segments of retail, hotels and offices have been adversely impacted to a greater extent by the pandemic. The analysis combines the lower spread of CRE cover assets compared with residential assets with, among other things, the shorter terms of or higher down payments for CRE financing. S&P identifies the largest shares for Germany, Austria, Denmark and Spain. In relation to the management of CRE cover assets, S&P also clarifies that covered bonds make the cyclical nature of CRE financing more controllable owing to their status as dual recourse products. On the other hand, however, greater default risk and higher loss rates (compared with residential assets) demand higher required OC rates with a view to the rating. While S&P also expects programmes with CRE shares to remain stable, in its report the rating agency highlights the ECB purchase programme as a potential cause behind the varying risk profiles of cover pools, with or without CRE shares, not being properly reflected in terms of spreads on the market.

NORD/LB

Market overview SSA/Public Issuers

Author: Dr. Norman Rudschuck, CIIA

Teaser 1: the ECB's "strategy review"

The phrase "makeover" has rarely been a more appropriate description of the ECB's "strategy review". In addition to giving its strategy a facelift and introducing its new inflation target, the ECB also wants to get involved in measures to combat climate change through its monetary policy (within the framework of the CSPP) in future. You can find a more detailed examination of this today in the first of our two Cross Asset articles. The ECB's monetary watchdogs are now seeking to achieve a symmetrical increase in consumer prices of 2% in the medium term. The previous wording – "below, but close to 2% – had been discredited to a certain extent because it suggested, when interpreted literally, that the ECB would make more effort to stop inflation rising too rapidly than it would to stop it falling.

Teaser 2: meeting of the ECB's Governing Council on 22 July

In our opinion, two topics will determine the ECB's landscape in eight days' time: the new strategy, which will be applied for the first time and must be communicated effectively, and the debate surrounding inflation. The inflation rate in Germany – measured as a change in the consumer price index (CPI) compared with the same month in the previous year – was 2.3% in June 2021. Having risen continuously since the beginning of the year, the inflation rate has therefore weakened slightly (May 2021: +2.5%). As the Federal Statistical Office (Destatis) announced further, consumer prices rose by +0.4% compared with May 2021. The increases in the price of energy compared with the same month in the previous year have had a significant impact on the inflation rate: excluding energy prices, the inflation rate would have been +1.6% in June 2021 and only +1.5% if heating oil and fuel had been excluded. However, in terms of topics, Lagarde's press conference is likely to have more to offer than the debate surrounding inflation (see second Cross Asset article).

KfW sets a narrower funding target

The KfW Newsletter provides information on existing and future funding in 2021. In response to strong investor demand, it has issued a bond with a 15-year maturity under its EUR benchmark programme. In total, it issued three EUR benchmark bonds in the first half. The majority of its funding, namely 53%, was raised in euros, while the USD accounted for 28% of its capital market funding. Following the successful issue of its first €STR bond in 2019, this year, the KfW issued bonds linked to the SOFR (Secured Overnight Financing Rate) and SONIA (Sterling Overnight Interbank Average Rate) indices, which complete the group of new reference interest rates in core currencies and, by doing so, positioned itself well for the future. In total, KfW has already raised EUR 50.5bn in 14 different currencies spread across 136 transactions. In response to strong growth in its development business, it has revised its requirement from EUR 70-80bn to EUR 75-80bn. The funding requirement also takes account of the funds raised under TLTRO III, for which the holding period is still determined purely by economic factors. The green bond in the amount of EUR 4bn was also the largest green bond ever issued by a non-governmental organisation. Having raised EUR 7.6bn in eleven currencies, KfW has now achieved 76% of its target of EUR 10bn in the green bond segment.

Downgrades for British Columbia (B.C.) at Fitch and S&P

Fitch has downgraded the long-term rating for the Province of British Columbia from "AAA" to "AA+". The rating outlook was revised from "negative" to "stable" at the same time. The downgrading of BRCOL, to use its Bloomberg ticker, is based on the independent credit profile, which Fitch reduced at the date of this review. The change to the rating reflects Fitch's expectation that the province's debt burden will rise significantly over the next few years, as it has to deal with the economic and fiscal upheavals caused by the pandemic; it also reflects the parallel rapid increase in borrowing by the Canadian government, which Fitch takes into consideration in its approach to rating Canadian provinces. Fitch does not view Canada's sovereign rating as the ceiling for British Columbia's rating. However, the province's rating is now at the same level as Canada and consequently will no longer benefit from the rating being raised by one notch, as it is for lower-rated provinces that acknowledge the federal government's ad-hoc measures to ensure market access in periods of turbulence on debt markets. The rating of the risk profile reflects the intrinsic economic characteristics of the province and factors, such as income, expenditure, debt and liquidity, which are taken into account in accordance with criteria for regional governments and local authorities (RGLAs). Although the central government's expansionary fiscal policy measures for households and companies throughout Canada have prevented a severe shock and supported the provinces' finances indirectly, the resultant sharp increase in federal debt will also have an adverse impact, in Fitch's assessment, on the provinces' debt sustainability. As with all Canadian provinces rated by Fitch, B.C.'s debt sustainability will also deteriorate significantly due to the fiscal burdens caused by the pandemic at provincial and federal level. Fitch regards the province's current multi-year budget as very conservative. No explicit timetable for balancing the budget will be announced before next year's budget. However, Fitch assumes that BRCOL will reduce the deficits more rapidly than other Canadian peers, as it has in previous recessions, primarily through measures to curb spending. Nevertheless, the considerable increase in borrowing at federal level and the need for B.C. to raise loans both to finance deficits and for investment will lead to the province's economic burden remaining high compared with its previous experiences. BRCOL also lost its top credit rating from S&P recently. The agency's arguments were similar: the province's debts would rise significantly over the next few years due to the economic shock caused by the coronavirus. Canada's third largest province will report a deficit this year, which is "far larger" than expected at the start of the pandemic, which will probably mean that it will take longer to return to a balanced budget, according to S&P. All in all, the loans raised by the province up to last March had probably reach CAD 102bn or 172% of income, before rising to 195% by 2024 according to S&P's model. These figures mean that the key fiscal and debt-related data for B.C. are no longer comparable with those of other regions rated AAA. Prior to the pandemic, debt amounted to around 123% of income. In the wake of downgrades of German Bundeslaender, we noted that the standard for AAA ratings is comparatively high, and B.C. could be at risk of being expelled from the illustrious group. We also view the current record heatwave and forest fires in western Canada (North Amercia) as being of concern from a rating perspective.

Primary market

In this week's trading, the SSA segment was dominated by regions and supranationals with three deals each, however, supras towered over the rest on EUR 17.25bn. Curiously, the agencies already seem to have started their summer break as far as EUR funding is concerned. We shall start by looking at Andalusia, Baden-Wuerttemberg and Hesse before examining the World Bank and the European Union in depth. The autonomous Spanish region, for which the Bloomberg ticker is ANDAL, opted for a 12-year sustainability bond. In total, EUR 500m was ultimately printed at 22 basis points above the Spanish reference bond (SPGB 2.35% 07/30/33). The book ultimately amounted to EUR 890m; the guidance started three basis points higher (SPGB +25bp area). A minor star performer, if one can afford the ratings (- / Baa2 / BBB+), but still a 0% risk weight compared with French regions (20%), for example. BADWUR opted for a floating rate note with a five-year maturity. The bond is worth EUR 750m (WNG). No further details were published. German Bundeslaender enjoy a 0% RW. In turn, HESSEN opted for a seven-year maturity. Here, EUR 500m changed hands at ms -6bp, which was also the guidance. The books reached EUR 740m. "Will not grow" was also the order of the day here. Let us turn to the supras: IDAWBG, as part of the World Bank Group, issues green and social bonds in line with sustainability guidelines and its framework under the IDA ticker (International Development Association). It raised EUR 2bn for ten years at ms +3bp. The guidance had been ms +4bp area. Ultimately, the books amounted to EUR 2.5bn. Anybody who missed the boat here had to forego the ESG criterion but could switch to the EU. The dual EU transaction in three programmes simultaneously was exciting and yet unlucky, since more explanation was required: EUR 5.25bn (WNG) was raised over ten years for the established, familiar EU programmes EFSM (EUR 5bn) and MFA (EUR 250m). It was priced at ms -6bp, having started at ms -4bp area. Ultimately, the books stood at over EUR 51bn. The second part of the transaction came from a third EU program, which focused purely on the NGEU programme (currently overshadowing everything else) for a term of 20 years. Here, EUR 10bn was raised at ms +7bp with the books even exceeding EUR 96bn, while the guidance had been ms +9bp area.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EU	SNAT	12.07.	EU000A3KT6B1	19.9y	10.00bn	ms +7bp	AAA / Aaa / AA	-
EU	SNAT	12.07.	EU000A3KT6A3	9.8y	5.25bn	ms -6bp	AAA / Aaa / AA	-
HESSEN	DE	12.07.	DE000A1RQD50	7.0y	0.50bn	ms -6bp	- / - / AA+	-
IDAWBG	SNAT	07.07.	XS2364756036	10.0y	2.00bn	ms +3bp	- / - / AAA	X
BADWUR	DE	07.07.	DE000A14JZT4	5.0y	0.75bn	6mE -6bp	- / - / AA+	-
ANDAL	ES	06.07.	ES0000090888	12.0y	0.50bn	ms +57bp	- / Baa2 / BBB+	X

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

Cross Asset
New ECB strategy – communication remains the be-all and end-all

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

Introduction

The aim of the European Central Bank's strategy review was to make sure the monetary policy strategy is fit for purpose, both today and in the future. The strategy review covered all aspects of monetary policy within the framework of its mandate, which is to maintain price stability. According to the press release, the ECB has listened to opinions from all over Europe: including those from citizens, academics, Members of the European Parliament and civil society organisations. In this article, we will discuss the following outcomes of the review:

- New strategy adopts symmetric 2% inflation target over medium term;
- Governing Council confirms that Harmonised Index of Consumer Prices (HICP) remains appropriate price measure and recommends inclusion of owner-occupied housing over time;
- Governing Council approves ambitious climate change action plan.

Review and taking stock

Since the previous strategy review in 2003, the euro area economy and the global economy have undergone profound structural changes. Declining trend growth, which can be linked to slower productivity growth and demographic factors, and the legacy of the global financial crisis have driven down equilibrium real interest rates. This has reduced the scope for the ECB and other central banks to achieve their objectives by exclusively relying on changes in policy interest rates. In addition, the ECB states that globalisation, digitalisation, the threat to environmental sustainability and changes in the financial system pose challenges for the conduct of monetary policy. Christine Lagarde, President of the ECB, had therefore set out with the aim of reaching common ground on these different elements of the strategy and evaluating their meaningfulness and relevance. The monetary policy strategy of the ECB is both guided and bound by its mandate conferred by the Treaty on European Union and the Treaty on the Functioning of the European Union. The primary objective of the ECB is to maintain price stability in the euro area. Without prejudice to the price stability objective, the Eurosystem shall support the general economic policies in the EU with a view to contributing to the achievement of the Union's objectives as laid down in Article 3 of the Treaty on European Union. These objectives include balanced economic growth, a highly competitive social market economy aiming at full employment and social progress as well as a high level of protection and improvement of the quality of the environment. The Eurosystem shall also contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system. The new strategy that has been announced is the outcome of a thorough review, which was launched on 23 January 2020.

Strategy review: final "strategy review" had been expected in September

In addition to the ECB's short to medium-term stimulus for the segments we monitor (SSA and covered bonds), it is also important to assess the long-term orientation of the central bank and the monetary policy of the Eurosystem. The ECB's strategy review, which has now been completed, is ultimately likely to have far-reaching implications for monetary policy in the medium to long term and therefore successively also for the SSA segment and the covered bond market. The composition of the 13 key topics known as workstreams has already been an indication in recent years of the potential scope of the project, which goes far beyond the formulation and maintenance of the inflation target. As mentioned, the workstreams included topics such as digitalisation, employment, globalisation and climate change. The focus of the review was essentially on the interdependencies between monetary policy and inflation as well as the decision-making variables for the central bank. According to our understanding, the debate regarding possible activities and controls in the area of the ESG segment alone impressively shows – as an example – possible new interdependencies between the asset classes included in our observations. Given the scope of the review (not only in terms of the inflation target), in particular, we had not expected the results of the strategy review before the summer break.

Inflation is the word on everyone's lips

As we had expected, the Governing Council confirmed that the Harmonised Index of Consumer Prices (HICP) remains the appropriate price measure for assessing the achievement of the price stability objective. However, the Governing Council recognised that the inclusion of costs related to owner-occupied housing in the HICP would better represent the inflation rate that is relevant for households. Recognising that the full inclusion of owner-occupied housing in the HICP is a multi-year project, the Governing Council in its monetary policy assessments will, in the meantime, take into account inflation measures that include initial estimates of the cost of owner-occupied housing in its wider set of supplementary inflation indicators. According to the Governing Council, price stability is best maintained by aiming for a 2% inflation target over the medium term. The Governing Council's commitment to this target is – now explicitly stated as such – symmetric. Symmetry means that the Governing Council considers negative and positive deviations from this target to be equally undesirable. The 2% inflation target provides a clear anchor for inflation expectations, which is essential for maintaining price stability. The Governing Council confirms the medium-term orientation of its monetary policy strategy. This allows for inevitable short-term deviations of inflation from the target, as well as lags and uncertainty in the transmission of monetary policy to the economy and to inflation. The flexibility of the medium-term orientation takes into account that the appropriate monetary policy response to a deviation of inflation from the target is context-specific and depends on the origin, magnitude and persistence of the deviation. It also allows the Governing Council flexibility in its monetary policy decisions to cater for other considerations relevant to the pursuit of price stability.

Previous two-pillar strategy formally replaced by new framework

The Governing Council bases its monetary policy decisions, including the evaluation of the proportionality of its decisions and potential side effects, on an integrated assessment of all relevant factors. Until now, this assessment has been officially based on a two-pillar strategy (economic analysis and monetary analysis), though this has been continually amended over time. Not least against the background of changing structural framework conditions, the ECB's analytical framework has been revised and is intended to take greater account of the changed reality. In this context, the two-pillar strategy will be replaced by a new integrated analytical framework that brings together two analyses: 1. the economic analysis and 2. the monetary and financial analysis. Within this framework, the economic analysis focuses on real and nominal economic developments. The analysis is based on the assessment of the drivers of shocks and the quarterly macroeconomic ECB projections. According to the ECB, due emphasis will be given to the regular analysis of structural trends, heterogeneities and non-linearities. Changes to the economic analysis reflect the availability of new data and information sources. Developments with regard to quantitative modelling and calculations are also reflected in the above-mentioned ECB staff macroeconomic projections in this framework. The monetary and financial analysis examines monetary and financial indicators. These monetary policy considerations are based on a revised integrated and extended analytical framework. In the context of the strategy review, the ECB emphasised that the monetary and financial analysis had significantly shifted in focus since the 2003 review in response to the challenges that arose during and after the global financial crisis. The analysis assigns a focus on the operation of the monetary transmission mechanism and the possible risks to medium-term price stability from financial imbalances and monetary factors. From the ECB's perspective, the monetary analysis has shifted from its main role of detecting risks to price stability over medium to longer-term horizons towards a stronger emphasis on providing information for assessing monetary policy transmission. The ECB also stated that the monetary and financial analysis provides for a more systematic evaluation of the longer-term build-up of financial vulnerabilities and imbalances and their possible implications for the tail risks to output and inflation. Moreover, it assesses the extent to which macroprudential measures mitigate possible financial stability risks that are relevant from a monetary policy perspective. The monetary and financial analysis therefore recognises that financial stability is a precondition for price stability. The pervasive role of macro-financial linkages in economic, monetary and financial developments requires that the interdependencies across the two analyses are fully incorporated. To summarise, the integrated analysis framework reflects the changes that the ECB's economic analysis and monetary analysis have undergone, the importance of monitoring the transmission mechanism in calibrating monetary policy instruments and the recognition that financial stability is a precondition for price stability. Overall, what has already been part of the ECB's analysis in one form or another over the past few years is now being officially implemented. In view of this, we see little potential for any significant market impulses as a result.

