Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

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Primary market: eight new benchmarks and one sub-benchmark deal continue...

As we expected, there has been further lively issuance activity over the past five trading sessions, with a total of EUR 7.0bn in EUR benchmarks and a sub-benchmark deal for EUR 250m placed in this period. Last Wednesday alone, we counted four new EUR benchmark bonds, with the Commonwealth Bank of Australia (ticker: CBAAU) as a non-EEA issuer paying the highest spread at ms +18bp (guidance: ms +20bp area; volume: EUR 1.0bn; order book: EUR 1.3bn; new issue premium: 6bp), in spite of the bond having the shortest maturity that day. After three public Pfandbriefe, Bayerische Landesbank (ticker: BYLAN) issued its first mortgage Pfandbrief deal this year, opting for a green format for the first time in the mortgage segment as well (term: 5y; volume: EUR 500m; order book: EUR 2.4bn; spread: ms -3bp; guidance: ms +2bp area; new issue premium: 0bp). Hypo Vorarlberg Bank made its second appearance in the market this year (term: 4.3y; volume: EUR 500m; order book: EUR 700m; spread: ms +16bp; guidance: ms +18bp area; new issue premium: 8bp), thereby increasing this year's issuance volume from Austria to a total of EUR 13.25bn (21 deals). Last Wednesday, Belgium's Argenta Spaarbank (ticker: ARGSPA) also placed EUR 500m with investors as part of its second transaction in 2022. The 4y deal attracted orders of EUR 700m (spread: ms +14bp; guidance: ms +16bp area; new issue premium: 7bp). At EUR 2.5bn from four deals, the total issuance volume from Belgium so far in 2022 is much lower than that from Austria. Last Thursday, Landesbank Berlin (ticker: LBBER) brought the EUR sub-benchmark segment to life with what is already its third mortgage Pfandbrief in 2022 (cf. NORD/LB Issuer View). This transaction, supported by NORD/LB, raised EUR 250m from investors (order book: EUR 420m) at a spread of ms -3bp (guidance: ms +1bp area) for 4.5 years (new issue premium: 0bp). This week was dominated by issuers from Germany and France. On Monday, NORD/LB supported the French issuer BPCE SFH (ticker: BPCECB) in its sixth market appearance this year (cf. NORD/LB Issuer View). With an issue volume of EUR 1.75bn, (order book: EUR 2.2bn; term: 5.3y; spread: ms +13bp; guidance: ms +15bp area; new issue premium: 6-7bp), it was the second-largest EUR benchmark transaction since the beginning of September. In contrast to the majority of new issues this year, the bond was issued in hard bullet format. Deutsche Pfandbriefbank also issued its third bond this year on Monday (term: 4.3y; volume: EUR 500m; order book: EUR 750m; spread: ms +3bp; guidance: ms +5bp area; new issue premium: 4bp). On Tuesday (yesterday), France's Société Générale SFH (ticker: SOCSFH) generated an order book of over EUR 4bn at the short end with a 3y bond featuring a spread of ms +2bp (guidance: ms +8bp area; new issue premium: 2bp). The issue volume was fixed at EUR 1.5bn, meaning that SOCSFH has now raised a total of EUR 5.75bn in 2022 spread across four separate deals. Berlin Hyp (ticker: BHH) increased its total issue volume this year to EUR 3.0bn with its fourth appearance in the market; yesterday's Pfandbrief deal (5y) raised a total of EUR 750m with a final spread of ms -2bp (order book: EUR 1.23bn; new issue premium: 3bp).

...the trend seen in recent weeks

The volume of EUR benchmark bonds issued in 2022 currently stands at EUR 174.1bn. All in all, therefore, the picture of the previous weeks is unchanged. Short maturities from the core countries Germany and France are enjoying the highest demand from investors at present, a fact that is very clearly illustrated by order book sizes, the tightening of the initial guidance and new issue premiums. However, even here, investors are demanding some concessions from non-EEA countries such as Australia, as demonstrated by the CBAAU transaction. Moving towards the medium maturity segment, second-tier issuers in particular are having to come closer to the spread expectations of investors, although demand in the past week has shown that, even in this segment, new issues can be placed without any real difficulty. Issuers have been avoiding long maturities since mid-September (last deals: DZHYP 9.2Y; DB 10Y), with investors concentrating on the short and medium-term segment. In the short term, it looks as if general market conditions could improve a little and it will be interesting to see whether the odd issuer tries its luck again at the long end. On favourable days, we could well imagine that investors would be risk inclined. However, based on the technical details of new issues in the last few weeks (oversubscription, order book size, new issue premiums), we deduce that the demand side would expect some more price concessions (i.e. a new issue premium).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Societe Generale SFH	FR	18.10.	FR001400DHZ5	3.0y	1.50bn	ms +2bp	AAA / Aaa / -	-
Berlin Hyp	DE	18.10.	DE000BHY0JW5	5.0y	0.75bn	ms -2bp	- / Aaa / -	-
BPCE SFH	FR	17.10.	FR001400DGZ7	5.3y	1.75bn	ms +13bp	- / Aaa / AAA	-
Dt. Pfandbriefbank	DE	17.10.	DE000A30WF27	4.3y	0.50bn	ms +3bp	- / Aa1 / -	-
Argenta Spaarbank	BE	12.10.	BE6338543786	4.0y	0.50bn	ms +14bp	- / - / AAA	-
Bayerische LB	DE	12.10.	DE000BLB6JT9	5.0y	0.50bn	ms -3bp	- / Aaa / -	X
Hypo Vorarlberg Bank	AT	12.10.	AT0000A30ZH4	4.3y	0.50bn	ms +16bp	- / Aaa / -	-
CBA	AU	12.10.	XS2544645117	3.0y	1.00bn	ms +18bp	AAA / Aaa / -	-

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

Secondary market: similar picture to the primary market

The action is taking place at the short end over on the secondary market as well, both in terms of turnover and spread development. New issues are currently being well received with pricing at reoffer or slightly tighter, and there is little selling pressure, especially in the case of German issuers if new paper comes onto the market. In the case of APAC names, the picture is slightly different since, in this case, higher new issue premiums are being paid for new issues. This means that paper on the secondary market looks too expensive and, if anything, it is being offered for sale in exchange for the new issue. The underperformance of UK covered bonds has come to a halt for the time being after the government's U-turn, although the market can be described as extremely illiquid in this case. A yield comparison of the new two-year public Pfandbrief issued by LBBW (re-offer: ms -12bp, currently around ms -25bp) with the DZHYP bond from mid-September which still has 9.1 years to run (currently around ms +7bp; reoffer: ms +7bp) shows that, at present, a maturity extension of seven years only brings investors a yield premium of roughly 0.55% (3.30% DZHYP 9.1Y vs. 2.75% LBBW 2Y). Apart from general risk inclination, we also see this as a reason for the preference for the short maturity segment. Should there be issues at the long end, as we suggested earlier, and these are attractively priced to match, then we believe that the long end in the secondary market could become cheaper as well and spread curves could become generally steeper.

S&P presents latest "Covered Bond Insights" report on the German Pfandbrief market

A few days ago, the risk experts at Standard & Poor's (S&P) turned their attention to the German Pfandbrief market. One of the key statements in "German Covered Bond Market Insights 2022" relates to the impact on risk analysis of adjustments in the Pfandbrief Act (which came into effect on 01 July 2021 and 08 July 2022). The study looks in particular at the option to extend maturities. This, according to S&P, could lead to an improvement in possible mismatches in the maturity profile, above all in the case of programmes backed by residential mortgages. In principle, the authors still regard the Pfandbrief Act as a very strong covered bond framework. According to S&P, there are no rating adjustments arising from the changes to the Act. The German real estate market was also part and parcel of the analysis. The agency foresees a cooling in price increases in this respect, justifying this in particular in light of rising inflation and declining affordability.