Climate change and price stability

Climate change has profound implications for price stability. These result from structural and economic consequences for the economy and the financial system. Addressing climate change is a global challenge and a policy priority for the EU. We have hypothesised for quite a while that the economy and ecology depend on each other and are not in opposition. According to a press release, the Governing Council is determined within its mandate to ensure that the Eurosystem, in accordance with the EU's climate protection targets, fully takes into account the implications of climate change and the transition to a low carbon economy for monetary policy and central banking. For this reason, the Governing Council (claims that it) has decided on a comprehensive action plan, with an ambitious roadmap – though it must be said more is of course always possible. Alongside comprehensively incorporating climate factors in its monetary policy assessment, the Governing Council will adapt its monetary policy operations in the areas of disclosure, risk assessment, corporate sector asset purchases and the collateral framework.

In another press release, the ECB Governing Council stated it is strongly committed to:

- further incorporating climate change considerations into its monetary policy framework;
- expanding its analytical capacity in macroeconomic modelling, statistics and monetary policy with regard to climate change;
- including climate change considerations in monetary policy operations in the areas of disclosure, risk assessment, collateral framework and corporate sector asset purchases; and
- implementing the action plan in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting.

ECB climate change centre

The recently established ECB climate change centre will coordinate the relevant activities within the ECB, in close cooperation with the Eurosystem. For private sector assets – which we explicitly understand to mean corporates and not supranationals, sub-sovereigns and agencies nor covered bonds and banks – the ECB will introduce disclosure requirements as a new eligibility criterion or as a basis for a differentiated treatment for collateral and asset purchases. Such requirements will take into account EU policies and initiatives in the field of environmental sustainability disclosure and reporting. It will promote more consistent disclosure practices in the market, while maintaining proportionality through adjusted requirements for small and medium-sized enterprises. The ECB will announce a detailed plan in 2022. Then, the ECB will start conducting climate stress tests of the Eurosystem balance sheet to assess the Eurosystem's risk exposure to climate change, leveraging on the methodology of the ECB's economy-wide climate stress test. Furthermore, the ECB will assess whether the credit rating agencies accepted by the Eurosystem Credit Assessment Framework have disclosed the necessary information to understand how they incorporate climate change risks into their credit ratings. In addition, the ECB will consider developing minimum standards for the incorporation of climate change risks into its internal ratings.

Collateral framework also affected

The collateral framework will also be affected: the ECB will consider relevant climate change risks when reviewing the valuation and risk control frameworks for assets mobilised as collateral by counterparties for Eurosystem credit operations. This will ensure that they reflect all relevant risks, including those arising from climate change. In addition, the ECB will continue to monitor structural market developments in sustainability products. It stands ready to support innovation in the area of sustainable finance within the scope of its mandate. This is exemplified by its decision to accept sustainability-linked bonds as collateral (22 September 2020).

Focus on the corporate sector purchase programme (CSPP)

The ECB reports that it has already started to take relevant climate change risks into account in its due diligence procedures for its corporate sector asset purchases in its monetary policy portfolios. Looking ahead, the ECB will adjust the framework guiding the allocation of corporate bond purchases (which we understand to mean only CSPP) to incorporate climate change criteria, in line with its mandate. These will include the alignment of issuers with, at a minimum, EU legislation implementing the Paris agreement through climate change-related metrics or commitments of the issuers to such goals. Furthermore, the ECB will start disclosing climate-related information of the CSPP by the first quarter of 2023 (complementing the disclosures on the non-monetary policy portfolios). As mentioned above, the implementation of the action plan will be in line with progress on the EU policies and initiatives in the field of environmental sustainability disclosure and reporting, including the Corporate Sustainability Reporting Directive, the Taxonomy Regulation and the Regulation on sustainability-related disclosures in the financial services sector.

Eurosystem presents detailed roadmap of climate change-related actions

Alongside the press release on the new strategy, the Eurosystem published a detailed roadmap of climate change-related actions as an annex. The roadmap provides a schedule for ECB measures in nine categories, which include projections and scenario analyses, the development of climate-related indicators and topics such as disclosures, climate stress testing and climate change risks in credit ratings, in the collateral framework and in the CSPP, as well as details of external developments between 2021 and 2024.

Announcement and communication

The communication of monetary policy decisions through the Monetary Policy Statement, the press conference, the Economic Bulletin and the monetary policy accounts will be adapted to reflect the revised monetary policy strategy. These products will be complemented by targeted and visualised versions of geared towards the wider public, which is essential for ensuring public understanding of and trust in the actions of the ECB. Drawing on the successful experience with the “Eurosystem listening events” held during the strategy review, the Governing Council intends to make outreach events a structural feature of the Eurosystem’s interaction with the public.

Direct application and latest review

The first regular monetary policy meeting of the Governing Council applying this new strategy will be the next meeting in eight days’ time, on 22 July 2021. The Governing Council will periodically reassess the appropriateness of its monetary policy strategy in a regular review cycle. It intends to carry out the next assessment in 2025.

Conclusion

The ECB presented its strategy review earlier than expected and has amended the inflation target. Climate targets and green bonds from corporates are also a clear focus of the strategy. The ECB intends to start implementing these targets from next week, so the forward guidance and the PEPP will now unexpectedly be the focus of the upcoming ECB meeting. "We're going to look at the circumstances, we're going to look at what forward guidance we need to revisit, we're going to look at the calibration of all the tools we are using to make sure that it is aligned with our new strategy," said ECB President Christine Lagarde. Anyone hoping for a gentle summer breeze at the ECB on 22 July will now need to mark their calendar for something more intense. In view of this, we are concentrating on precisely this upcoming meeting in our second article in this publication on the following pages. In relation to the quantitative and market-specific effects from the outcome of the strategy review and the implications for the financial markets and the asset classes on which we focus, we in fact see little potential for direct stimulus. In this respect, the specific amendments to unconventional instruments will be what then determines the course.

Cross Asset
ECB preview: the first meeting under the “new” regime

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

ECB meeting: overshadowed by “strategy review” or now more in focus than ever?
The next ECB decision on key interest rates is due on 22 July. Following the announcement of the results of the “ECB Strategy Review” (see previous article in this edition), the portents for this gathering of the ECB’s Governing Council, which would otherwise rather be viewed in advance as the meeting before the summer lull, will change. At the same time, we would by no means assume that the decision on interest rates will be eclipsed by the latest announcements from the ECB. Rather, in our opinion, the focus will be increasingly concentrated on the meeting, which will be the first held officially under the central bank’s new regime. Accordingly, for market participants and for the July meeting, the question will be what conclusions the Governing Council will draw from the upward trend in prices that is still apparent and whether this is still classed as temporary. Subsequently, we would like to provide a focused outlook for the upcoming meeting and its implications for the SSA segment and the covered bond market.

Preceding ECB meeting in June: assessment of the situation still comparable with the current state of play?
As is clear from the official report on the ECB meeting on 9 and 10 June 2021, the discussions and votes of the last gathering of the ECB’s Governing Council were based among other factors on the assumption that the economic situation would continue to improve in the developed world, in particular. This would be helped especially by progress in vaccinating people against COVID-19. For the Governing Council, more rapid economic growth in the eurozone was still supported by the prospect of stronger demand both from the member states and at a global level with monetary and fiscal policy, in particular, being seen as providing continuing support. Having said that, these dependencies were pointed out in June. Discussions also focused on the downside risks resulting from new variants of the virus. Looking at the question of the return to normality, the debate also focused on consumer reactions. Finally, developments regarding any reduction in the immense savings accumulated by households are characterised by a high degree of uncertainty. This could very easily boost demand significantly, which would in turn have implications for inflation. Within the June meeting, the opinion that the temporary nature of the trend in inflation had to be taken into account predominated in the ECB’s Governing Council. Then again, possible second-round effects (especially on wages) were also discussed, although the Governing Council did not identify any signs of upward pressure on wages here. By and large, the Governing Council is, in our opinion, also likely to come to comparable assessment of the overall situation now. In other words, higher prices, which are currently also affecting Germany, should still be classified as temporary and associated with base effects and the “extraordinary situation” (see. interview with Isabel Schnabel on 8 July). With regard to the meeting next week, this tends to support the view that any significant adjustments to the monetary policy correcting variables are unlikely.

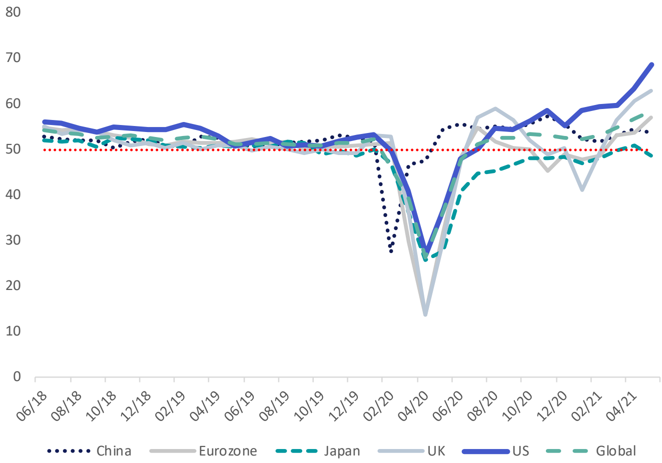
Purchasing policy also unchanged?

Even though the revision of ECB strategy has resulted in interest policy retaining its status as the Governing Council's primary instrument, bond purchases will also remain a fundamental component of the central bankers' toolbox, especially with interest rates at their current levels. This not least is why we also expect "accelerated" purchases by the Eurosystem to continue. Actually, purchases may be less pronounced as a consequence of activity on the primary market (aside from the EU) slowing down. In this context, however, it seems sensible to refer to the longer-term assessment of purchase behaviour based on quarters. We definitely see the latest comments by Christine Lagarde as being of significance for the July meeting. The President of the ECB pointed to the necessity of revising the "forward guidance" and underlined the significance of the meeting next Thursday. In this context, it was finally a case of checking the "calibration of all instruments" with regard to the new strategy. However, her colleague in the Governing Council, the chairman of the French central bank, François Villeroy de Galhau, focused on the remaining scheduled rate-setting meetings this year, of which there are still four. In our view, this already reduces the pressure slightly with regard to possible adjustments to specific monetary policy framework parameters (incl. the pace of purchases) on 22 July. Actually, we consider any significant adjustments would be premature given that the ECB does not by any means believe that the pandemic is over. An example of this is the ECB Council's endorsement of the decision by the ECB's supervisory authority not to tighten the regulatory requirements regarding the leverage ratio. The uncertainties associated with any mutations in the virus are also too high. With regard to ECB strategy and the pandemic, ECB Vice President Luis de Guindos noted that there would have to be a change in tone in July, while there would be more information about the future course of the pandemic available for the September meeting.

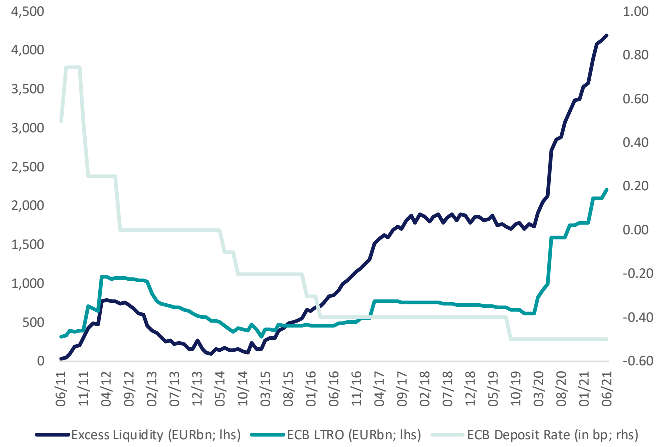
Outlook: ECB decision will primarily bring a change of tone

With regard to specific adjustments to monetary policy control parameters, we actually expect "business as usual" yet again. Accordingly, key interest rates should remain unchanged. The framework parameters of TLTRO III and APP or PEPP should not be changed either, while the design of the graduated interest rate should also remain unchanged. Against the backdrop of a further increase in surplus liquidity both as a consequence of the purchase programmes and also in the positive linear relationship with increased utilisation of the TLTRO III, an adjustment of the multiplier as the adjusting screw for the portion of excess reserves excluded from the negative interest rate still seems a conceivable step over the later course of the second half of 2021. In July, therefore, it will primarily be a matter of the change of tone to reflect the new strategy. Looking somewhat further forward, we definitely see a certain explanatory power in the comments emanating from those surrounding the Governing Council. President Lagarde especially has, in our opinion, been managing expectations to a certain extent when she confirmed that the PEPP will continue "at least" until the end of March 2022 and she promised – at least theoretically – that PEPP purchases would continue in another form whatever form it might take. Specifically, an increase in the monthly purchases under the APP seems conceivable following the end of the PEPP. Here, however, we would not expect any announcements in July. At most we expect a reference – albeit in slightly amended wording – to the increase in the pace of purchases under the PEPP.

Purchasing Managers' Surveys (Composite)



ECB: excess liquidity, LTRO, deposit rate



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

Covered bond market: implications of July meeting more on the indirect side

For the covered bond market, we expect the upcoming ECB meeting to have indirect implications at most. The instruments of most relevance for the covered bonds sub-market – namely, the CBPP3 and TLTRO III – should still exert their influence after 22 July. Purchases under the CBPP3 on the primary and secondary market will still continue. The factors limiting issuance activity should also still apply with attention being focused on the two remaining tenders in September and December 2021. A TLTRO IV could again have a significant impact on the supply side. However, statements on this subject amount to speculation at present, if anything. At the moment, it is still too early to make serious assumptions about the "whether" and "how"; nevertheless, a fourth programme has become somewhat less likely in our opinion. The question as to a TLTRO IV is – even if it is a question for the more distant future – of very great relevance for the covered bond segment. Current planning indicates that, if there is no fourth programme, final maturity of the first TLTRO III tender (TLTRO III.1) will be reached in September 2022 while the last tranche (TLTRO III.10) will have to be repaid in full by 18 December 2024. During this period, the maturing tenders would, we estimate, generate significant funding requirements which, if there is no TLTRO IV, should also extend to the covered bond segment and EMU issuers, respectively. Consequently, the reduction in funding in these circumstances would result in significant pressure on the ASW spreads for EMU covered bonds, which would likely extend to other jurisdictions as well.

SSA segment: substantial supply still matched by strong demand

Substantial and increasing supply from SSA issuers (especially EU) in the second half is matched by continuing strong demand from investors (primary market) and the Eurosystem (secondary market). All significant players have a substantial presence in the market and even the German Bundeslaender are appealing to investors continuously. In addition to sub-sovereigns, this is the case for the E-supras' usual representatives (in particular, the EU and EIB, but also the EFSF and ESM) as well as KfW. With monthly new borrowings of EUR 20bn, QE/APP is unjustly regularly overshadowed by the newer but far faster growing PEPP. The focus is likely to switch increasingly to this aspect of quantitative easing by 2022 at the latest.

Still no clarification from the ECB

We are still concerned by the discussions about the ISIN limits that the ECB has imposed on itself for the APP and PSPP, respectively. As stated on numerous occasions, a 33% ceiling per issuer or issue usually applies and this ceiling is only increased to 50% for supranationals. Here, the ECB is not providing any explanation as far as the PEPP is concerned and is refusing to provide the information that is urgently required in the interests of transparency. Numerous enquiries on our part have been persistently ignored to date. However, the issue of a blocking minority is important if tensions in the public sector were to re-emerge. Here, the ECB would benefit from more transparency, as it largely lives on its credibility and market confidence. Otherwise, effective verbal interventions will not be possible.