Moody's upgrades Deutsche Bank's rating; consequently, structural covered bonds are now also rated Aaa

Last Wednesday, the rating agency Moody's raised all of Deutsche Bank's long-term ratings and rating assessments by one notch. The bank's LT deposit rating rose to A1 from A2 and its senior unsecured debt rating was likewise upgraded to A1 from A2. The outlook for the long-term deposit and senior unsecured debt ratings has been changed to stable from positive. In addition, the ratings for the bank's junior debt, etc. were also upgraded. Moody's has justified the upgrade in light of Deutsche Bank's progress towards achieving its medium-term targets and improved, albeit still relatively modest, profitability. An already significantly reduced cost base should help Deutsche Bank mitigate the challenges arising from higher inflation, thus protecting its earnings power, according to the rating experts. Moreover, the latest interest rate rises have improved the outlook for higher returns in the bank's core lending business. Moody's also welcomes the bank's reduced dependence on market funding, and its high quality deposit base. Moody's expects the bank's loans loss charges to be contained against the current background of uncertain macroeconomic conditions, a fact that is reflected in the stable outlook. The upgrade of the issuer rating has led to the upgrade in the rating for the structured mortgage covered bonds to Aaa from Aa1. At the same time, the committed over-collateralisation (OC) remained unchanged at 15%. According to Moody's, the actual OC stood at 68% at the time of reporting. The timely payment indicator (TPI) for the programme is rated as "high" by Moody's.

Market overview SSA/Public Issuers

Author: Jan-Phillipp Hensing

Brandenburg State Government announces declaration of emergency until 2024

In response to the energy crisis, Brandenburg's red-black-green coalition government is planning its own relief programme – the Brandenburg Pact. It is expected to provide EUR 2bn worth of support until 2024 and support will be targeted at areas not covered by Germany's federal programmes. Minister-President Dietmar Woidke (SPD) is of the view that both families and SMEs, in addition to social institutions and Brandenburg transport services will need more help. It is also a matter of importance for the coalition that subsidies are focused on remodelling energy structures to alleviate rising energy prices on the one hand and to improve energy security on the other. You may recall that the federal government presented a package worth EUR 200bn to protect people and companies from the consequences of surging gas and electricity prices on 29 September. The "*Doppel-Wumms*" (dual whammy) is to be financed via the Economic Stabilisation Fund, with no suspension of the debt brake being envisaged initially. The German government's special fund, which was last activated to manage the crisis caused by the coronavirus pandemic, will be authorised to borrow sufficient amounts for this purpose according to a current draft law. With the Brandenburg Pact, the Bundesland of Brandenburg is adopting a different approach: under the debt brake, which will (actually) take effect again in 2023, the Bundesland is in principle barred from using income from loans to balance its books. Article 103 of the state constitution defines exceptions to this rule: "To take into account a negative course of economic development which deviates from the normal operation, the principle set out in paragraph 1 may be derogated therefrom accordingly. In the event of natural disasters or exceptional emergencies beyond the control of the state which seriously impair its financial situation, a decision by the Landtag may derogate from the principle referred to in paragraph 1." The state parliament would like to make use of the exception specified in sentence 2 and has therefore recommended that, in view of the present energy crisis, the Landtag declares an emergency for 2023 and 2024. This would lead to Brandenburg being seen more frequently on the primary market than was previously assumed in the next two years as it increases borrowing. However, the new debt raised under the exceptions must come with a repayment plan. In addition to Brandenburg, other German Bundeslaender are discussing additional aid at Laender level and how this is to be financed. For example, the Landtag in Saarland will discuss a "transformation fund for structural change in Saarland" on Thursday, which is expected to amount to EUR 3bn. Given the slight differences in implementing the debt brake at Laender level, we plan to produce a separate article to illustrate these differences at length in the near future.

KfW-ifo SME barometer: business climate deteriorates further…

The persistently negative news surrounding the war in Ukraine and the energy crisis has contributed to a further fall in the SME business climate in September. Following a loss of 7.8 points, it now stands at -23.9 balance points, which is the lowest level for 28 months. There was a marked deterioration in both components of the business climate: the assessments of the business situation fell by 7.1 points to -0.1 balance points. The assessments of the business situation therefore dropped by 12.4 points in total in the third quarter, which indicates that gross domestic product will shrink in summer according to KfW. Business expectations for the next six months continue to move ever closer to the all-time low reached at the beginning of the pandemic: with a reduction of 8.3 points, it amounts to -44.1 balance points. The deterioration in the business climate covered all main business sectors in September. Sentiment is lowest in the retail sector (-6.5 points to -30.7 balance points) and in the wholesale sector (-4.3 points to -30.7 balance points). This is attributable to the fact that retailers are primarily afraid that high inflation rates will massively reduce purchasing power and that households will seek to save money when deciding what to buy for reasons of caution. The manufacturing sector currently ranks in midtable with a reduction of 6.5 points to -27.7 balance points. The business climate is currently least hard hit among service providers (-7.3 points to -18.8 balance points) and in construction (-6.4 points to -15.3 balance points). Construction, in particular, is increasingly suffering from higher prices for energy and materials as well as higher financing costs. Sentiment among large companies has also nosedived: having just about remained stable in the previous month, sentiment fell by 7.5 points to -26.0 balance points in September. Similarly to sentiment among SMEs, business expectations fell by -10.6 points to the current figure of -41.4 balance points. Large companies still take a worse view of the business situation, at -7.9 balance points. A comparison of the business areas of large companies reveals that sentiment in construction is – in relative terms – most positive (-9.5 points to -18.3 balance points), with all sectors posting significant declines compared with the previous month.

…and the KfW-ifo credit constraint indicator paints a similar picture

Compared with the previous quarter, SMEs are finding it far more difficult to obtain funding from banks, according to the KfW-ifo credit constraint indicator. In total, 27.9% of those SMEs asked that are in negotiations to borrow funds indicated that banks were adopting more restrictive lending policies. This is an increase of 7.1 percentage points on the previous quarter. The credit constraint indicator has therefore hit a new record high since the introduction of the new survey methodology in 2017. Broken down by economic area, service providers, at 33.2%, complained most about banks adopting more restrictive lending policies, followed by the manufacturing sector (27.7%). These were followed at some distance by the main construction trades (18.3%), wholesale (17.3%) and retail sectors (17.2%). "Given the looming recession, the huge spikes in energy prices and rising interest rates, more cautious bank policies and worsening financing terms were to be expected," according to Dr Fritzi Köhler-Geib, Chief Economist at the KfW. In contrast, the credit constraint indicator for large companies decreased by 2.3 percentage points to 11.2% in the third quarter of 2022, meaning that large companies' traditional advantage in accessing credit widened significantly. However, in both large companies and SMEs, the proportion of companies actually negotiating borrowings is below the longer-term average, at 20.3% of SMEs and 29.9% of large companies.

Primary market

In this week's trading, reinforcements were provided by the ESG segment: in total, four issuers from our coverage issued sustainable bonds. However, as usual, we shall start in chronological order: in our last edition, we commented on the mandates placed by three issuers, all of which appeared on screen shortly after. The French development bank Agence Française de Développement (ticker: AGFRNC) got things underway: order books for its sustainability bond with a ten-year maturity opened at a guidance of OAT +55bp area. The interpolation of FRTR 2% 11/25/32 and FRTR 1.25% 05/25/34 served as a benchmark. The order book finally totalled EUR 1.3bn during the marketing phase and the amount of the bond was set at EUR 1.2bn. There was no tightening compared with guidance. France's Caisse des Dépôts (ticker: CDCEPS) also approached investors with a sustainability bond – the bond has a maturity of five years and is worth EUR 500m. The guidance amounted to OAT +58bp area (interpolation of FRTR 0% 02/25/27 and FRTR 0.75% 02/25/28) and tightening of one basis point to OAT +57bp was possible during the marketing phase. Here, the order book totalled EUR 790m. The European Stability Mechanism (ticker: ESM) was the next issuer to appear on the market, having previously sent a RfP to selected banks. Its ESM 1% 06/23/27 was increased by EUR 2bn at ms -21bp. Tightening of one basis point compared with the guidance figure was reported: the order book amounted to EUR 4.2bn. The Spanish rail network operator ADIF-AV (ticker: ADIFAL) approached investors. A total of EUR 500m changed hands at SPGB +45bp (guidance: SPGB +45bp area) with a seven-year maturity. The order book for the green bond came to EUR 560m. We observed three issues yesterday, on Tuesday: Dutch promotional bank FMO (ticker: NEDFIN) held discussions with investors beforehand; it subsequently raised EUR 500m in the form of a sustainability bond. The bond has a maturity of five years and the guidance started at ms -11bp area. The bond was ultimately placed at ms -12bp, with the corresponding order book totalling EUR 1bn. KfW (ticker: KFW) also sought additional funding, raising EUR 3bn at ms -46bp (guidance: ms -46bp area) with a maturity of three years. The order book amounted to EUR 3.2bn. The French promotional bank Bpifrance (ticker: OSEOFI) also issued a bond with a ten-year maturity yesterday. Altogether, a total of EUR 1.25bn changed hands at OAT +58bp (guidance: OAT +60bp area; order book: EUR 2.1bn). As usual, we would also like to mention the upcoming EU auction next Monday. According to the funding plan, this is the penultimate auction for bonds this year – the last auction will take place on Monday, 28 November.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
KFW	DE	18.10	DE000A30VUG3	3.1y	3.00bn	ms -46bp	- / Aaa / AAA	-
OSEOFI	FR	17.10	FR001400DHQ4	10.1y	1.25bn	ms +21bp	AA / Aa2 / -	-
NEDFIN	NL	14.10	XS2548490734	5.0y	0.50bn	ms -12bp	AAA / - / AAA	X
ADIFAL	ES	11.10	ES0200002071	6.8y	0.50bn	ms +42bp	A- / Baa2 / -	X
CDCEPS	FR	11.10	FR001400DCH4	5.1y	0.50bn	ms -11bp	- / Aa2 / AA	X
AGFRNC	FR	11.10	FR001400DCB7	10.3y	1.20bn	ms +17bp	AA / - / AA	X