ESG bonds within the purchase programmes

With its strategy review, the ECB also published a detailed timetable for climate-related measures. There will be a new climate stress test of the Eurosystem balance sheet, i.e., specifically for banks. Climate risks will be included in credit ratings for collateral and asset purchases. Climate risks will also be reflected in the collateral framework and proposals will also be developed to adapt the CSPP framework to take account of climate-related considerations. This framework will be adapted from mid-2022 at the earliest. This will not, we believe, have any direct implications for the SSA segment or the covered bonds market, as ESG bonds issued by well-known issuers are already purchased here and these bonds have proliferated in the wake of climate change and the pandemic. We see the PSPP and PEPP as well as the CBPP3 being omitted from the planned review resulting from the strategy review. Questions to the Governing Council regarding any further plans are, of course, not precluded.

Conclusion and comments

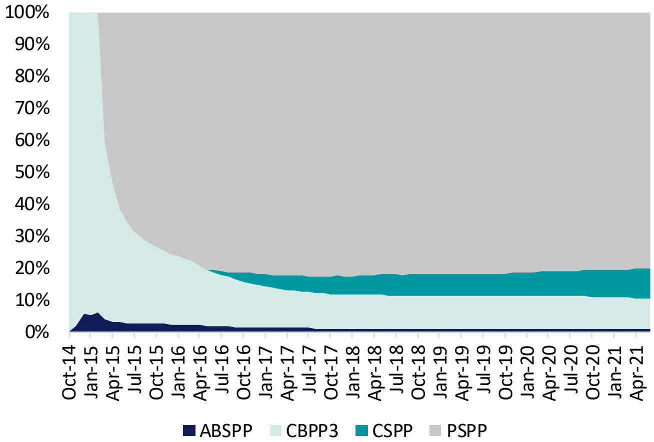
Summer lull successfully prevented: the new ECB strategy will also have implications for the July meeting of the Governing Council and, in our opinion, will lead primarily to a change in tone. In terms of the monetary policy decision-making parameters, we are not forecasting any adjustments and also expect the increased pace of purchases to be maintained. We would justify this not least with the assessment that inflation is still seen as a temporary phenomenon in the Governing Council, which states that the pandemic is not over by any means and that the upturn is therefore fraught with significant uncertainties. Communication remains the European Central Bank’s be all and end all – more than ever. We therefore quote President Lagarde once more: “We’re going to look at the circumstances, we’re going to look at what forward guidance we need to revisit, we’re going to look at the calibration of all the tools we are using to make sure that it is aligned with our new strategy”. We currently believe that any transfer of the PEPP into the APP would be premature.

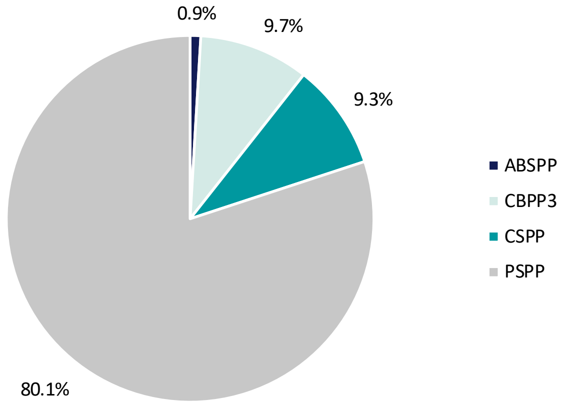
ECB tracker

Asset Purchase Programme (APP)

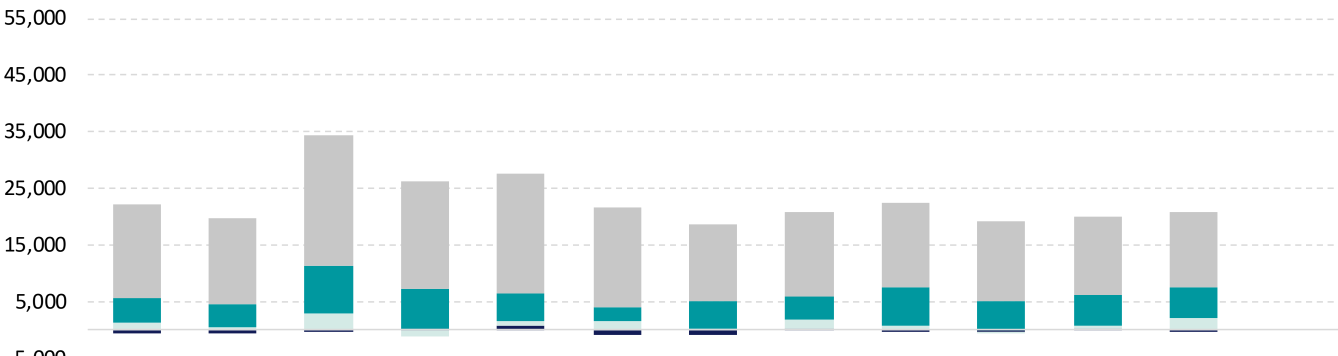
	ABSPP	CBPP3	CSPP	PSPP	APP
May-21	28,520	290,104	276,469	2,407,212	3,002,305
Jun-21	28,196	291,764	281,731	2,415,331	3,017,022
Δ	-314	+2,037	+5,602	+13,320	+20,645

Portfolio structure





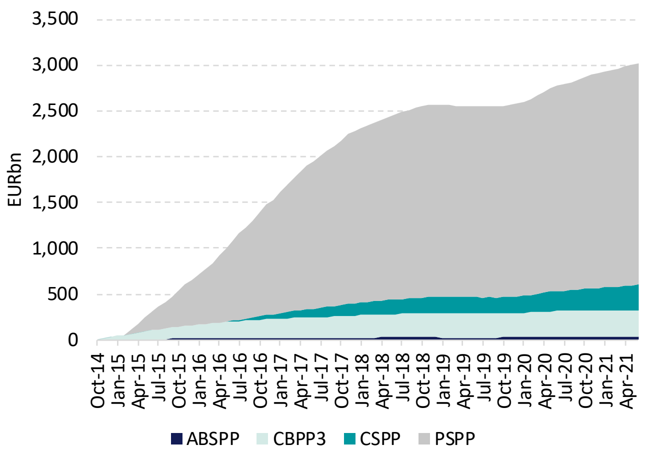
Monthly net purchases (in EURm)



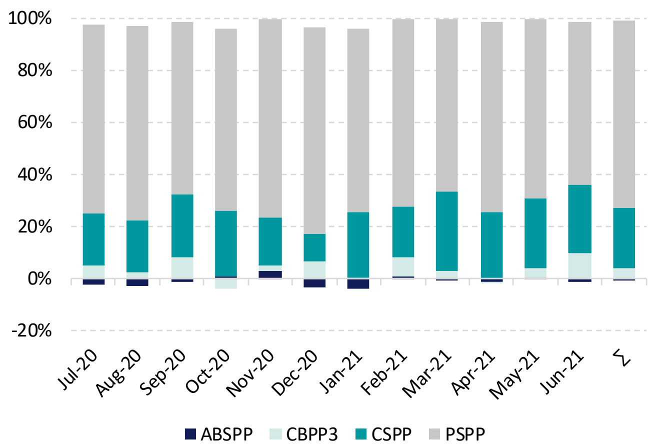
	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	∑
APP	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,915	22,561	18,918	20,141	20,645	269,694
PSPP	16,370	15,150	23,102	19,182	21,241	17,822	13,655	15,129	14,955	14,186	13,973	13,320	198,085
CSPP	4,502	4,004	8,496	6,983	5,009	2,378	4,924	4,064	6,929	5,015	5,394	5,602	63,300
CBPP3	1,198	500	2,839	-1,041	646	1,529	74	1,539	684	-5	686	2,037	10,686
ABSPP	-541	-527	-423	225	824	-800	-807	183	-7	-278	88	-314	-2,377

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

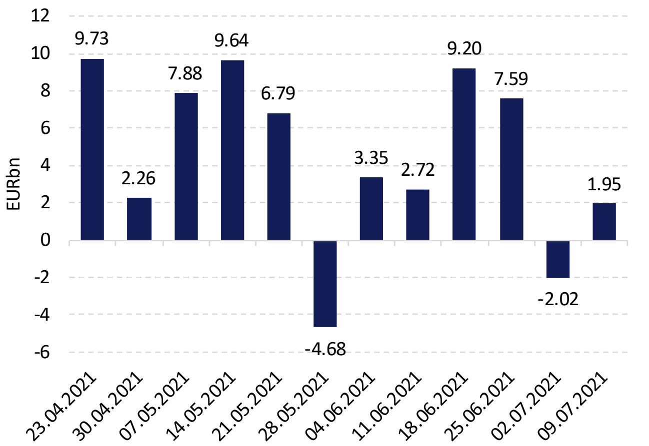
Portfolio development



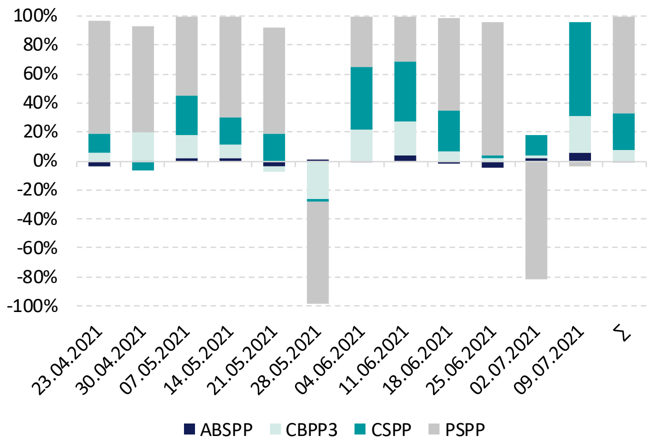
Distribution of monthly purchases



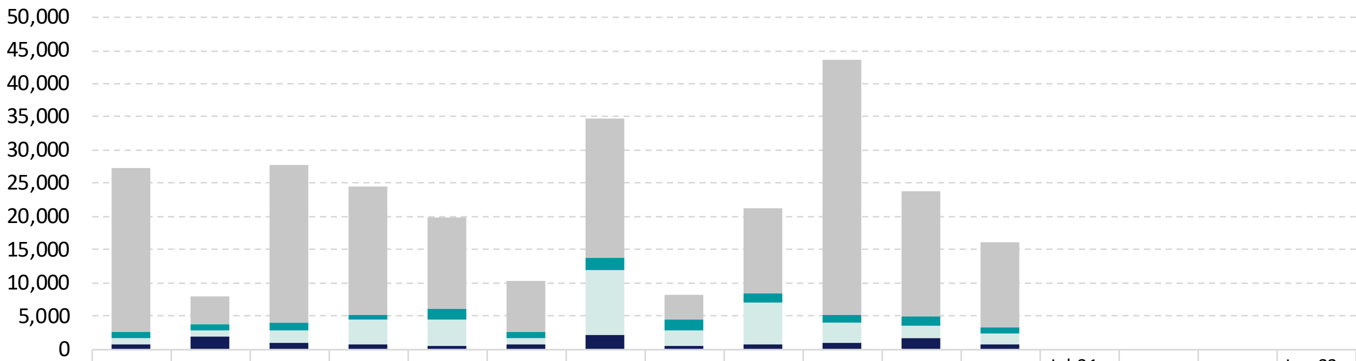
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

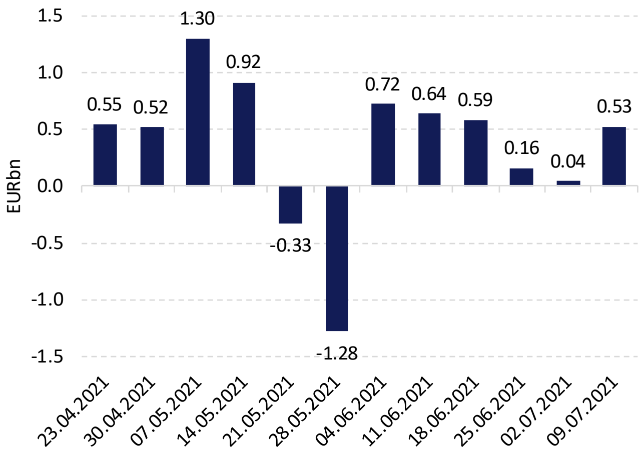


	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-21 - Jun-22	2020	2021	Jan-22 - Jun-22
APP	27,267	8,034	27,684	24,487	19,880	10,311	34,697	8,163	21,148	43,713	23,863	16,097	265,344	262,253	245,843	147,681
PSPP	24,549	4,370	23,661	19,224	13,795	7,811	20,906	3,625	12,603	38,619	18,998	12,714	200,875	201,482	188,467	107,465
CSPP	920	820	1,102	800	1,564	826	1,946	1,590	1,416	1,125	1,341	1,017	14,467	18,267	16,280	8,435
CBPP3	1,132	1,002	1,915	3,775	4,048	937	9,780	2,500	6,352	2,995	1,846	1,518	37,800	33,236	30,138	24,991
ABSPP	666	1,842	1,006	688	473	737	2,065	448	777	974	1,678	848	12,202	9,268	10,958	6,790

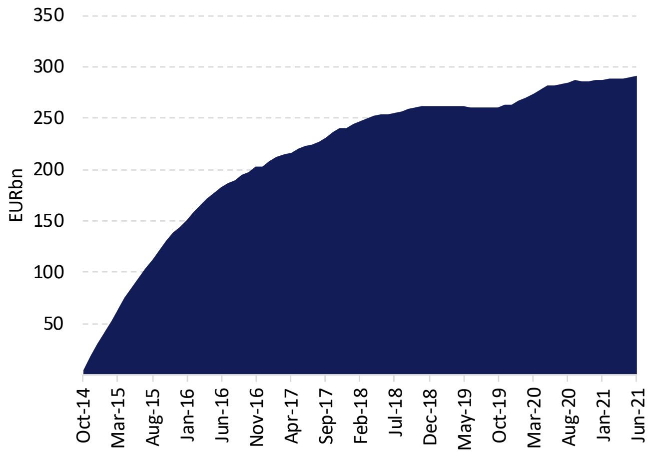
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

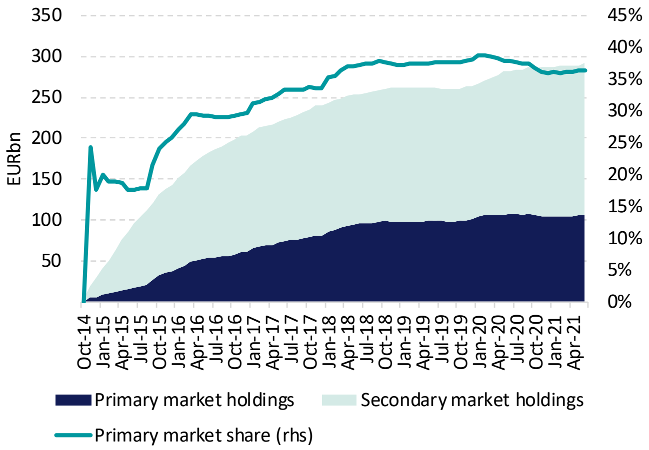
Weekly purchases



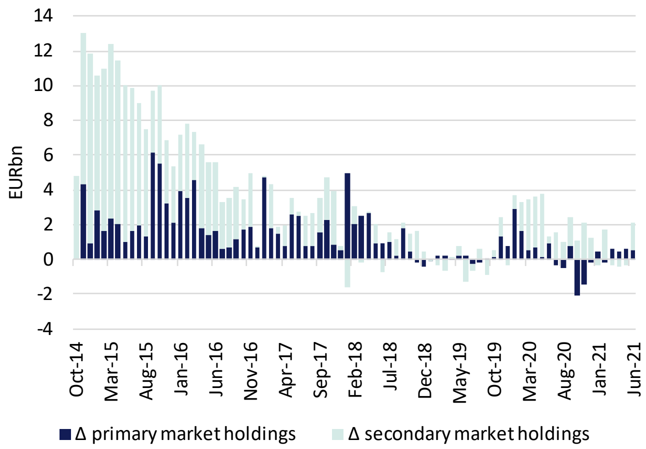
Development of CBPP3 volume



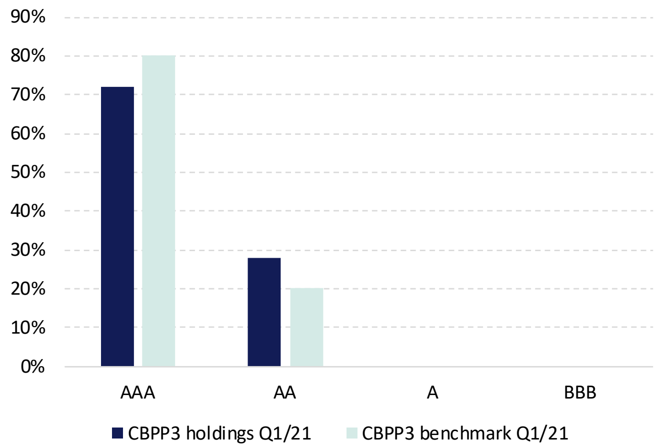
Primary and secondary market holdings



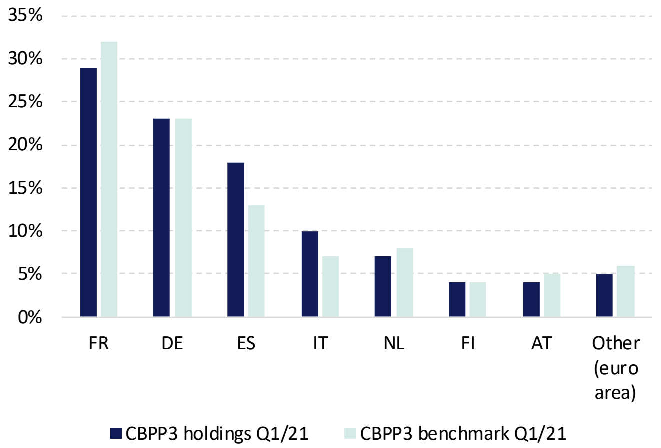
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



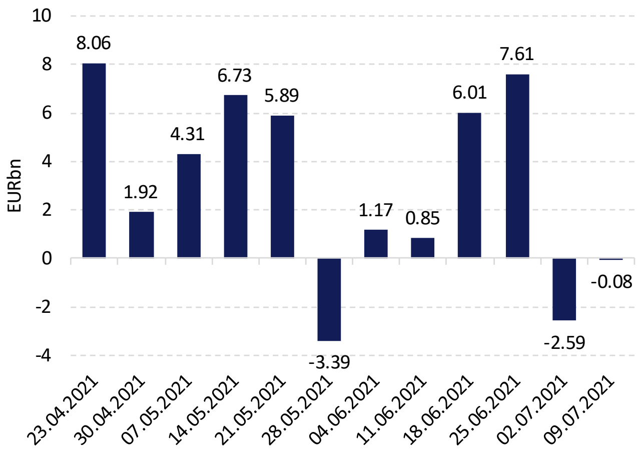
Distribution of CBPP3 by country of risk



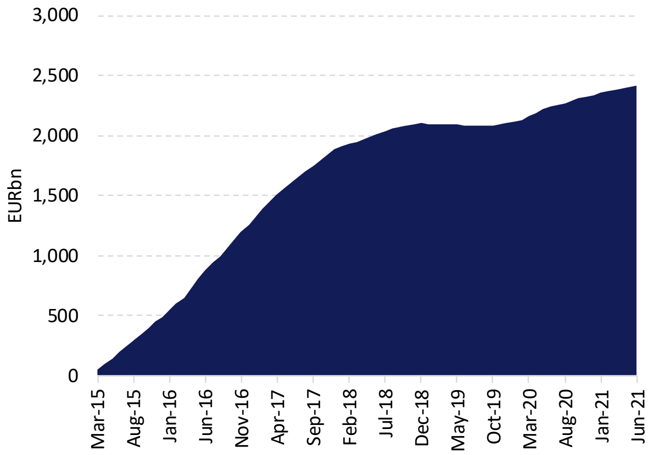
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



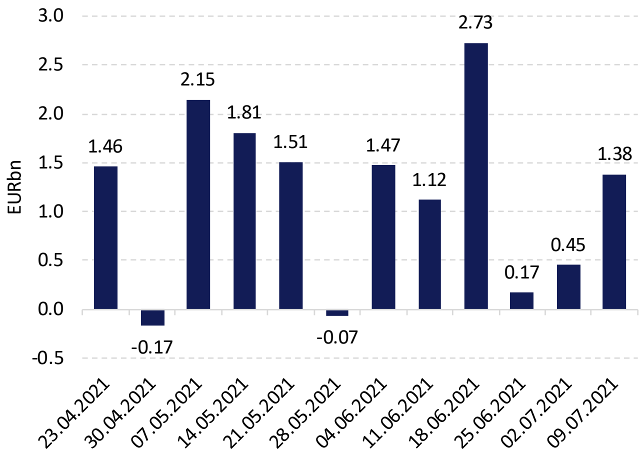
Overall distribution of PSPP buying at month-end

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%	71,823	68,831	2,992	7.5	7.6	-0.1
BE	3.4%	90,376	85,677	4,699	8.0	10.2	-2.2
CY	0.2%	3,763	5,060	-1,297	9.9	8.8	1.1
DE	24.3%	609,448	619,935	-10,487	6.6	7.6	-1.0
EE	0.3%	397	6,625	-6,228	9.2	7.5	1.7
ES	11.0%	301,766	280,427	21,339	8.0	8.4	-0.4
FI	1.7%	37,685	43,197	-5,512	6.9	7.7	-0.8
FR	18.8%	496,901	480,313	16,588	7.2	8.1	-0.9
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	39,425	39,823	-398	8.5	10.1	-1.6
IT	15.7%	421,648	399,514	22,134	7.1	7.9	-0.8
LT	0.5%	5,038	13,611	-8,573	10.2	10.6	-0.4
LU	0.3%	3,427	7,747	-4,320	5.6	7.2	-1.7
LV	0.4%	2,959	9,163	-6,204	11.3	10.4	0.9
MT	0.1%	1,259	2,467	-1,208	9.5	9.2	0.3
NL	5.4%	124,784	137,818	-13,034	7.7	9.0	-1.4
PT	2.2%	47,126	55,041	-7,915	7.0	7.2	-0.2
SI	0.4%	9,438	11,323	-1,885	9.9	10.2	-0.3
SK	1.1%	16,004	26,932	-10,928	8.2	8.3	-0.1
SNAT	10.0%	265,069	254,834	10,235	7.7	8.9	-1.2
Total / Avg.	**100.0%**	**2,548,336**	**2,548,336**	**0**	**7.3**	**8.2**	**-0.9**

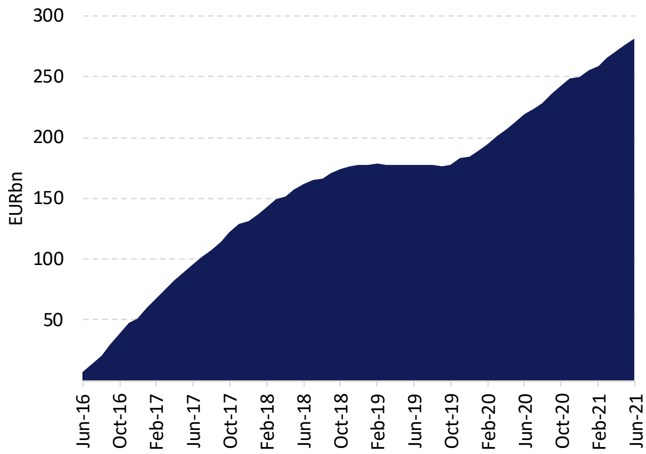
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q1/2021)
Source: ECB, NORD/LB Markets Strategy & Floor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

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

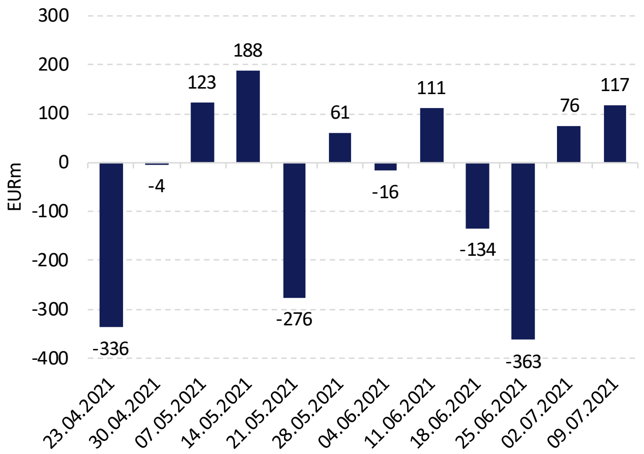


Development of CSPP volume

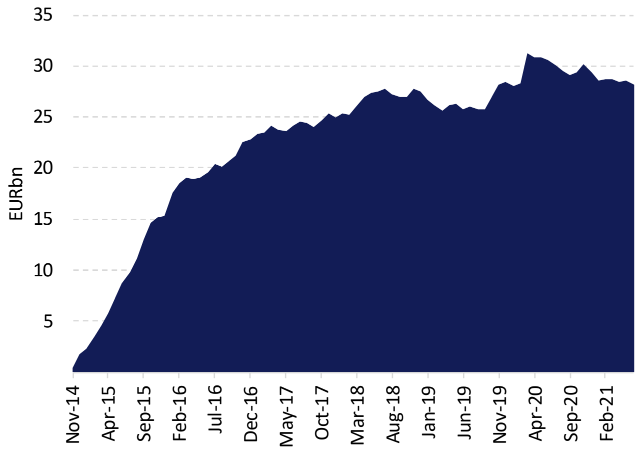


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



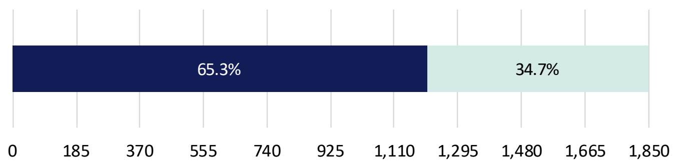
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
May-21	1,104,465
Jun-21	1,184,633
Δ	+80,168

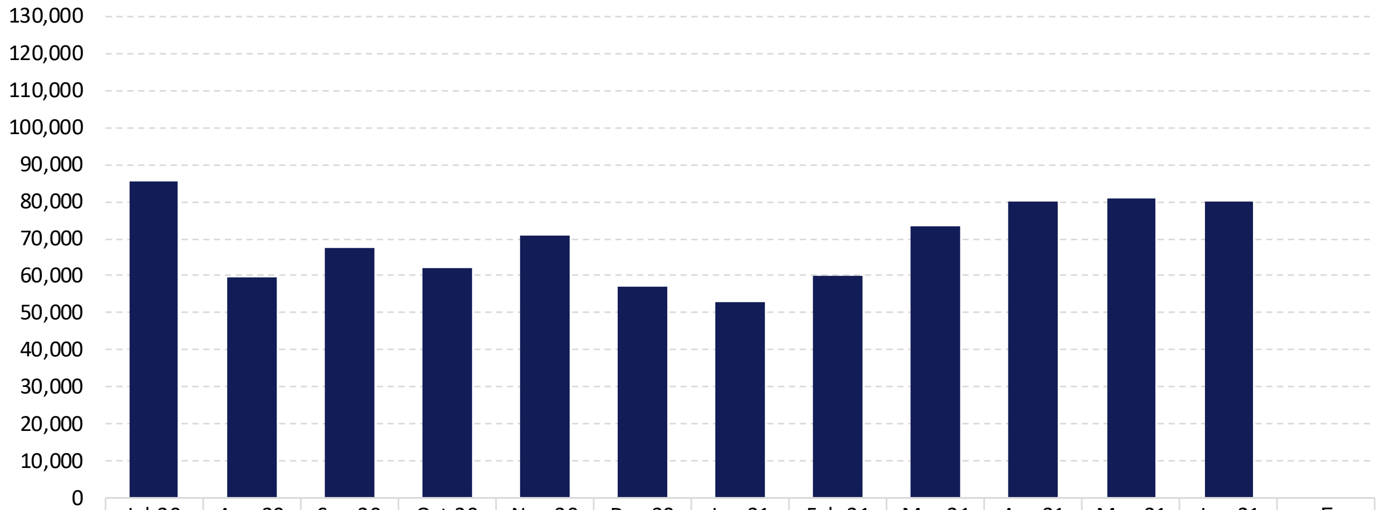
Volume already invested (in EURbn)



Estimated portfolio development

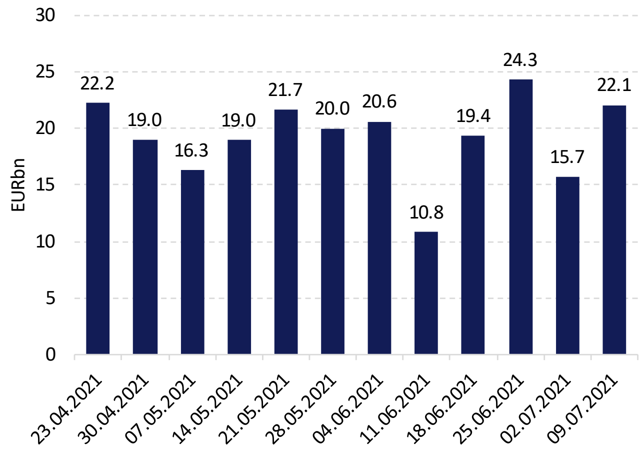
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 18.0bn	36 weeks (18.03.2022)

Monthly net purchases (in EURm)

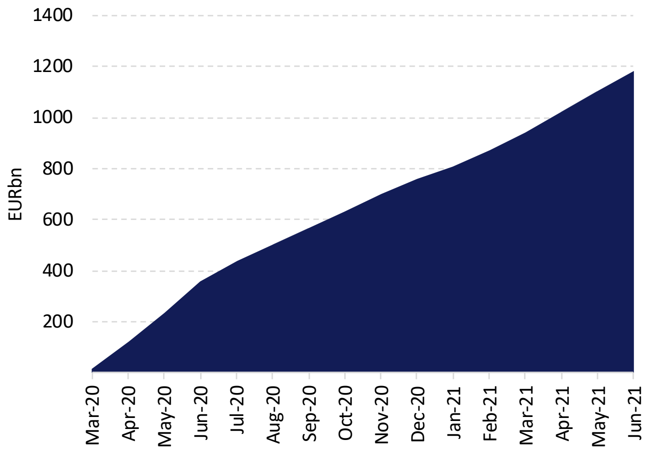


	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	∑
PEPP	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	73,521	80,118	80,700	80,168	829,647

Weekly purchases



Development of PEPP volume

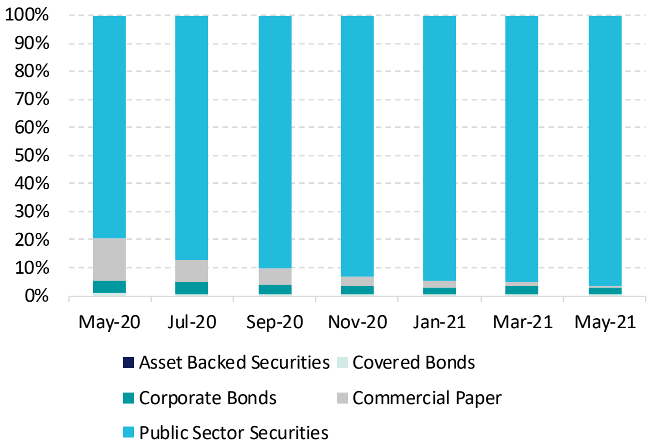


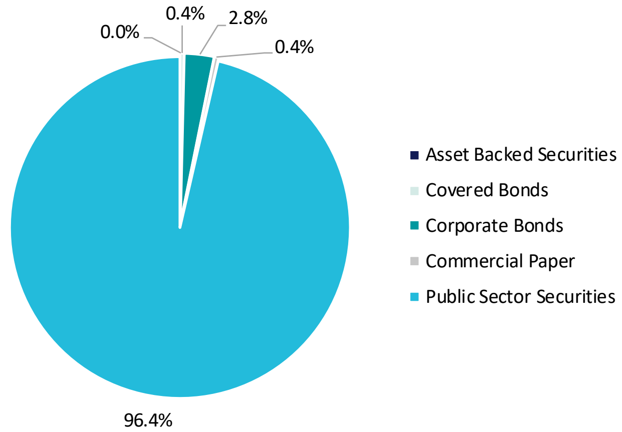
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