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

Covered Bonds
ECB preview: +75bp and the balance sheet question

Author: Dr Frederik Kunze

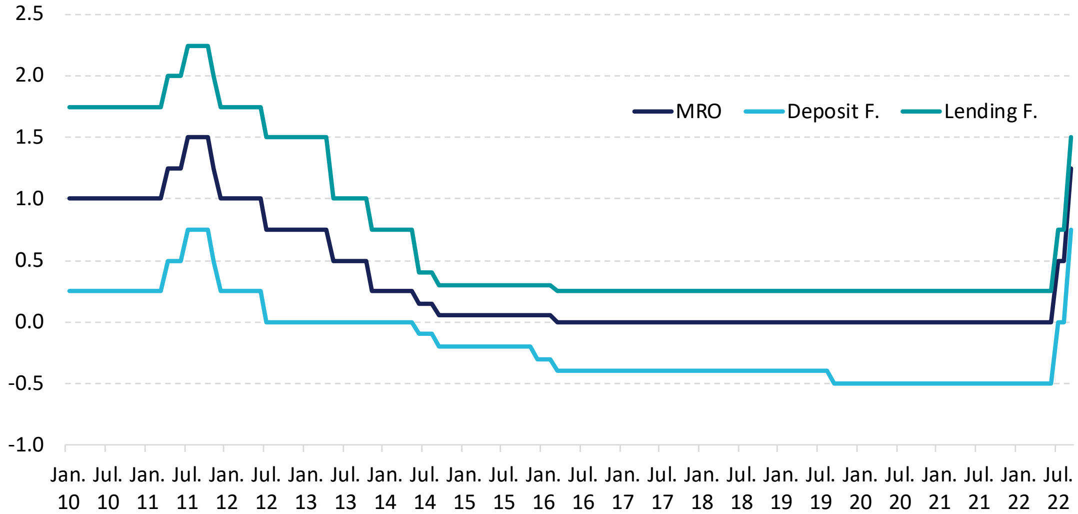
ECB meeting on 27 October: Another +75bp as "base case".
The next regular meeting of the ECB's Governing Council takes place next week. There is definitely the potential for the October meeting to provide decisions which will point in the direction of onward travel. Once again, moreover, the importance of the subsequent press conference should not be underestimated in view of the impulses it might provide for the capital markets. If anything, the influence factors that the ECB Council will have to evaluate and the short, medium and long-term consequences of its own decisions that ECB Council Members will have to take into account seem to have increased rather than decreased over the past few weeks. The situation in the UK is likely to be generating additional uncertainty for the Council as well.Recent events in Britain have shown the undesirable consequences that an overly dynamic approach could provoke in the financial markets. Interventions in the last few days in the context of the IMF/World Bank meeting by a number of Council Members already provide a taster of what could also be discussed or even decided at the ECB meeting next week. The discussion could become heated, above all in relation to the issue of reducing the central bank's balance sheet through quantitative tightening (QT) or even changes in the TLTRO III conditions. We therefore propose to concentrate on these topics in today's preview.

Minutes of the September meeting: central bank balance sheet not really an issue
The ECB released the minutes of the September meeting on 6 October. Essentially – and hardly surprisingly – the minutes of the meeting reflect the discussions about the +75bp rate hike which the bank was aiming for just as much as the debate surrounding rising inflation and the direction of interest rates beyond this rate rise. Despite that fact that a number of high-ranking ECB officials have opted to publicly air their thoughts on issues such as reducing the central bank's balance sheet and TLTRO III tenders, which have recently been the subject of increased attention, these topics were hardly part of the debate yet in September. The only "balance sheet" reference in the minutes relates to the Eurosystem, namely that its balance sheet continued to provide significant monetary policy accommodation by supressing term premiums.

Views coming out of the ECB: "Sequencing" remains the strategic mantra
A reduction in the central bank balance sheet is not without risk to financial stability. This is also true in market conditions in which further significant rate hikes are expected. For Christine Lagarde, the beginning of a reduction in the balance sheet would only come after the "normalisation" in interest rates had been completed. Recently, Klaas Knot and Joachim Nagel have also indicated that they agree with this "sequencing" and that the beginning of the balance sheet reduction should not take place before 2023. Olli Rehn has spoken out in favour of a QT start in the first half of next year, while ECB Council Member Pierre Wunsch would prefer to get moving here "as soon as possible". He called for the ECB to test the receptiveness of the market by starting off with smaller amounts.

NORD/LB view on the direction of interest rates: What comes next?
First of all, let's look at the forthcoming interest rate decision and its implications for the future. As we mentioned earlier, we expect a rate rise of 75bp at the next meeting in our baseline scenario. This move is likely to be followed by another big hike even before the end of 2022. Overall, NORD/LB Macro Research economists expect a tender rate of 2.50% by the end of 2022 and of 3.25% by 30 June 2023. The ECB should therefore hold its course, even in current market conditions which are marked by fears of a recession. This can also be understood in light of the fact that many ECB policymakers are inclined, if anything, to see the triggers for the recessionary trend on the supply side. As regards the capital markets, NORD/LB puts Bunds (10y) at 2.40% as at mid-2023. The spread to the swap curve that we regularly focus on for the public issuers and covered bonds asset classes included in our coverage would then amount to 85 basis points, which would only represent a modest tightening from the current level (92 basis points).

ECB key interest rates (%)



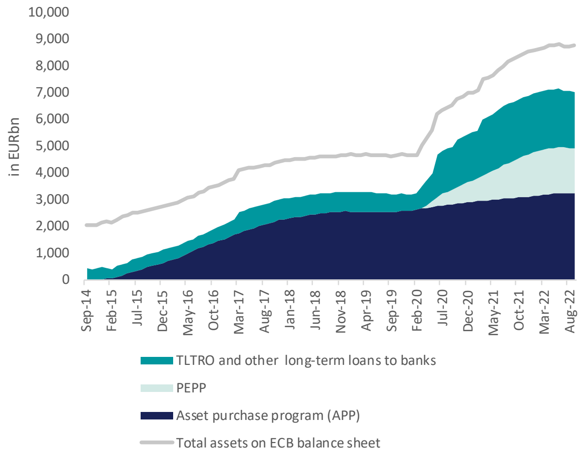
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

What next for the APP?
The challenges surrounding the calibration of monetary policy take on another dimension as mentioned earlier with the issue of how to proceed with the central bank balance sheet. This will involve first of all starting to reduce the huge holdings from the APP and PEPP purchase programmes. We have drawn attention repeatedly in this publication to the differences in the information available regarding setting an end date for reinvestments in relation to the APP (no date) and PEPP (end of 2024). In the case of the APP, the ECB must now provide information, if nothing else, to prepare for the sequencing. In our opinion, therefore, unlike even in September, the issue of when the balance sheet reduction via the APP should begin is likely to take up more time in the discussions at the interest rate meeting. We do not yet expect a decision at the end of the discussions, but are keenly anticipating the press conference. The future course of the APP is of the utmost importance for the sub-markets which we analyse, since an end to reinvestments would mean the end of a lengthy period of market distortion. Based on ECB data, there should definitely be significant reinvestments in 2023. As much as EUR 192bn is set to mature in the context of the PSPP from January to September 2023, while the equivalent figure for the CBPP3 stands at EUR 28.9bn.