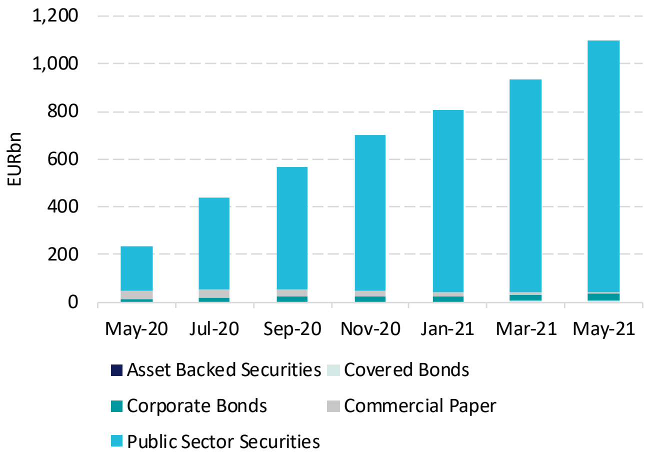
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Mar-21	0	4,055	27,058	12,766	893,844	937,723
May-21	0	4,055	31,014	4,590	1,058,882	1,098,541
Δ	0	0	+3,956	-8,176	+165,038	+160,818

Portfolio structure

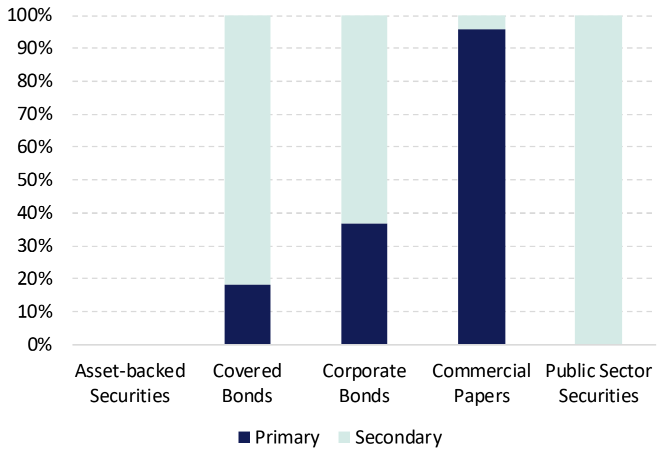




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

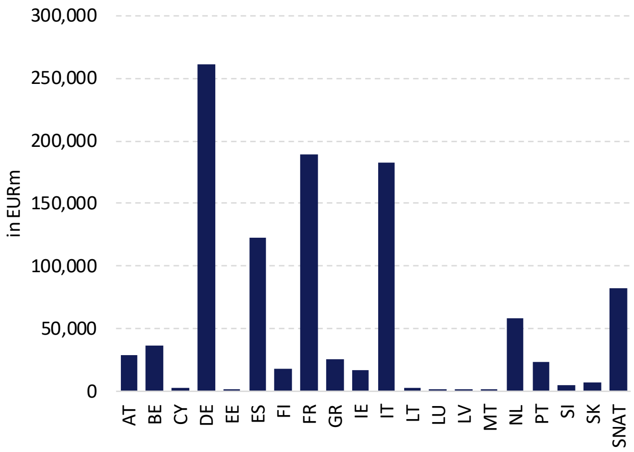
May-21	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Holdings in EURm	0	0	745	3,310	11,431	19,583	4,397	193
Share	0.0%	0.0%	18.4%	81.6%	36.9%	63.1%	95.8%	4.2%

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

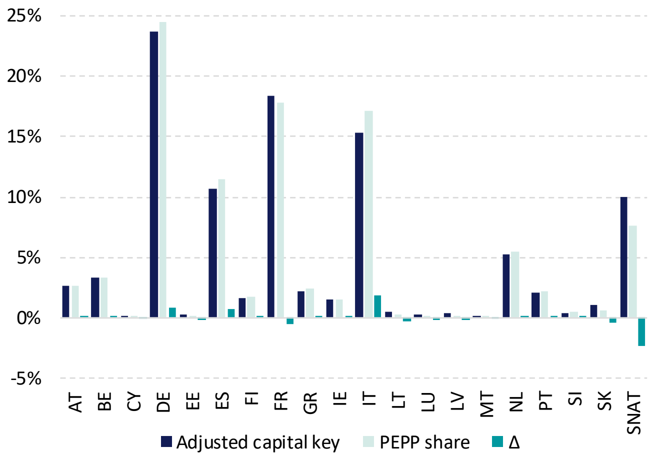
Breakdown of public sector securities under the PEPP

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	28,731	2.6%	2.7%	0.1%	9.4	6.9	2.6
BE	36,086	3.3%	3.4%	0.1%	6.7	9.1	-2.5
CY	2,060	0.2%	0.2%	0.0%	9.7	8.3	1.4
DE	261,137	23.7%	24.5%	0.8%	6.1	6.8	-0.7
EE	255	0.3%	0.0%	-0.2%	9.0	7.3	1.7
ES	122,583	10.7%	11.5%	0.8%	8.3	7.6	0.7
FI	18,174	1.7%	1.7%	0.1%	7.3	7.5	-0.2
FR	189,672	18.4%	17.8%	-0.6%	8.5	7.7	0.8
GR	25,680	2.2%	2.4%	0.2%	9.5	9.9	-0.5
IE	16,770	1.5%	1.6%	0.1%	9.2	9.5	-0.3
IT	182,946	15.3%	17.2%	1.9%	6.9	7.0	-0.1
LT	2,505	0.5%	0.2%	-0.3%	11.1	9.9	1.2
LU	1,726	0.3%	0.2%	-0.1%	7.0	6.6	0.5
LV	1,344	0.4%	0.1%	-0.2%	9.8	9.7	0.1
MT	305	0.1%	0.0%	-0.1%	7.9	8.7	-0.8
NL	58,043	5.3%	5.5%	0.2%	6.0	8.4	-2.3
PT	23,730	2.1%	2.2%	0.1%	7.4	7.3	0.1
SI	4,838	0.4%	0.5%	0.0%	9.2	9.3	-0.2
SK	6,384	1.0%	0.6%	-0.4%	9.5	8.4	1.1
SNAT	81,801	10.0%	7.7%	-2.3%	10.4	8.4	2.1
Total / Avg.	**1,064,769**	**100.0%**	**100.0%**	**0.0%**	**7.6**	**7.5**	**0.1**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



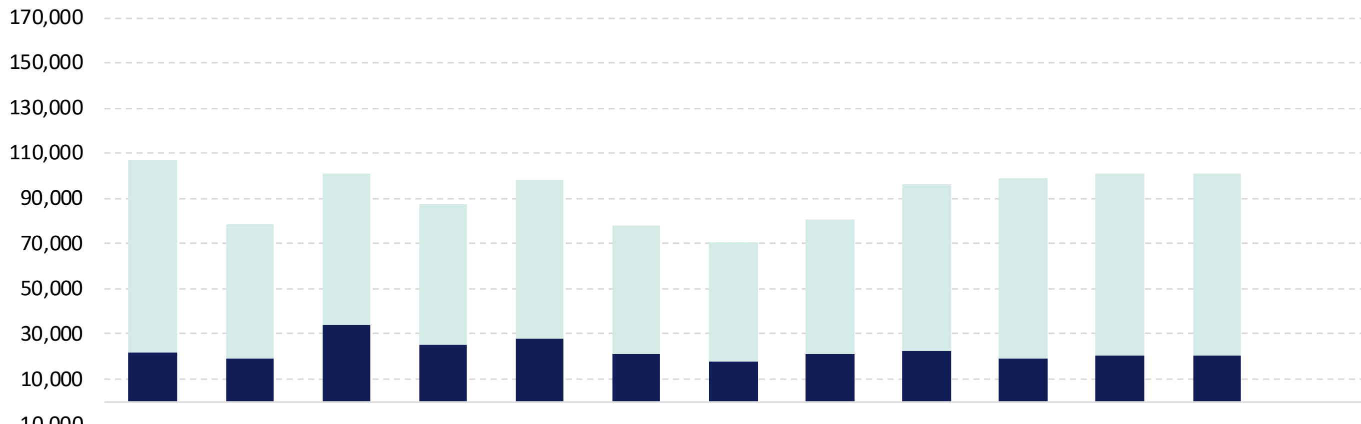
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

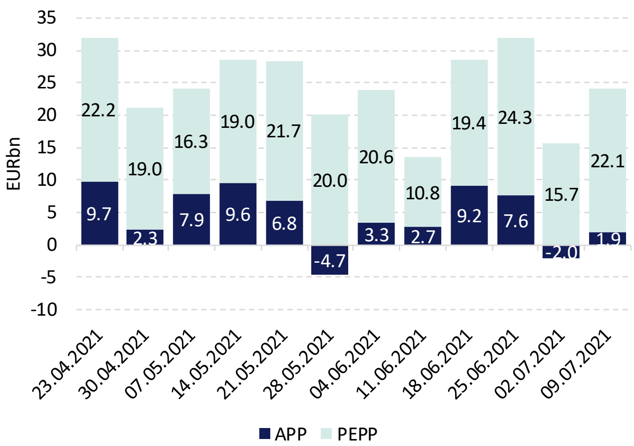
	APP	PEPP	APP & PEPP
May-21	3,002,305	1,104,465	4,106,770
Jun-21	3,017,022	1,184,633	4,201,655
Δ	+20,645	+80,168	+100,813

Monthly net purchases (in EURm)

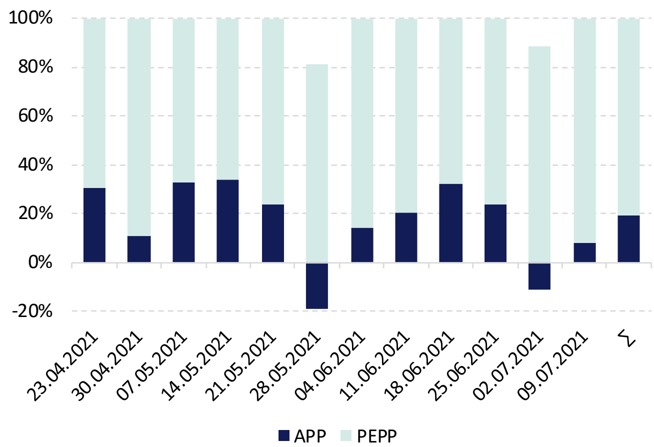


	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	∑
∑	106,952	78,593	101,322	87,334	98,555	78,092	70,892	80,829	96,082	99,036	100,841	100,813	1,099,34
PEPP	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	73,521	80,118	80,700	80,168	829,647
APP	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,915	22,561	18,918	20,141	20,645	269,694

Weekly purchases



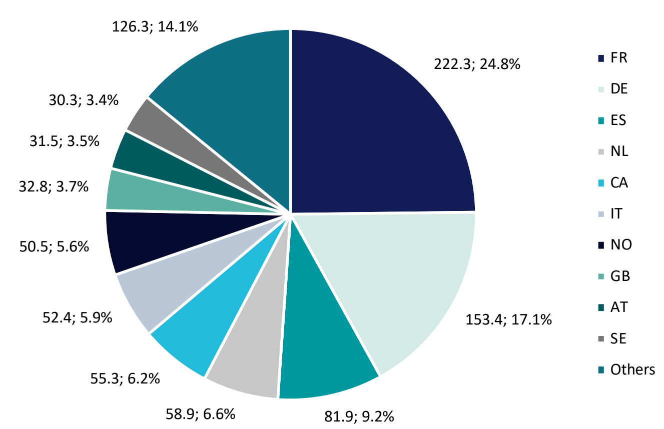
Distribution of weekly purchases



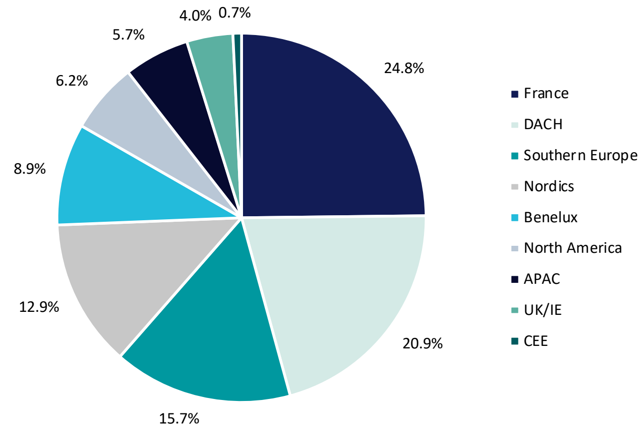
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



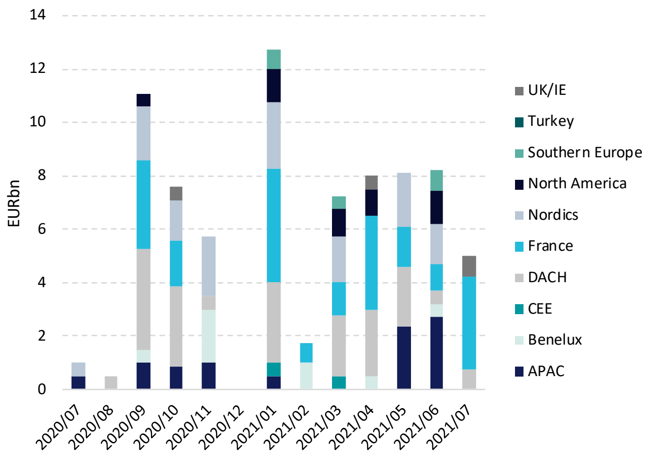
EUR benchmark volume by region (in EURbn)



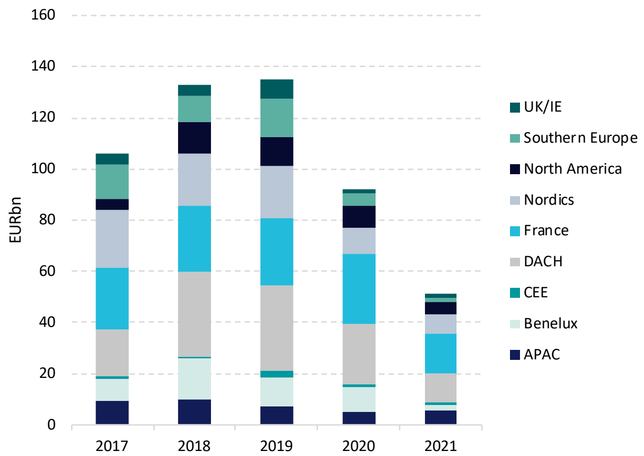
Top-10 jurisdictions

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	222.3	208	205	0.95	10.1	5.5	1.03
2	DE	153.4	229	228	0.61	8.4	4.7	0.43
3	ES	81.9	67	67	1.13	11.4	3.8	1.79
4	NL	58.9	60	60	0.93	11.3	7.3	0.90
5	CA	55.3	48	48	1.12	6.1	3.1	0.26
6	IT	52.4	61	60	0.83	9.1	4.2	1.38
7	NO	50.5	57	57	0.89	7.3	4.0	0.45
8	GB	32.8	39	38	0.87	8.3	3.7	0.90
9	AT	31.5	58	58	0.54	10.0	6.5	0.63
10	SE	30.3	36	36	0.84	7.5	3.5	0.44