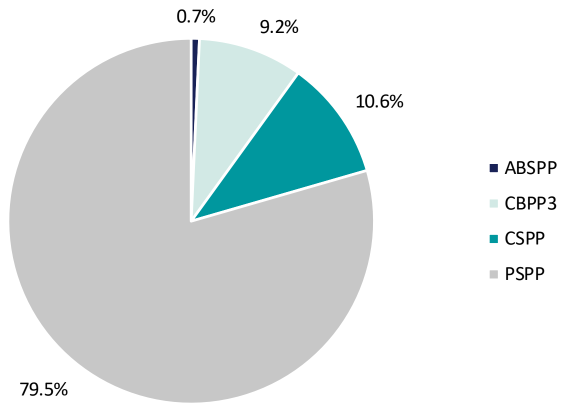
Could TLTRO III conditions be revised retrospectively?

In the context of a reduction in excessive liquidity in the banking sector, another issue could pose the threat of legal opposition. The retrospective revision of TLTRO III conditions – to the detriment of commercial banks – could come up at the meeting as a new point on the agenda. A few weeks ago, Christine Lagarde had already held out the prospect of a review of the TLTRO instrument and the meeting next week definitely provides an obvious opportunity for such a discussion. In view of the nature of TLTRO III tender conditions, commercial banks benefit from an interest rate difference between the current deposit facility rate and the retroactive average deposit rate. This risk-free return not only generates financial costs for the ECB, but is also the cause of significant political pressure. However, a retrospective revision might not be entirely without consequence from a legal point of view. Should the Council opt in favour of a revision which would lead to a less attractive interest rate for the banks, it would be fair to expect the banks to repay larger amounts of TLTRO III liquidity. This could trigger an undesirably strong reduction in the central bank's balance sheet, even though essentially, a reduction in liquidity might seem appropriate. Alternatively, the ECB could also reduce its own interest burden by reintroducing the graduated interest rate and possibly induce banks to carry out a more moderate reduction in liquidity.

ECB: central bank balance sheet



ECB: APP breakdown



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

Conclusion and outlook

We expect a further 75bp rate hike for all three reference rates at the forthcoming regular ECB meeting. Discussions surrounding QT and TLTRO III conditions moreover also point towards new topics in the context of the ECB Council debate. We could envisage a decision regarding TLTRO III, since the ECB will have to act more quickly in this respect if it still wants to have an impact. In contrast, it would seem to be too early for any concrete QT schedule since it would increase the risk of having to backpedal at some later stage. In our view, a schedule would be more likely at the December meeting since ECB projections then will give the first indication of expectations for 2025. In reality, the informative value – based not least on the experience of past forecast evaluations – would admittedly be limited here. However, the framework could at least fit in with directional decisions.

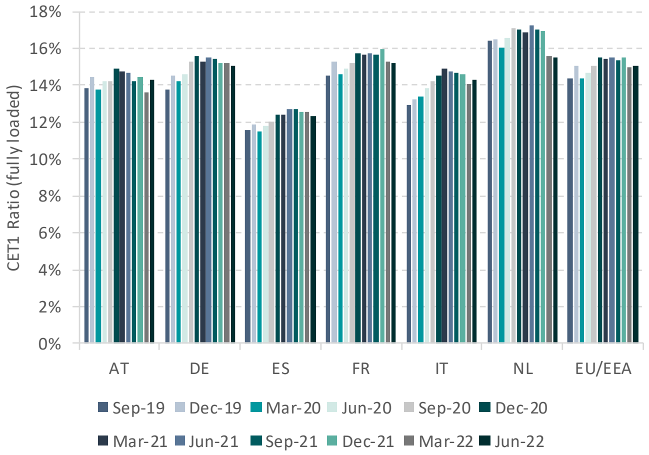
Covered Bonds
EBA Risk Dashboard paints a robust picture in Q2 2022

Author: Dr Frederik Kunze

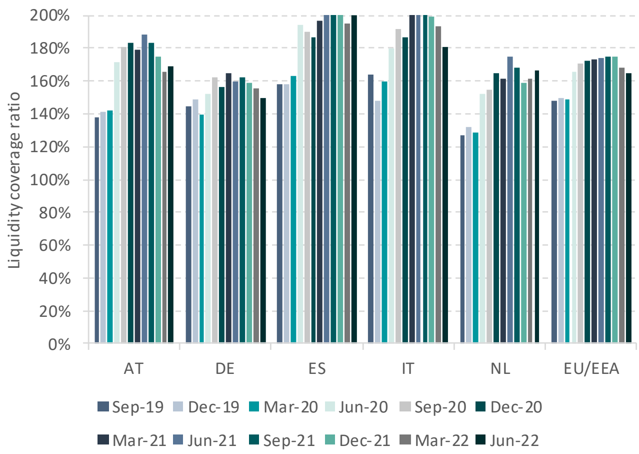
EBA Risk Dashboard: regulatory database of risk indicators in the EU/EEA banking sector
On 6 October 2022, the European Banking Authority (EBA) presented current figures for its much followed "Risk Dashboard". Here, the latest reporting period is Q2 2022. The database comprises a variety of key figures (including capitalisation and/or liquidity, asset quality and profitability) and is based on data provided by 161 banks in compliance with supervisory law (unconsolidated; see List of the banks). According to information provided by the EBA, this means that approximately 80% of the assets of the European banking market are covered. In our view, the Risk Dashboard also provides key insights into the state of the European banking market with regard to the covered bond market on which we focus and therefore allows conclusions to be drawn as to the risk exposure in the sub-segment of covered refinancing. We would like to look at changes in some relevant indicators below.

EBA also sees increased risks and/or vulnerabilities
Referring to Q2 2022, the EBA also sees the downside risks triggered, in particular, by the energy crisis and the geopolitical uncertainties resulting from Russia's invasion of Ukraine. Slower growth rates and the increased risk of recession were also discussed by the EBA, as was the market volatility caused by these developments. With regard to the banking sector and the debt capital market segment, respectively, the Risk Dashboard points to higher yields and widening spreads, which would have correspondingly negative consequences for funding (higher costs) and banks' bond portfolios. However, this risk potential has not materialised to date in the reported figures, although the EBA does expect it to do so to a certain extent in future.

Risk Dashboard: CET1 ratio (fully loaded)



Risk Dashboard: LCR (in %)

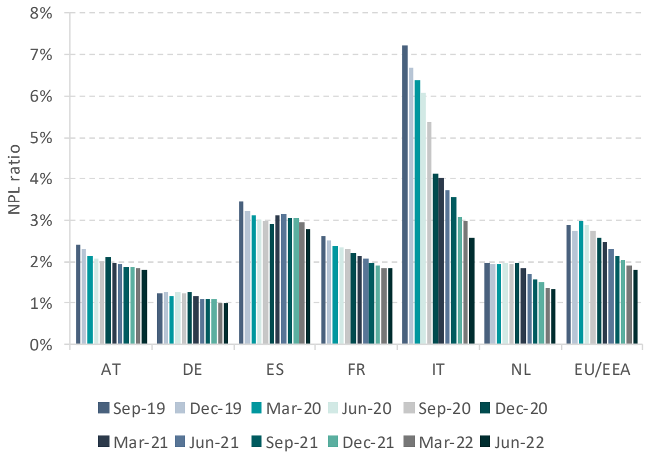


Source: EBA, NORD/LB Markets Strategy & Floor Research

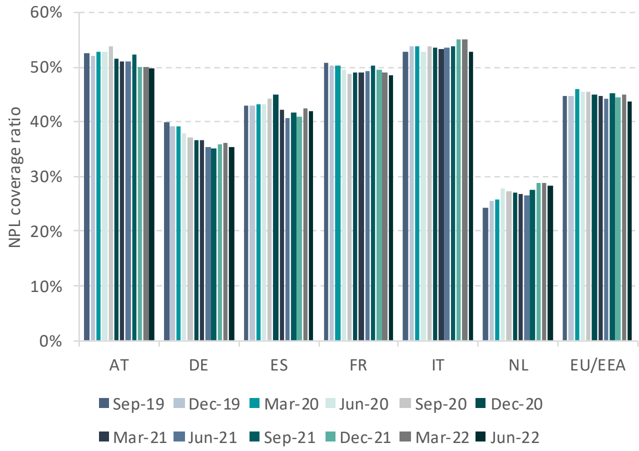
Capital and liquidity ratios: still robust?

In its press release of 6 October 2022, the EBA concludes that banks have robust liquidity ratios by and large (average LCR: 164.9% and average NSFR: 126.9%). Capital ratios are also evidently distinguished by constancy, meaning that the average CET1 ratio (fully loaded) was unchanged on the previous quarter, at 15%. However, the EBA also refers to a fundamental differentiation in capital ratios across the sample banks. Accordingly, some banks are definitely more vulnerable to downward economic trends. With regard to liquidity, the EBA refers to the TLTRO III tenders that will mature in the coming quarters and the planned issues of new (covered) debt securities by banks that do not exceed these maturities. In this context, we are not at all surprised by the EBA's reference to the connection between market volatility and/or uncertain or even unknown market developments and funding costs. Those banks that meet their MREL ratios with their wholesale funding or would have to undertake TLTRO tender refinancing as a result could be faced with new challenges resulting from lower investor demand and higher spreads as a result. In our view, an increased or still increasing interdependence with covered bond issues is revealed here. To be sure, covered bonds cannot by their nature offer issuers direct assistance in the context of MREL ratios. However, for some banks, covered bonds, in particular, can cushion the problems of funding (caused by a rundown in customer deposits or maturing TLTRO III tenders) in our opinion. Last but not least, we again refer explicitly to the relevance of the EBA database for the covered bonds segment below.

Risk Dashboard: Ratio of non-performing loans and advances (NPL ratio)



Risk Dashboard: Coverage ratio of non-performing loans and advances



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

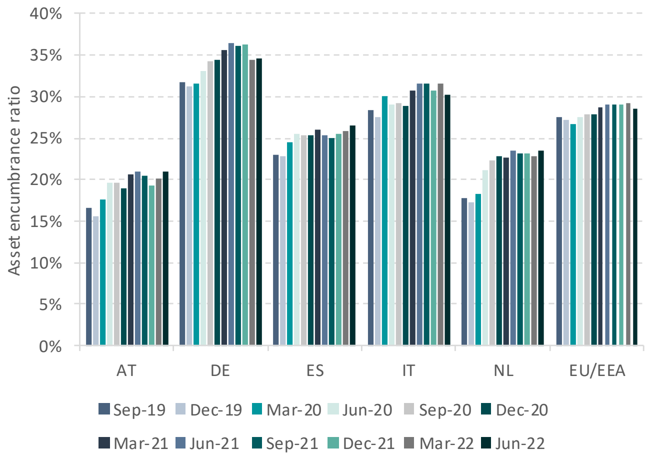
Credit quality: (still) no rising NPL ratios

As in previous years, the EBA data is still showing a downward trend in NPL ratios. The EBA makes clear: "[…] despite previous fears that asset quality could deteriorate, EU/EEA banks still reported a lower NPL ratio." This was mainly attributable to the falls in non-performing loans (-3.4% quarter on quarter). Nevertheless, the EBA makes clear that "with regard to the future, there is an increasing risk of a deterioration in asset quality." This will be caused by the deteriorating outlook for economic activity, which is reflected in high inflation, rising interest rates and an increasing risk of recession. The EBA also believes that high inflation will have a considerable impact on more vulnerable companies and households. The increase in energy and commodity prices could also hit energy intensive sectors hard. The EBA continues to worry that concerns about the debt sustainability could intensify in the event of a recession. Residential property prices, which still show signs of being overvalued in several countries, could also see price corrections.

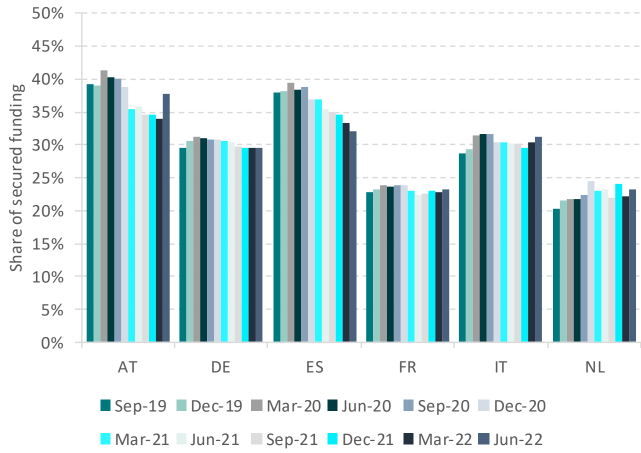
Relevance of the database for covered bonds

During the coronavirus crisis, we devoted a significant amount of time to the question of how far fundamental risks for the covered bond market would also have to be taken into account in the course of dramatic developments on international financial and capital markets. In the context of risk assessment, there is no doubt that investors' dual right of recourse must be considered. Defaults or economic losses therefore occur firstly if an event of default occurs for the issuer and secondly the available cover pools are not sufficient to meet investors' claims either in their entirety or on time. The EBA data allows conclusions to be drawn both about the "first line of defence" (issuer), i.e. its capitalisation and liquidity, for example. However, the Risk Dashboard also provides significant insights with regard to banks' cover pools. Here, in addition to the general quality of the credit portfolio, we are also thinking of the existing share of secured financing, or the proportion of assets already "encumbered" through covered bonds or other means ("asset encumbrance ratio"). Therefore, in actual fact, the issuing bank's credit quality constitutes the first line of defence. Here, the EBA data still paints a reassuring picture of the situation. However, we have to expect that the key figures, including those on capitalisation and liquidity, are likely to be much more mixed over the next one to three quarters. Rising NPL figures could also have an adverse impact on the quality of cover pools in a very negative scenario, which could not least be a consequence of less available cover assets. In our opinion, it therefore seems advisable to look at the asset encumbrance ratio or the share of secured financing in funding in the context of the EBA Risk Dashboard. Here too, the EBA data does not indicate a turning point or even a structural break. Nevertheless, arguments about shortages could gain more ground if the funding ratio were to shift more sharply towards the covered bond segment. For the EBA, the fall in the asset encumbrance ratio, favoured by maturities with the TLTRO III, should at least be compensated in part by "intensive" activity on the primary market. Based on the EBA data, we still see no signs of any significant change in framework conditions.

Risk Dashboard: asset encumbrance ratio (%)



Risk Dashboard: share of secured funding (%)



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

Conclusion

The EU/EEA banking sector remains in robust shape. The figures on the EBA Risk Dashboard from 6 October 2022 also point to this. However, the database refers to Q2 2022 as the current reporting period and therefore excludes more recent developments over the past few months. In this respect, some key figures can also be expected to have deteriorated. However, we would not wish to overestimate this potential development with regard to the covered bond segment. The capital and liquidity ratios still benefit from significant buffers on average. Possible increases in NPLs or other deteriorations in credit quality are not yet likely to be reflected in the cover pools either. Accordingly, in our opinion, issuers are able (if necessary) to manage their cover pools actively without any restriction.

SSA/Public Issuers
An overview of the German Laender

Authors: Dr Norman Rudschuck, CIIA // Jan-Phillipp Hensing

NORD/LB publishes the Issuer Guide - German Laender 2022

Last Friday, the wait was finally over when the NORD/LB Issuer Guide – Deutsche Länder 2022 was published in German. Publication of the English version is planned for November. A chapter dedicated to the ESG activities of the Bundeslaender was included for the first time. Up to now, three Laender have devised frameworks of their own, under which they have already placed bonds: North Rhine-Westphalia leads the way here (sustainability), followed by Baden-Württemberg and Hesse (both green). This year, the Issuer Guide German Laender 2022 will be exclusively available in PDF format. This is a decision we have taken with sustainability aspects in mind. However, even a sustainable approach calls for some leeway: should any of our readers prefer the Issuer Guide in printed format for their work, then we will gladly supply a printed version. Please contact your account manager to provide a delivery address and indicate the number of copies required. Alternatively, you can also get in touch via email at: markets@nordlb.de

Laender characterised by high degree of heterogeneity – spread convergence could be reversed due to expiring purchase programmes

The German Bundeslaender are characterised by a high degree of heterogeneity. Differences between the Bundeslaender exist not only in terms of area, number of inhabitants and economic strength; they also differ significantly with regard to factors such as debt situation, focus on exports and demographic trends. In addition, the liquidity of their bonds and their ratings result in differences, although these are at most reflected marginally due to the very small differences in spreads. This spread convergence is being intensified or even actually manifested by way of the ECB's focus on bonds issued by German Laender within the framework of its securities purchases (e.g. under the PSPP and PEPP). Net purchasing activity here has now been brought to an end, meaning that the fundamental differences between the Laender will gradually start to become more important again. In the following, we shall be taking a look at the overall development of the Laender.