EUR benchmark issue volume by month

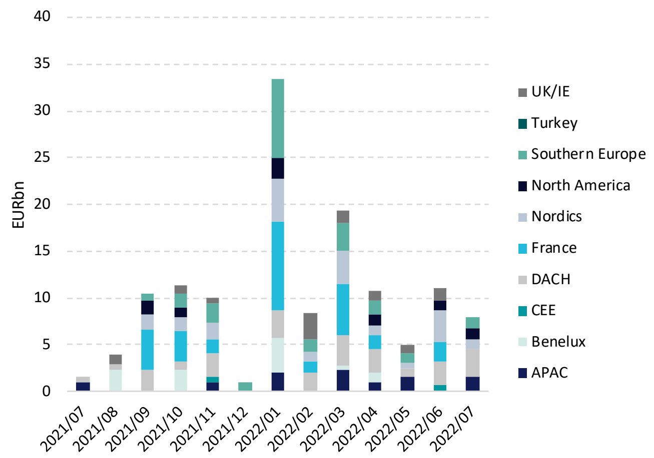


EUR benchmark issue volume by year

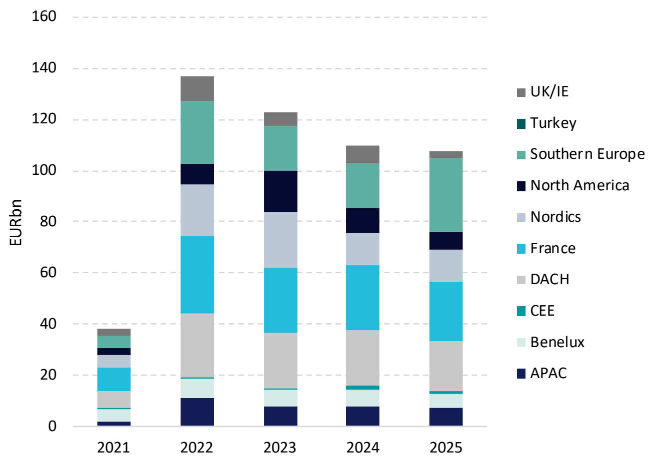


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

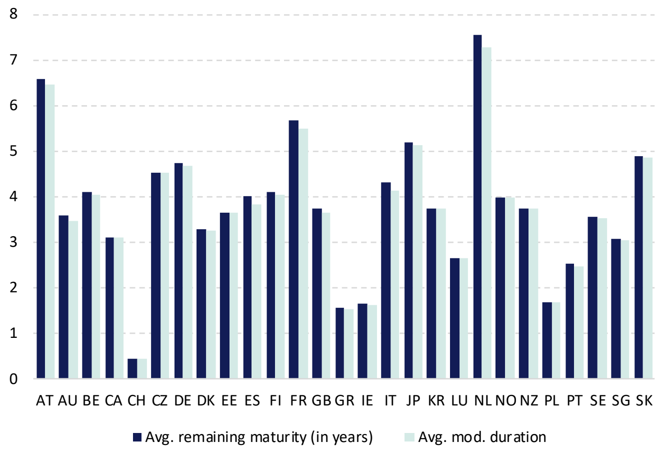
EUR benchmark maturities by month



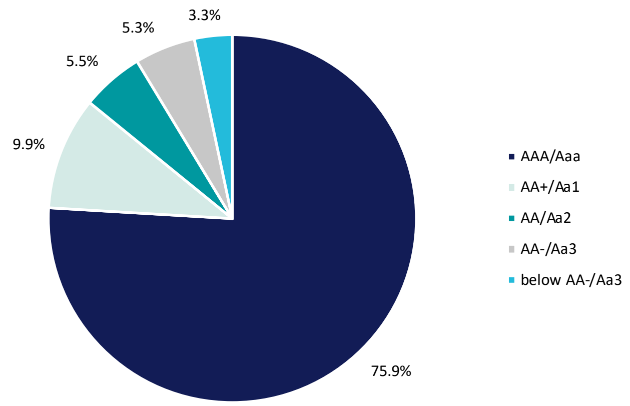
EUR benchmark maturities by year



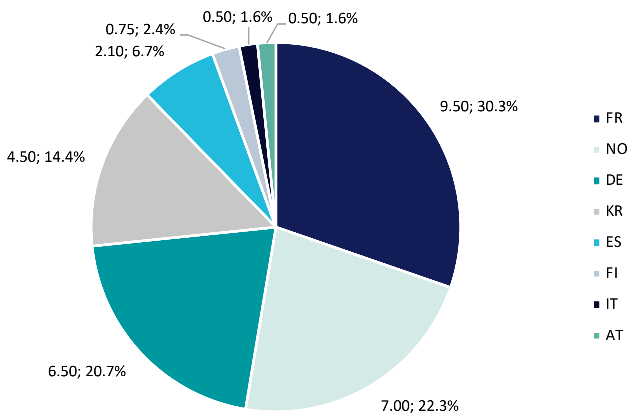
Modified duration and time to maturity by country



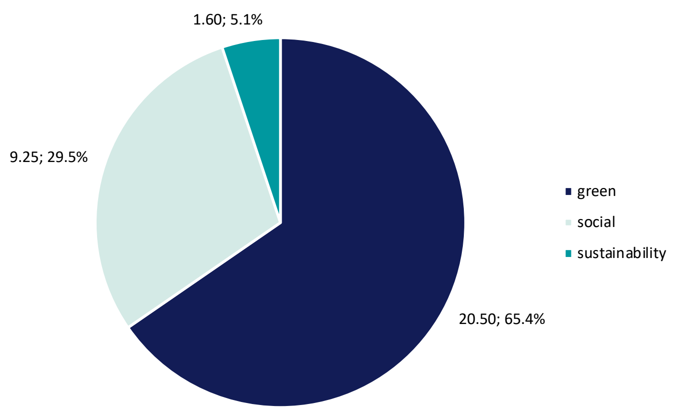
Rating distribution (volume weighted)



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

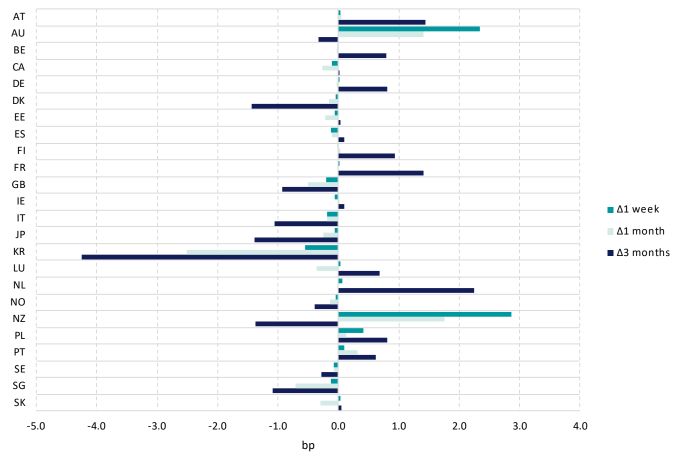


EUR benchmark volume (ESG) by type (in EURbn)

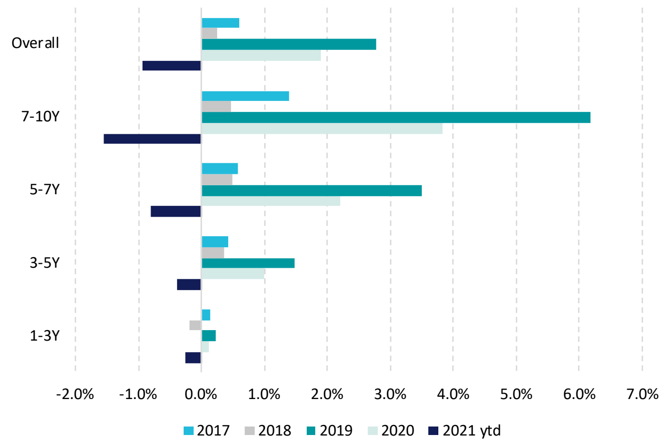


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

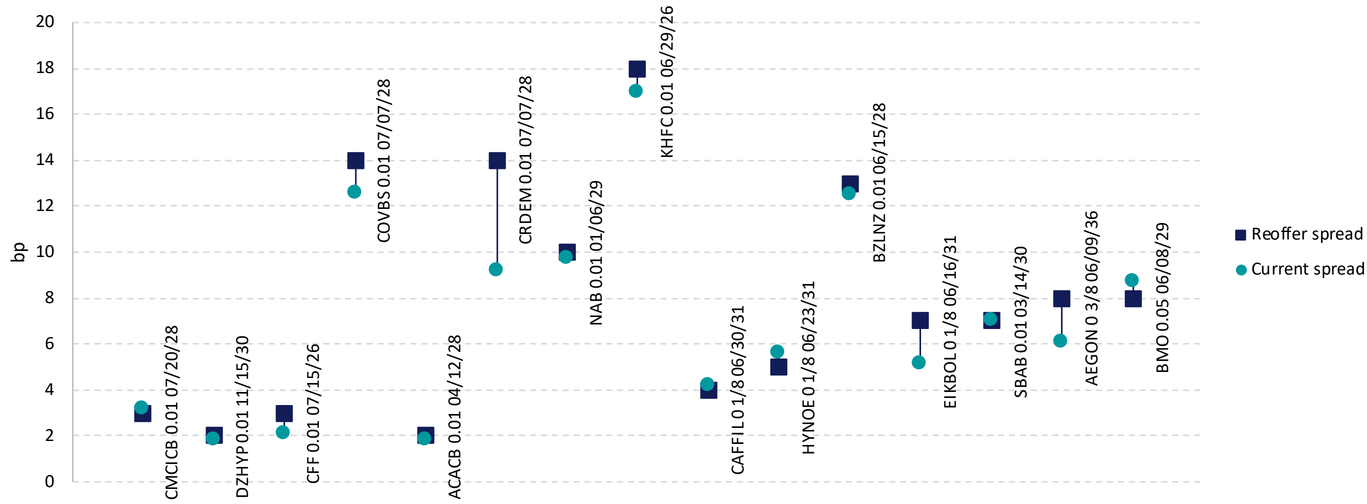
Spread development by country



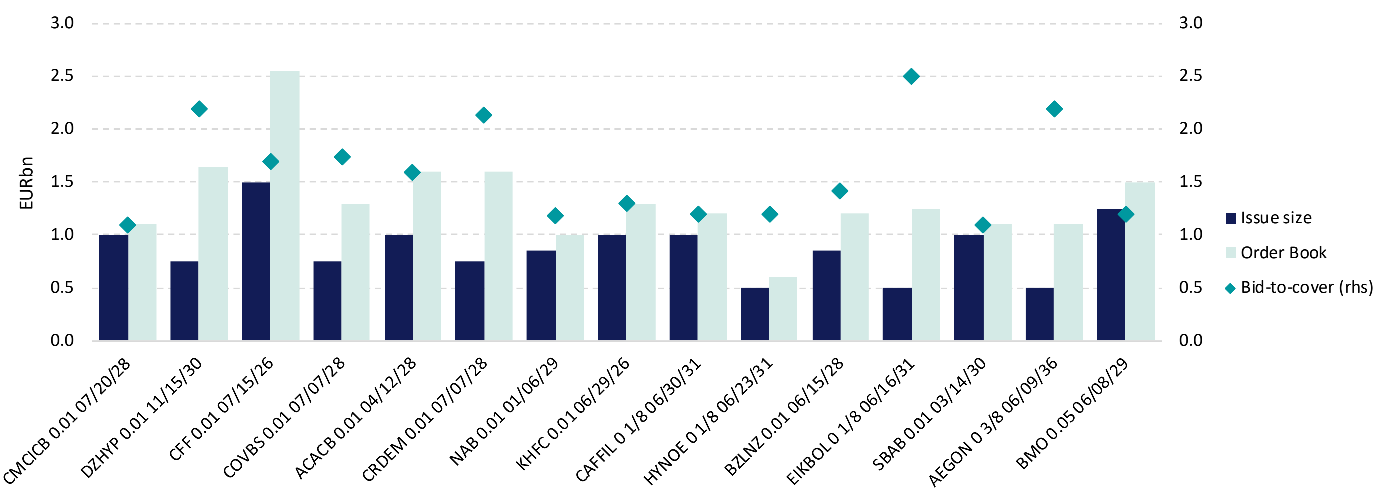
Covered bond performance (Total return)



Spread development (last 15 issues)



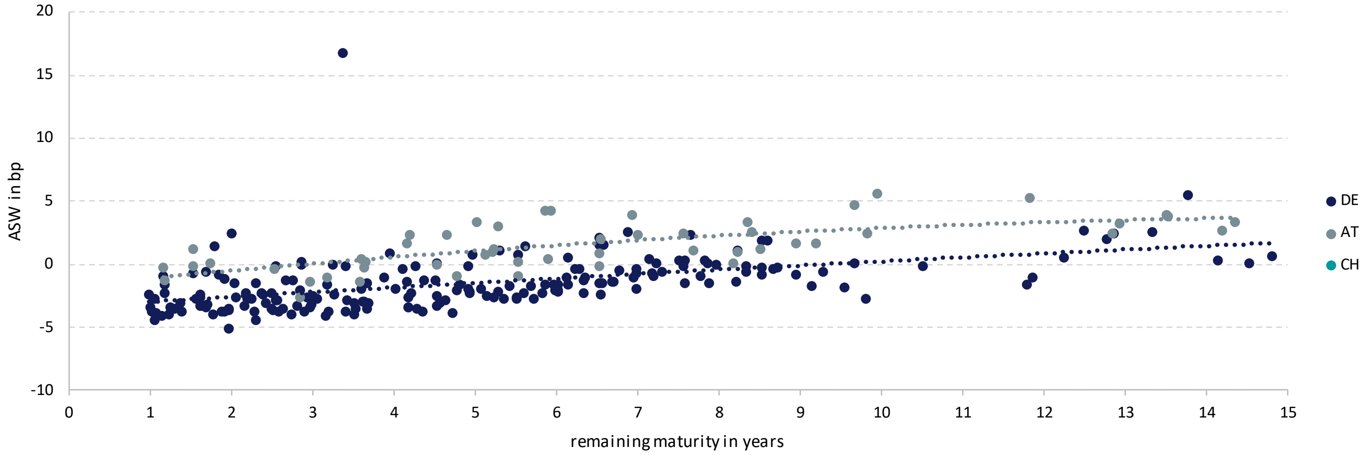
Order books (last 15 issues)



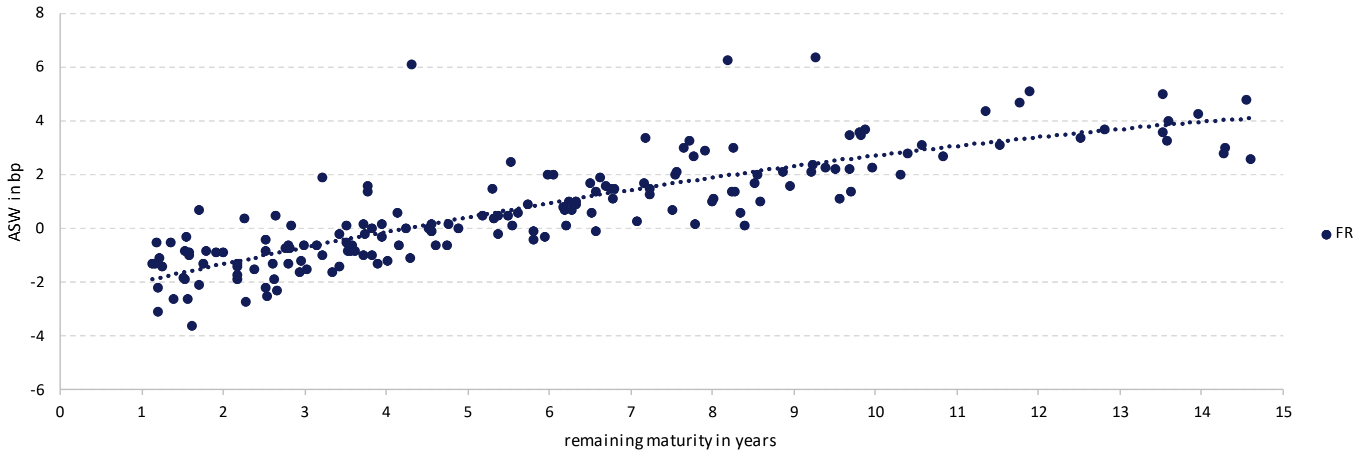
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

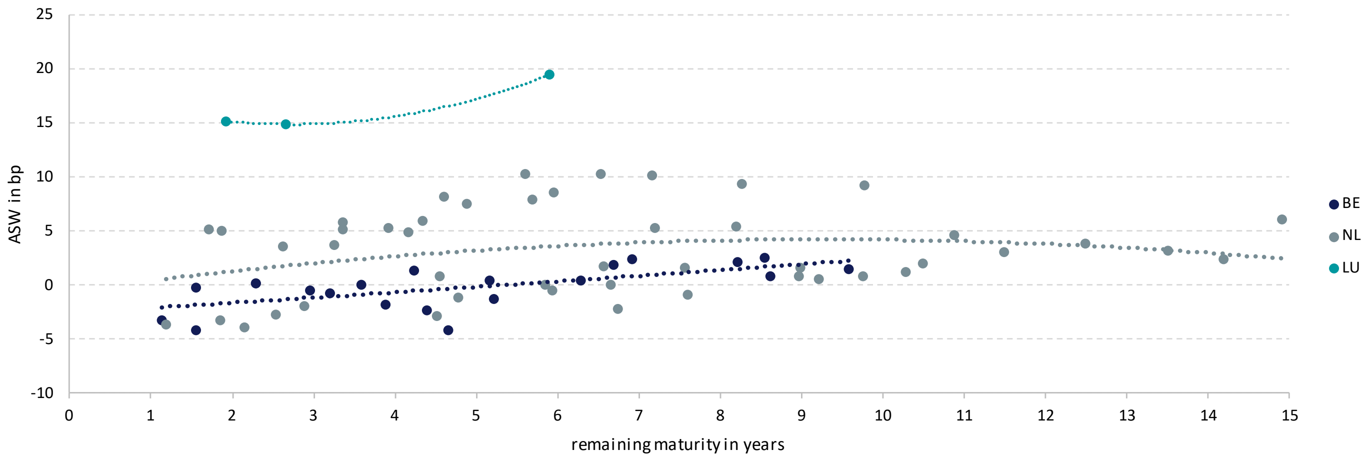
DACH



France

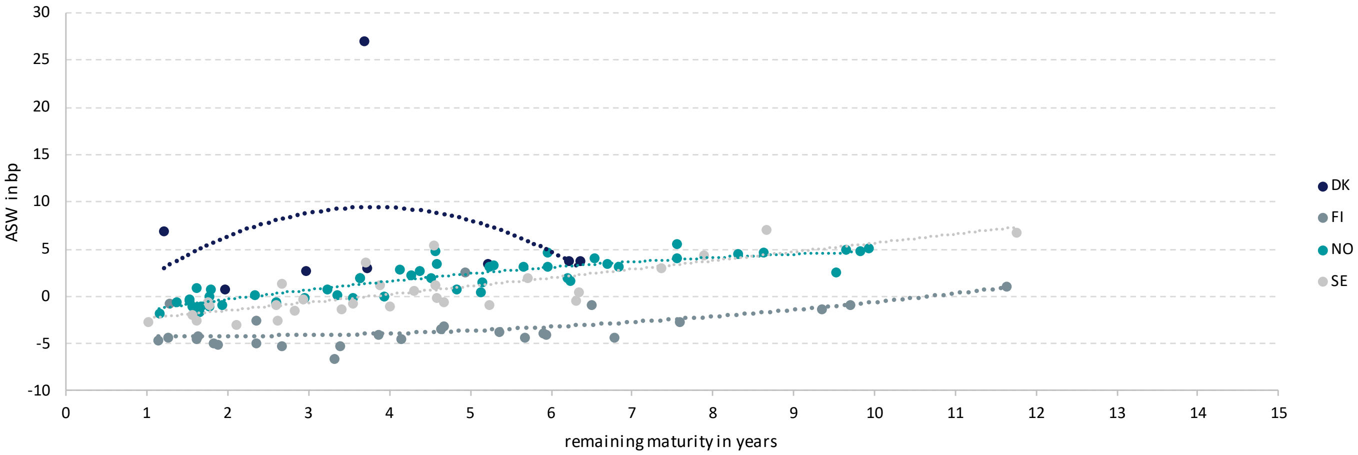


Benelux

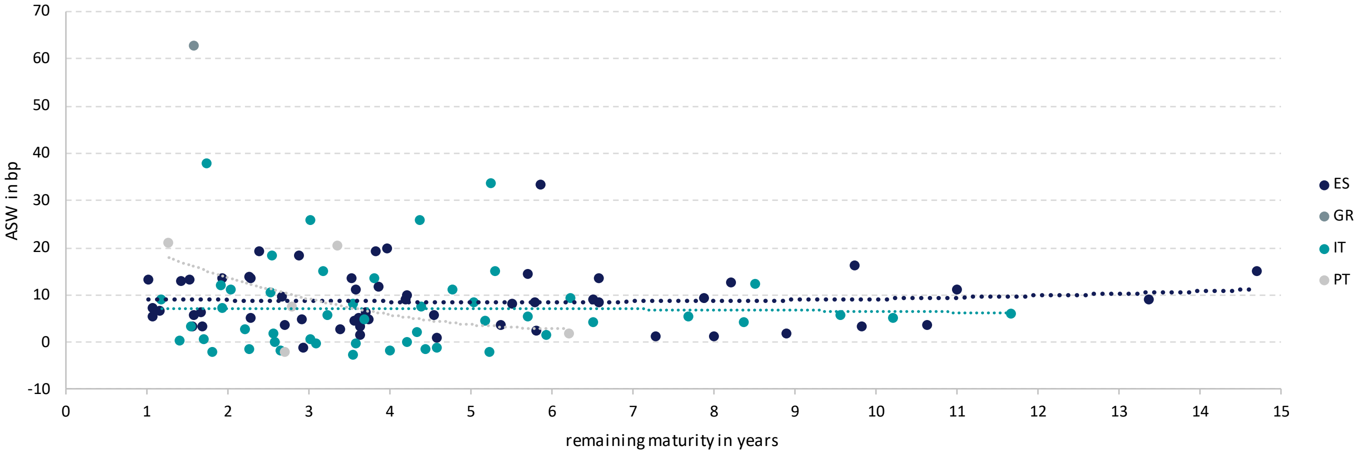


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

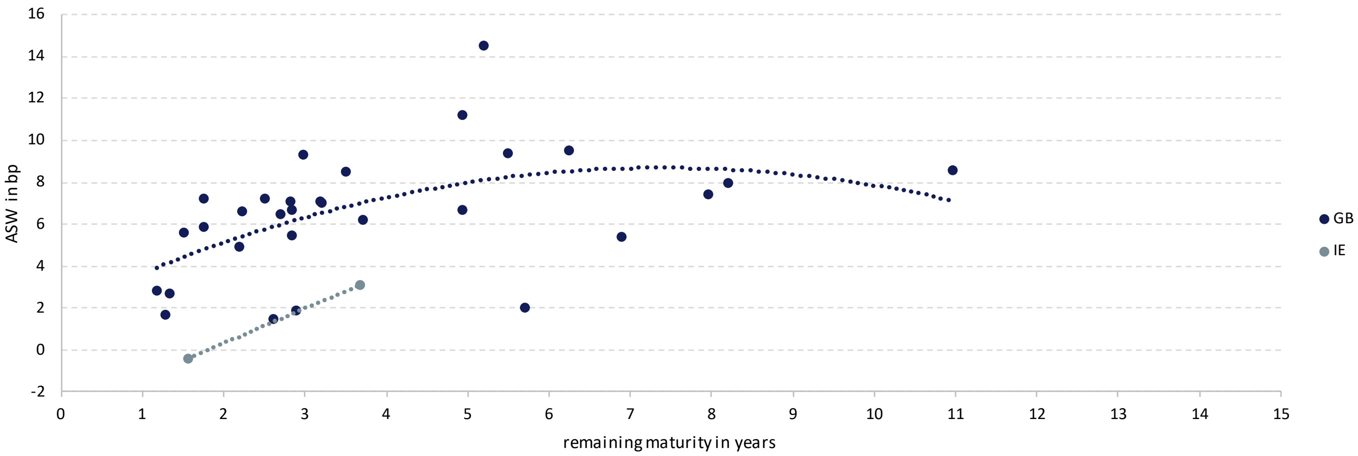
Nordics



Southern Europe

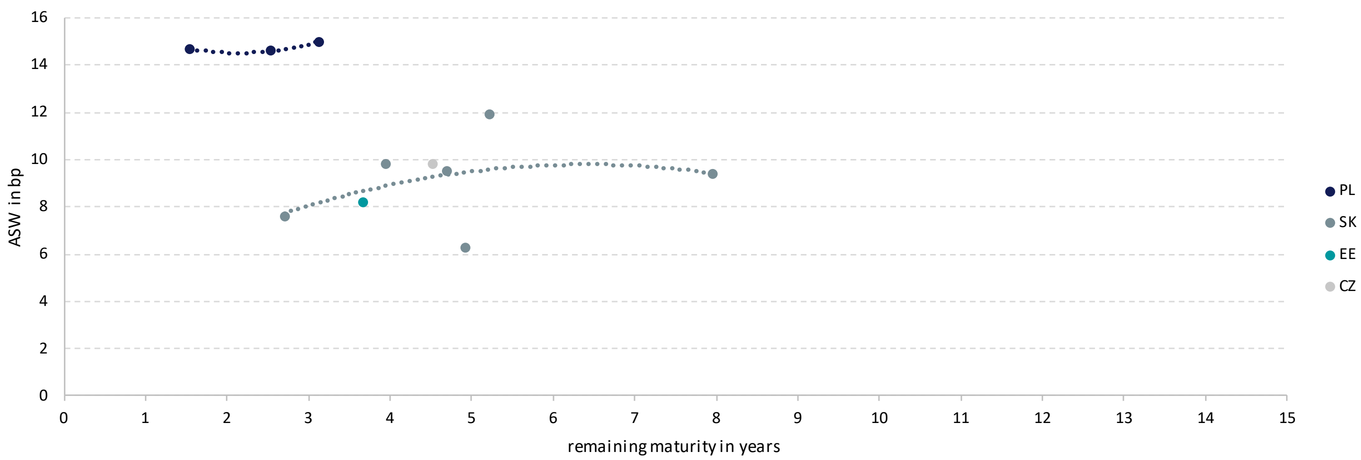


UK/IE

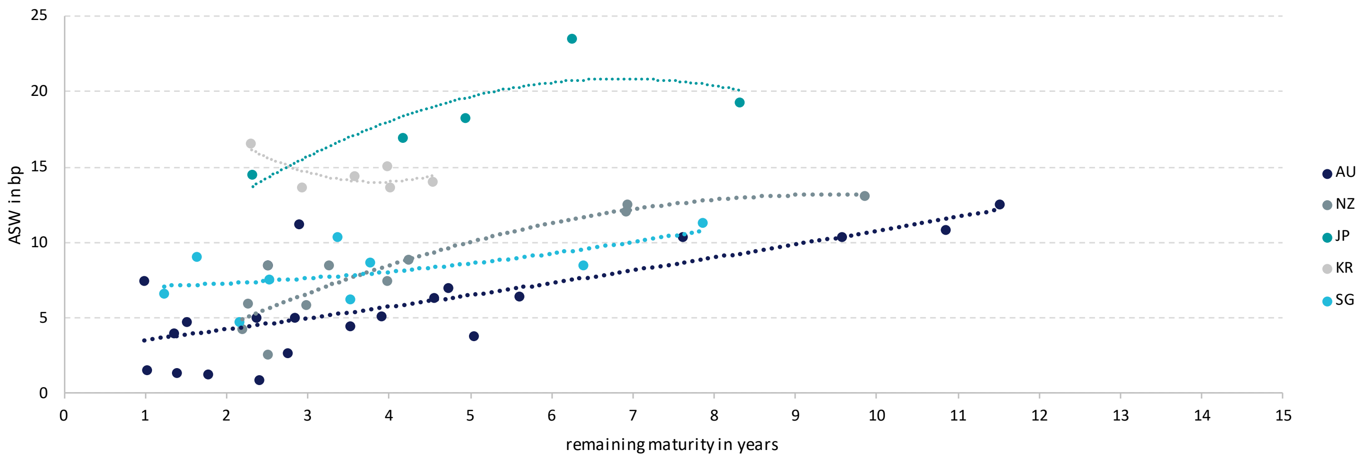


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

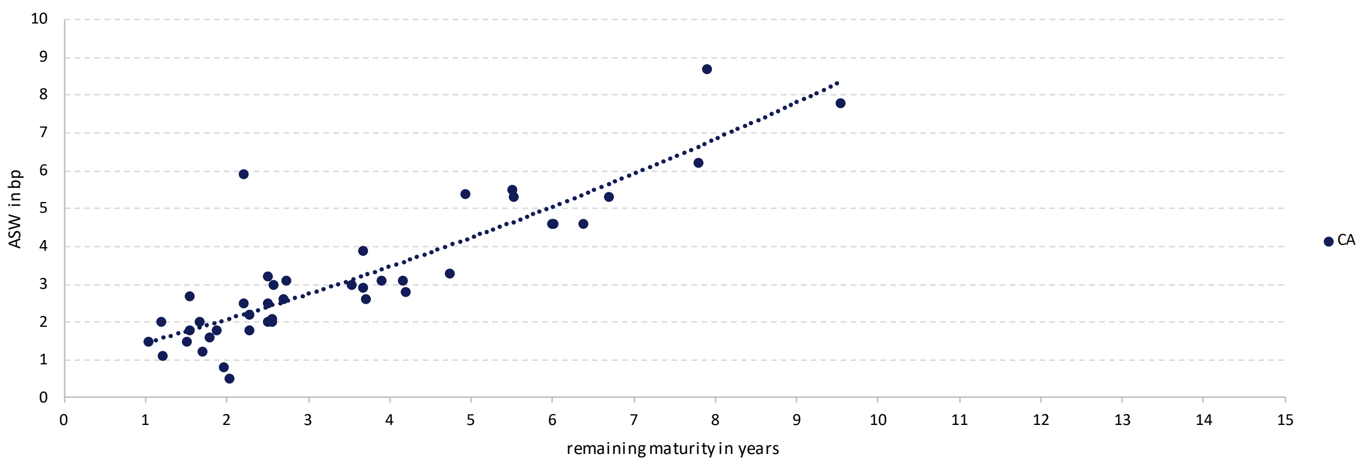
CEE



APAC



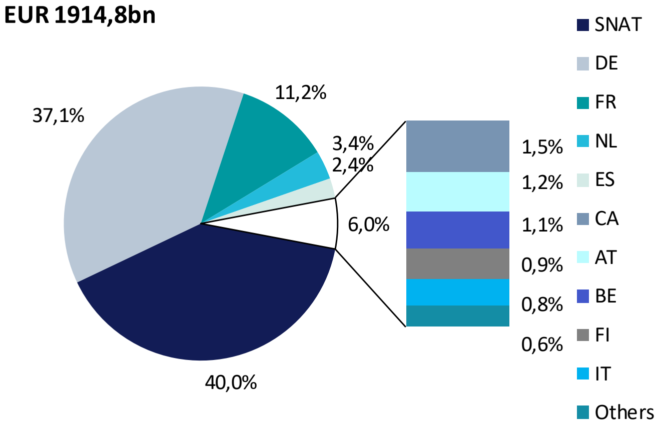
North America



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

Charts & Figures
SSA/Public Issuers

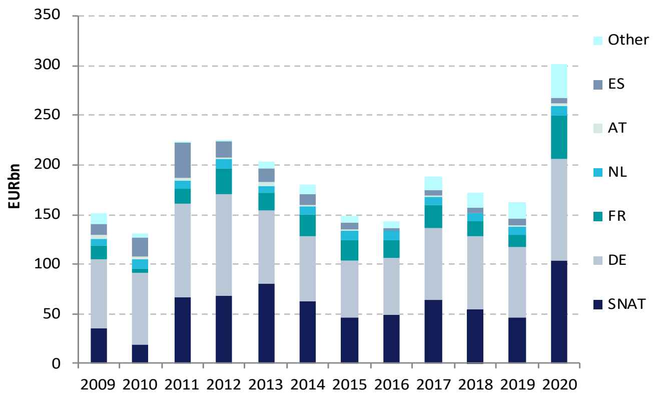
Outstanding volume (bmk)