Broad range of products

The 16 German Bundeslaender offer a broad range of bonds and Schuldscheindarlehen (SSD). At present, an outstanding volume of EUR 402.4bn is spread across 863 separate bond deals. Only EUR 14.2bn (3.5%) of this amount is not denominated in EUR, which illustrates the fact that foreign currencies remain of very minor importance in Bundeslaender funding mixes. Fixed-coupon bonds (outstanding volume: EUR 357.8bn) and floating rate notes (EUR 27.8bn; FRNs or floaters) dominate Laender funding profiles. Overall, 342 EUR-denominated bonds feature benchmark-size volumes. In the non-public segment, loans and Kassenkredite together account for a volume of around EUR 167.3bn. The above data also includes a total of 18 Laender jumbos (EUR 19.7bn) jointly placed by a group of several Laender.

General information

Total debt*

EUR 581.0bn

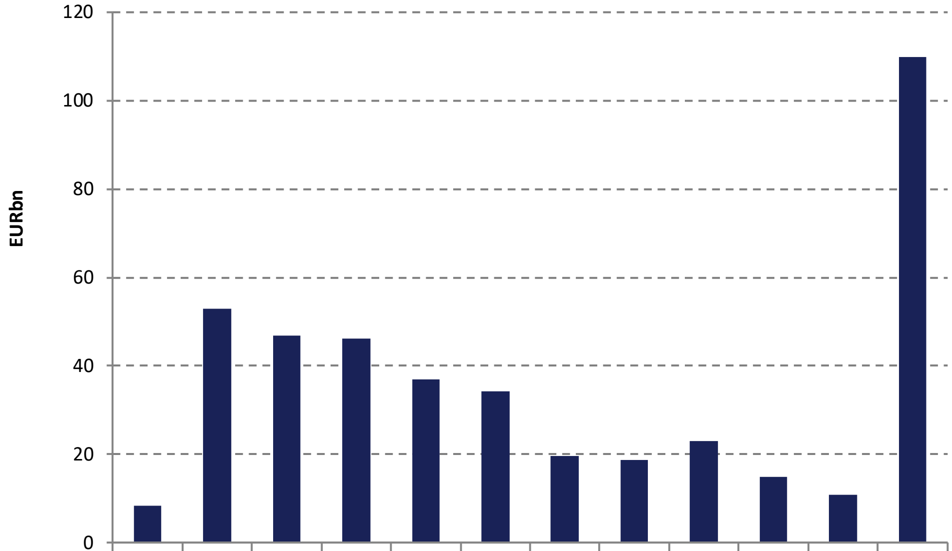
Of which bonds**

EUR 422.1bn

* As reported at year-end 2021

** Data retrieved on 05 October 2022

Outstanding bonds issued by the German Bundeslaender



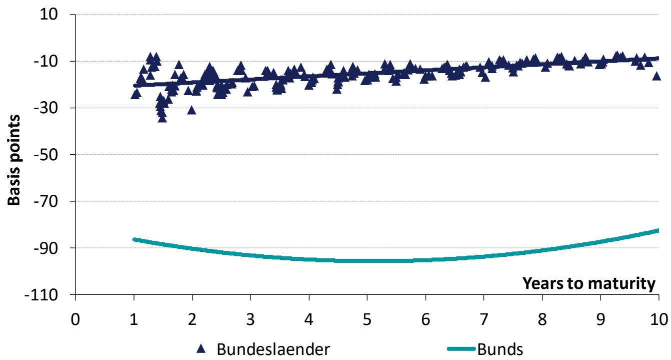
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	>2032
Laender bonds	8.3	52.9	47.0	46.2	36.9	34.2	19.5	18.6	22.9	14.8	10.8	110.1

Foreign currencies are converted into EUR at rates as at 05 October 2022.
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

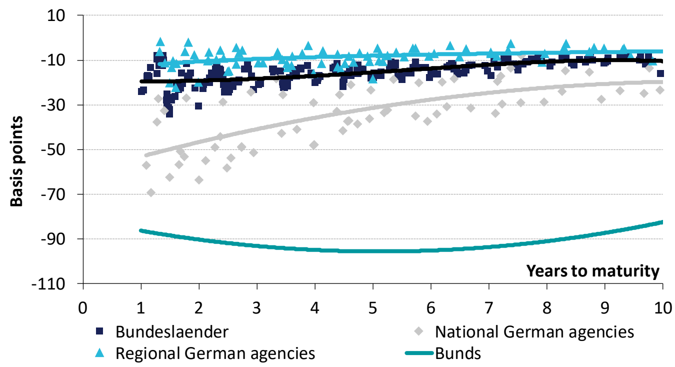
Ratings

The ratings agencies Fitch, Moody’s and S&P link their ratings for each of the Bundeslaender with the rating of the German federal government (for the most part). Fitch regards the system of financial equalisation among the Bundeslaender and the principle of federal loyalty in general as the dominant factors in equating the ratings directly. Moody's also views this system as a significant factor, although the agency does take other aspects into consideration, with the result that the ratings are not necessarily equated. The Bundesland of NRW, for example, is currently rated Aa1, which is one notch below the Aaa top rating held by the German federal government. S&P makes an even wider distinction. Although this rating agency does also factor the system of financial equalisation among the Bundeslaender and the principle of federal loyalty into its rating decision, it occasionally diverges more widely from the AAA rating held by the German federal government. In this context, for example, S&P currently awards NRW a rating of AA (for the first time since 2004) following a rating upgrade in September 2019.

ASW spreads vs. Bunds



ASW spreads vs. agencies



NB: Residual term to maturity >1 year and <10 years; minimum outstanding volume of EUR 500m.
National agencies: KFW, FMSWER, RENTEN, among others. Regional agencies: NRWBK, LBANK, BAYLAN, IBB, BYLABO, WIBANK, among others.
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Relative value

Volume-weighting of the German Laender in the iBoxx € Regions

78.1%

No. of German bonds in iBoxx € Regions

157 (out of 203) [77.3%]

Pick-up versus swaps*

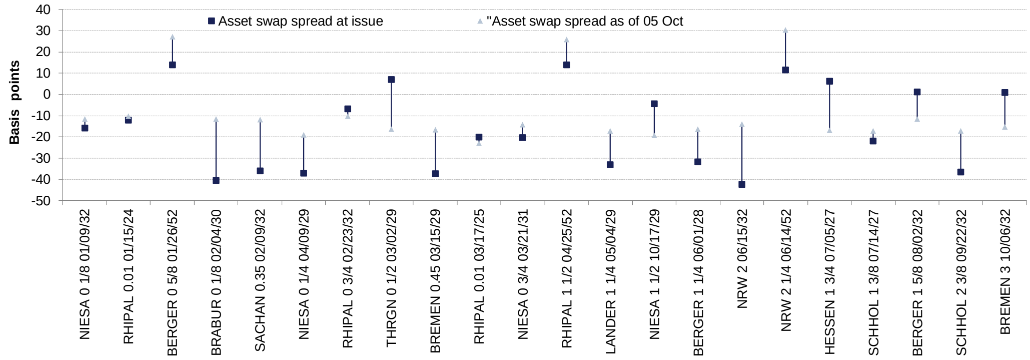
-45 to +92bp (Median: -17bp)

Pick-up versus Bunds*

+58 to +100bp (Median: +93bp)

*vs. interpolated figures; minimum term of 1 year; minimum volume EUR 0.5bn.

Performance of fixed income benchmark issues 2022**

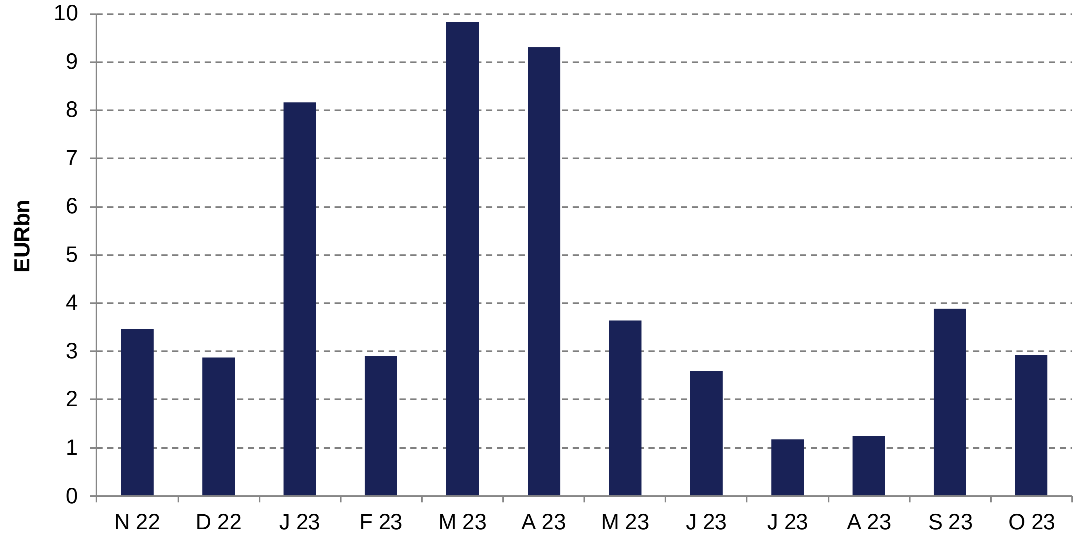


** Issuance volume of at least EUR 0.5bn. Bonds are not necessarily liquid.

For the sake of improved clarity, the Methuselah bond issued by NRW (priced at ms +106bp in 2022) is again not included this year.

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

Bond amounts maturing in the next 12 months



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

Refinancing

Although Laender issuance volumes have been declining for many years, they have nonetheless remained at a high level. Before the coronavirus pandemic, the recently introduced debt brake was a factor in this development. After 2020 and 2021, significant refinancing volumes and gross credit authorisations are expected for 2022 as well. The most important funding instruments are bonds and SSD deals, while public-sector bonds in benchmark format are used just as frequently as large-volume private placements. As a result, there is a relatively abundant fresh supply of large-volume bonds. After credit authorisations rose from around EUR 70bn to approximately EUR 154bn in 2020 on the back of supplementary budgets, these authorisations fell to EUR 119bn in 2021 and EUR 91bn in 2022. As such, credit authorisations remain at a high level (2019: EUR 67bn).

Credit authorisations of German Laender in 2022 (EUR bn)*

	Net	Gross
Baden-Wuerttemberg	-0.96	23.78
Bavaria	5.83	7.07
Berlin	0.75	8.20
Brandenburg	0.16	3.25
Bremen	0.62	1.98
Hamburg	1.60	4.39
Hesse	0.99	7.73
Mecklenburg-Western Pomerania	-	0.42
Lower Saxony	-0.69	5.91
North Rhine-Westphalia	0.09	13.85
Rhineland-Palatinate	0.89	4.89
Saarland	0.40	2.30
Saxony	0.00	0.41
Saxony-Anhalt	-	1.65
Schleswig-Holstein	-0.03	4.57
Thuringia	-0.17	0.81
Total	**9.48**	**91.21**

*Some figures are rounded and/or provisional; as at: 05 October 2022; unchanged values from 16 March 2022
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Comment

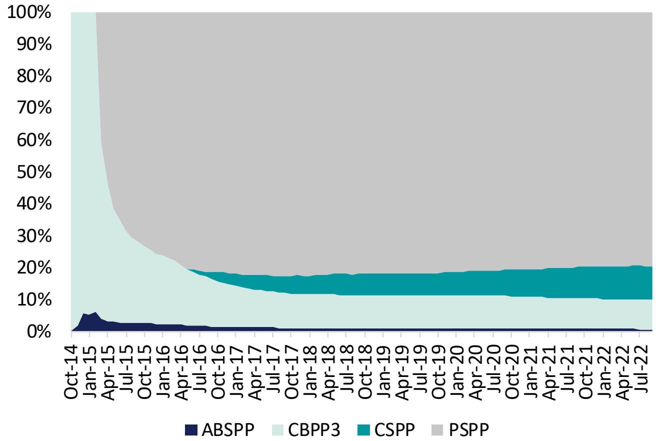
As was previously the case, the 16 German Bundeslaender continue to represent by far the largest sub-sovereign market in Europe. The outstanding volumes and annual issuance volumes of the Laender segment in Germany are higher than at any other sub-national level. Traditionally characterised by a steady supply of new bonds and (high) relative attractiveness versus Bunds, the Laender segment has always represented an interesting alternative to sovereign bonds. As a result, this sub-segment is among the most liquid, albeit not necessarily the most complex, markets in the European segment for supranationals, sub-sovereigns and agencies (SSA). In future – and above all after the coronavirus pandemic – issuance volumes are, however, likely to decline following the expected (re)application of the debt brake in 2023. In contrast to the federal government (Bund), this essentially prohibits any net borrowing on the part of the Laender not related to an emergency situation that is also beyond the control of the public sector. The debt brake represents one of the most important changes with regard to Laender finances for quite some time, as is the case with the reform of the federal financial equalisation system as well. In 2020, shortly after coming into force, the debt brake was suspended for 2020, 2021 and now also 2022 due to the pandemic situation after the emergency paragraphs contained in the legislation were invoked. As a result, the debt brake is now expected to be reapplied in 2023 to facilitate the supplementary budgets of the federal government (and special funds) and the 16 Laender parliaments implemented to date. These supplementary budgets were adopted with a view to mitigating the consequences of the coronavirus pandemic.

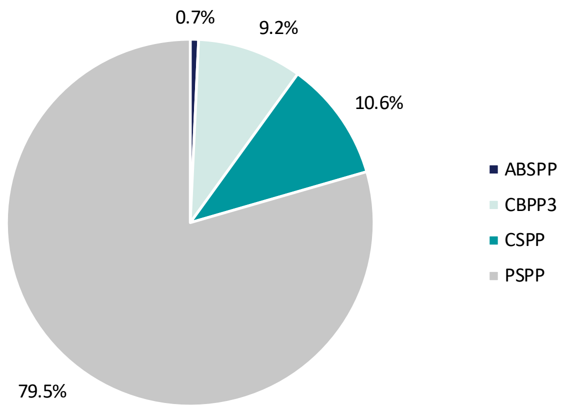
ECB tracker

Asset Purchase Programme (APP)

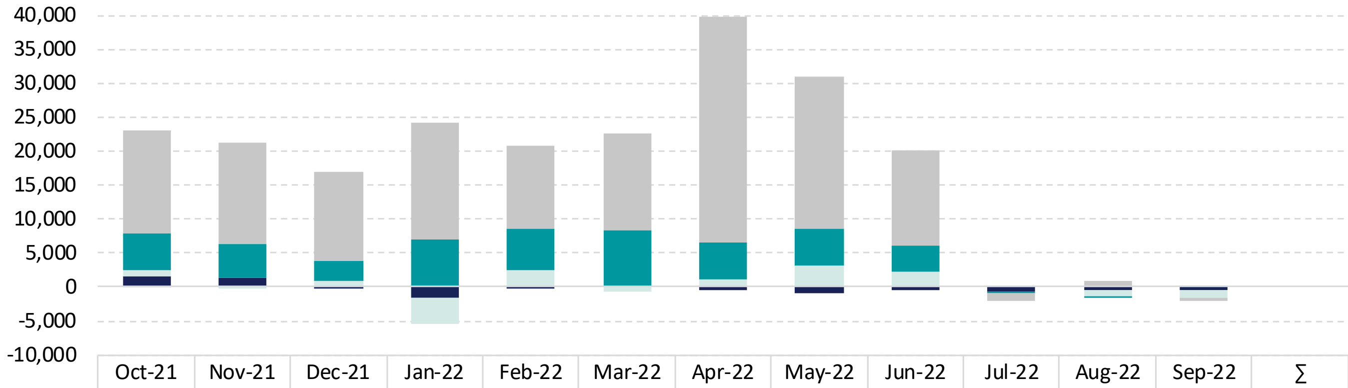
	ABSPP	CBPP3	CSPP	PSPP	APP
Aug-22	24,131	301,640	344,558	2,592,400	3,262,729
Sep-22	23,639	300,157	344,388	2,588,118	3,256,302
Δ	-477	-1,210	+164	-315	-1,838

Portfolio structure





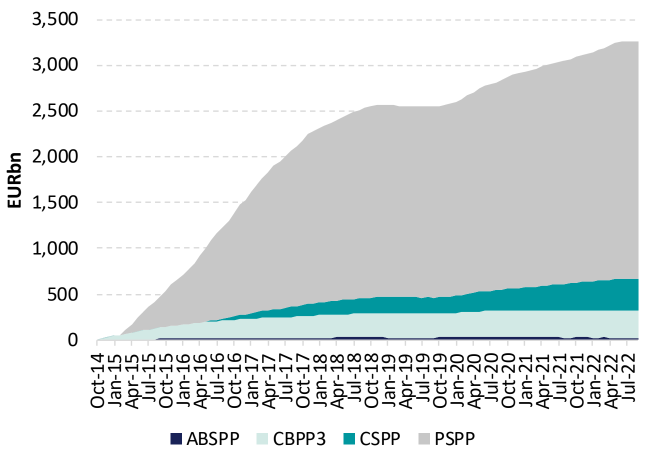
Monthly net purchases (in EURm)