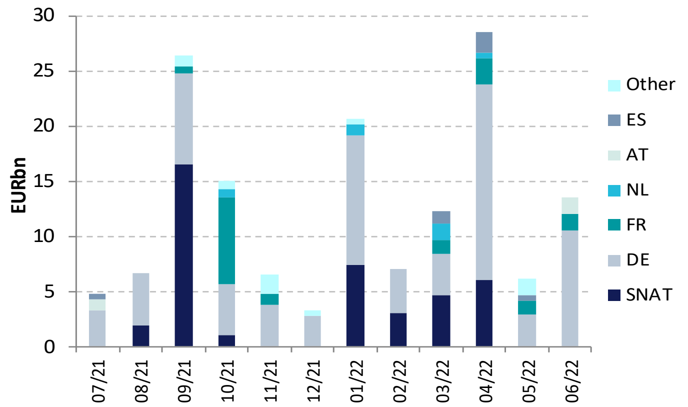
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	765,1	194	3,9	8,2
DE	711,2	558	1,3	6,9
FR	214,5	145	1,5	5,5
NL	64,6	65	1,0	6,5
ES	45,2	56	0,8	5,4
CA	28,5	20	1,4	5,7
AT	22,3	24	0,9	5,2
BE	20,2	24	0,8	14,6
FI	17,0	22	0,8	5,8
IT	15,0	19	0,8	6,1

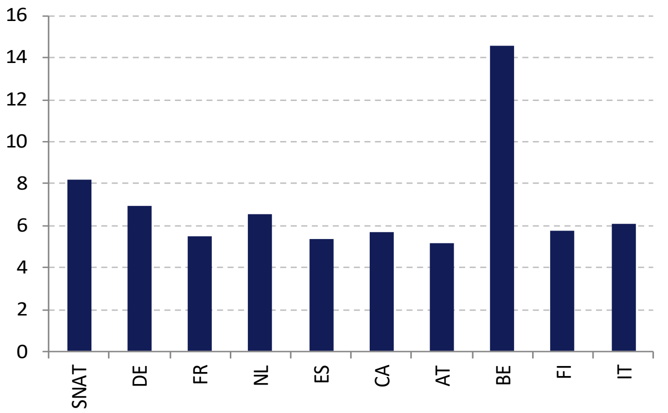
Issue volume by year (bmk)



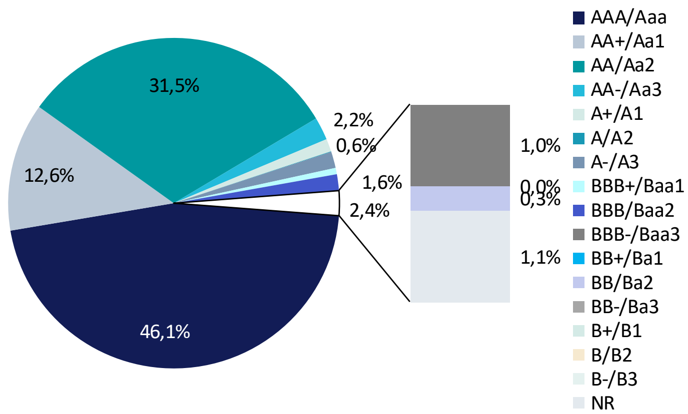
Maturities next 12 months (bmk)



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

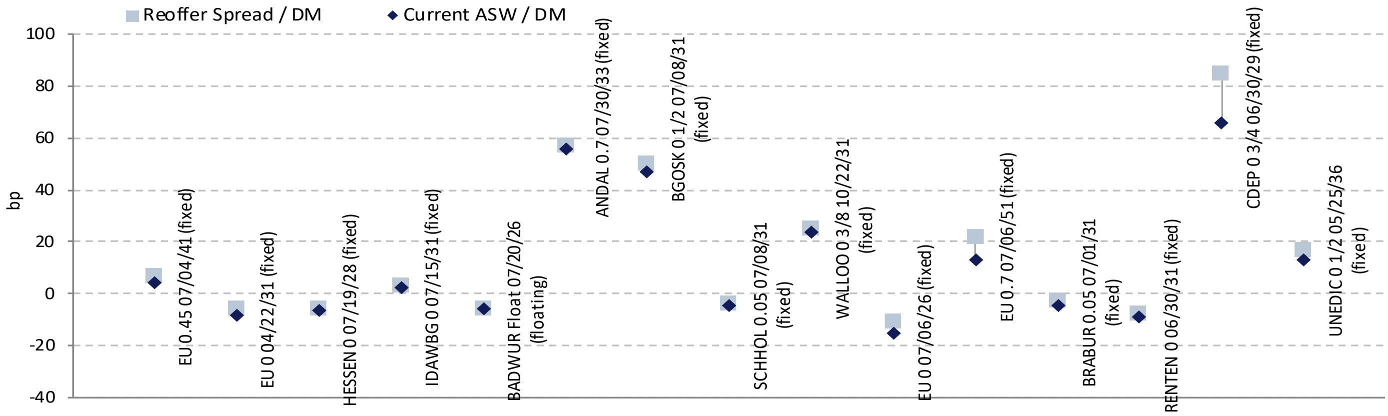


Rating distribution (vol. weighted)

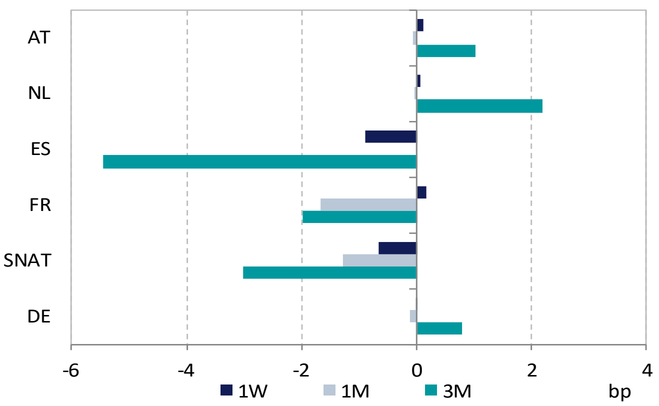


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

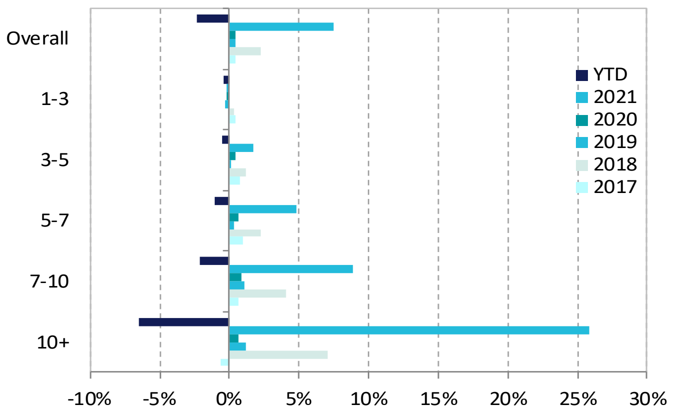
Spread development (last 15 issues)



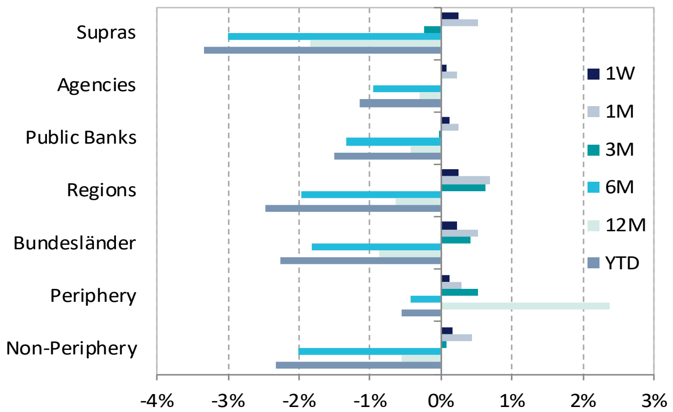
Spread development by country



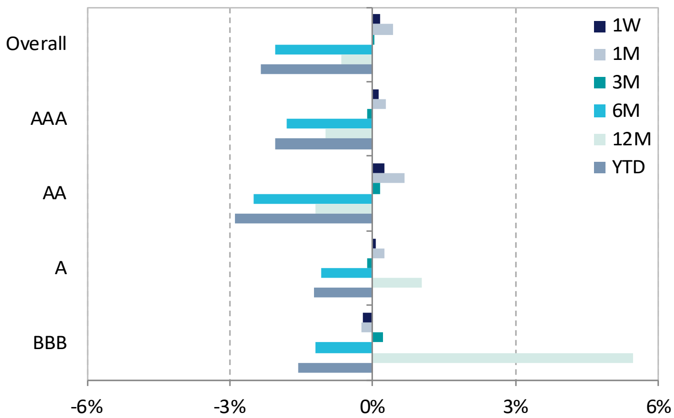
Performance (total return)



Performance (total return) by regions

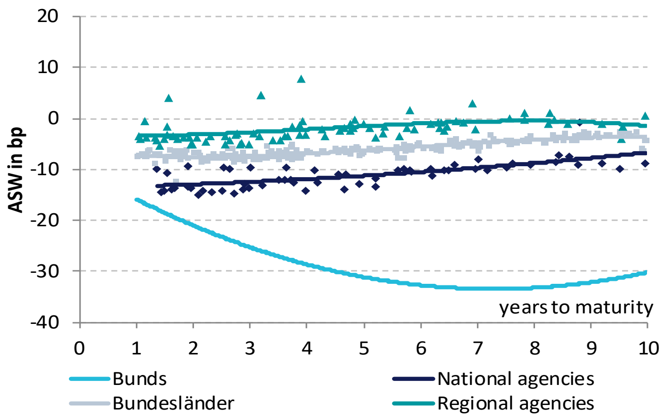


Performance (total return) by rating

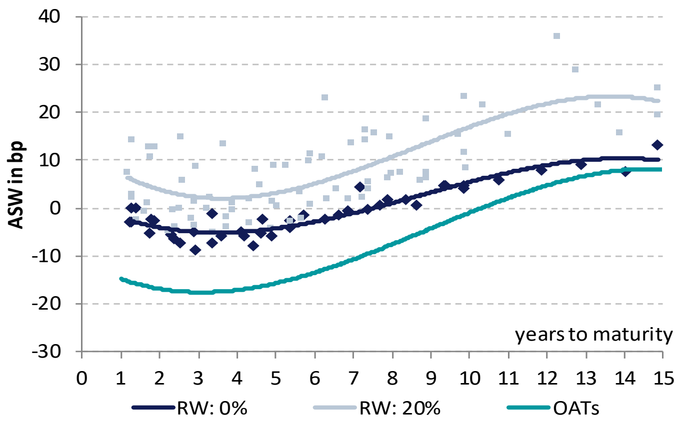


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

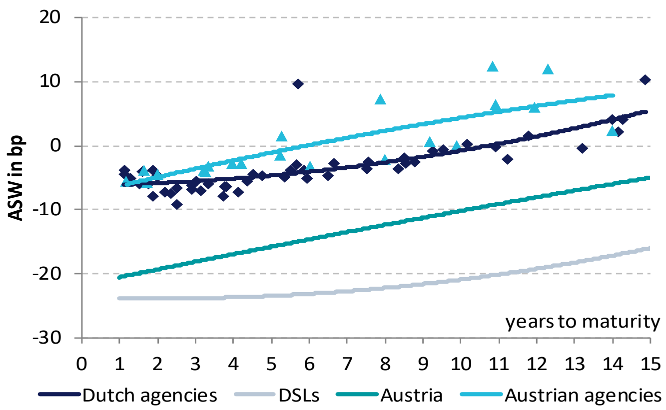
Germany (by segments)



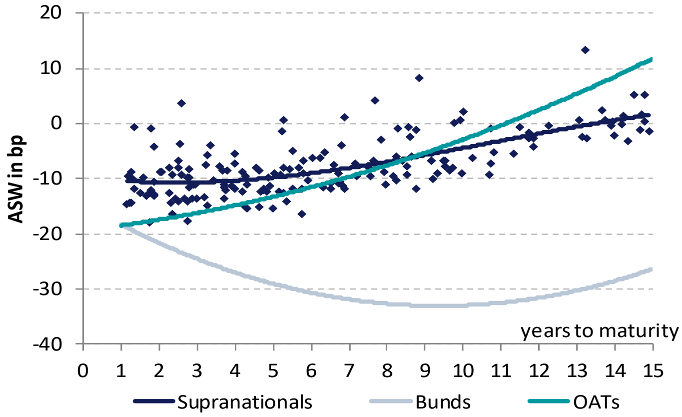
France (by risk weight)



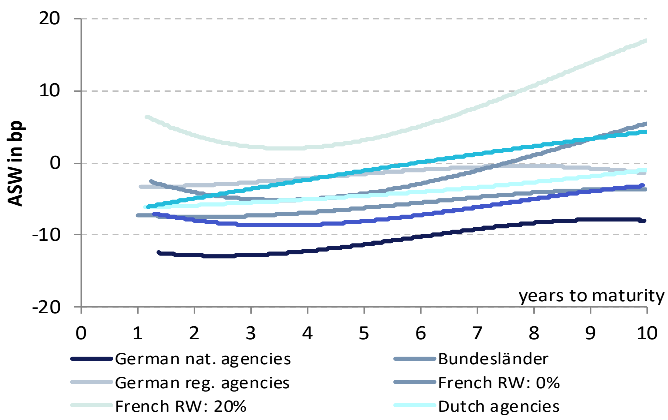
Netherlands & Austria



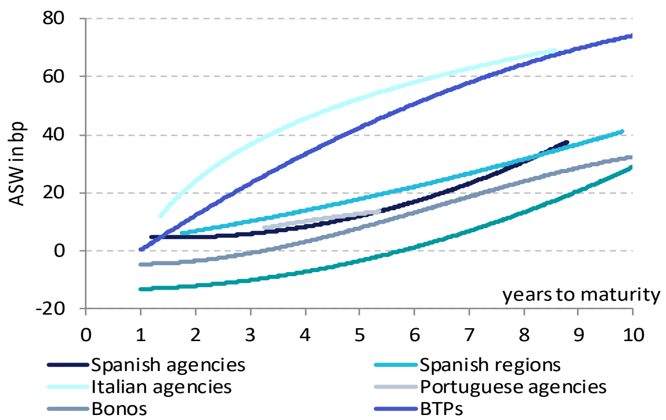
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
24/2021 ♦ 07 July	▪ Covered Bonds: Review of H1 and outlook for H2 2021 ▪ Half-time report 2021 – how will the SSA segment fare in the second half?
23/2021 ♦ 30 June	▪ Return of the Australian covered bond market: National Australia Bank issues first EUR benchmark since 2019
22/2021 ♦ 23 June	▪ TLTRO III.8 neither really strong nor extraordinarily weak: implications for the covered bond market ▪ Realignment of the German real property tax
21/2021 ♦ 16 June	▪ ICMA Green and Social Bond Principles: 2021 update ▪ The covered bond universe of Moody's: an overview Covered bonds vs. senior unsecured bonds
20/2021 ♦ 09 June	▪ PEPP reporting: increased pace of purchases in Q2 ▪ Covered bonds vs. senior unsecured bonds
19/2021 ♦ 02 June	▪ ECB preview: Spectre of inflation fuelling tapering thoughts ▪ FX covered bonds: Same symptomatology as EUR benchmarks?
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

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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Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Laender/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

Sales Wholesale Customers

Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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Additional information
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Issuer / security	Date	Recommendation	Bond type	Cause