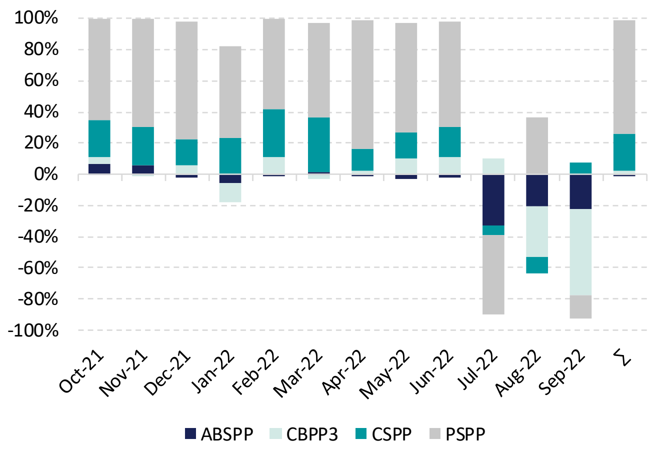
	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	∑
APP	23,017	21,200	16,596	18,838	20,698	21,929	39,397	30,232	19,722	-1,759	-656	-1,838	207,376
PSPP	15,038	14,815	12,989	17,292	12,095	14,172	33,238	22,443	13,924	-1,114	869	-315	155,446
CSPP	5,481	5,142	3,007	6,970	6,272	8,042	5,461	5,366	3,858	-141	-253	164	49,369
CBPP3	1,008	-12	942	-3,761	2,376	-606	1,074	3,247	2,339	217	-787	-1,210	4,827
ABSPP	1,490	1,255	-342	-1,663	-45	321	-376	-824	-399	-721	-485	-477	-2,266

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

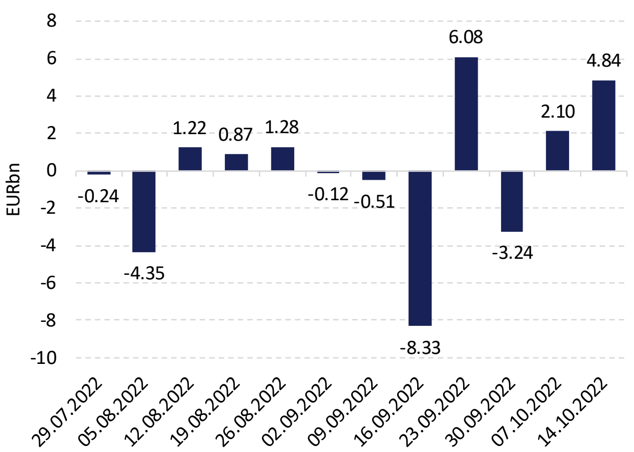
Portfolio development



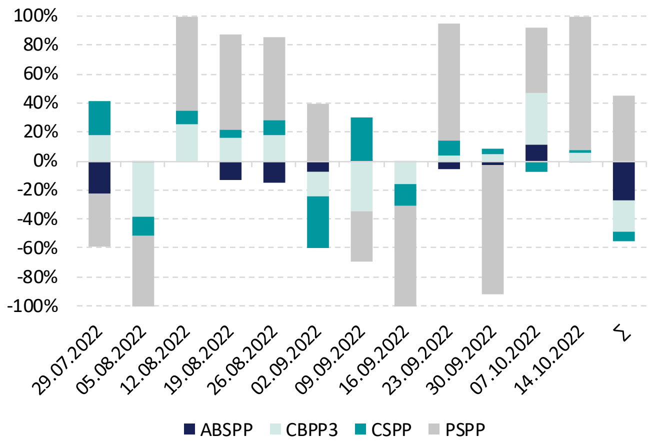
Distribution of monthly purchases



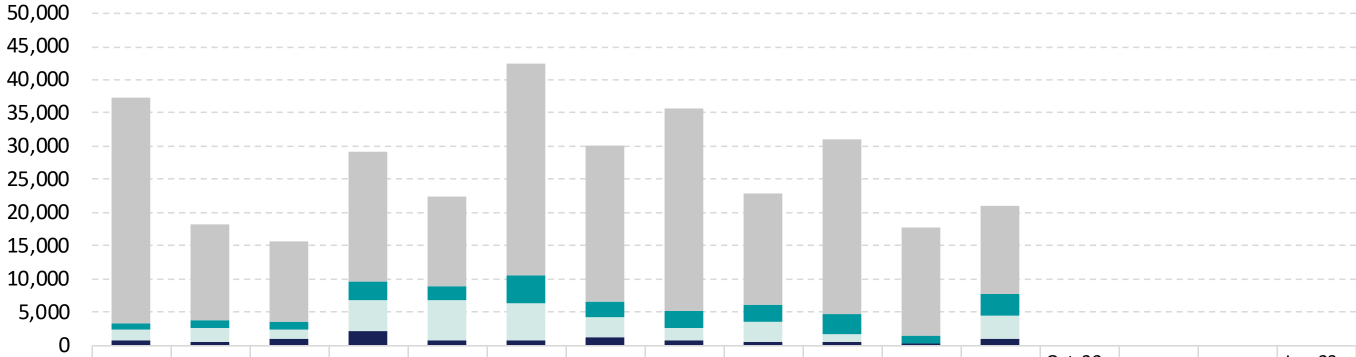
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)



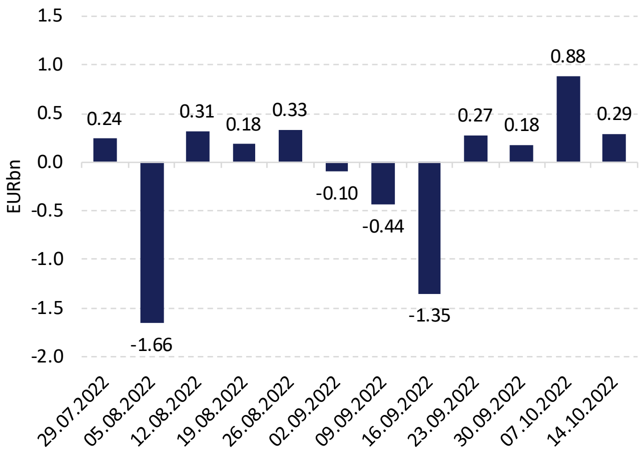
	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-22 - Sep-23	2021	2022	Jan-23 - Sep-23
APP	37,313	18,338	15,622	29,181	22,528	42,525	30,201	35,785	22,813	31,072	17,802	21,023	324,203	247,069	298,981	252,930
PSPP	33,927	14,669	12,016	19,469	13,624	32,033	23,674	30,553	16,619	26,391	16,445	13,252	252,672	188,494	228,585	192,060
CSPP	1,034	1,031	1,243	2,810	2,182	4,219	2,388	2,579	2,557	3,027	986	3,347	27,403	17,134	17,615	24,095
CBPP3	1,651	2,167	1,487	4,786	6,031	5,631	2,937	1,874	3,112	1,170	0	3,346	34,192	30,143	41,244	28,887
ABSPP	701	471	876	2,116	691	642	1,202	779	525	484	371	1,078	9,936	11,298	11,537	7,888

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

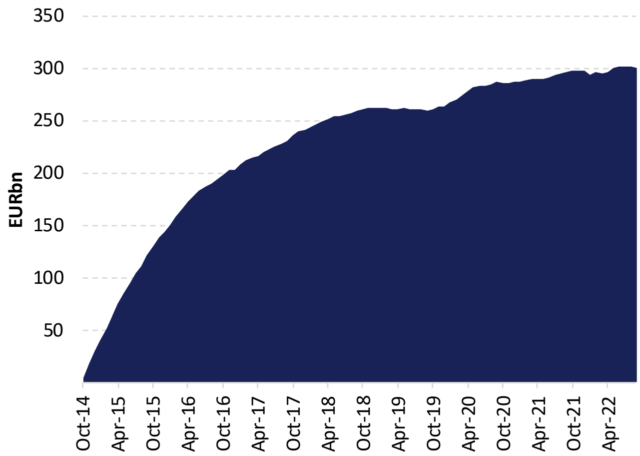
NORD/LB

Covered Bond Purchase Programme 3 (CBPP3)

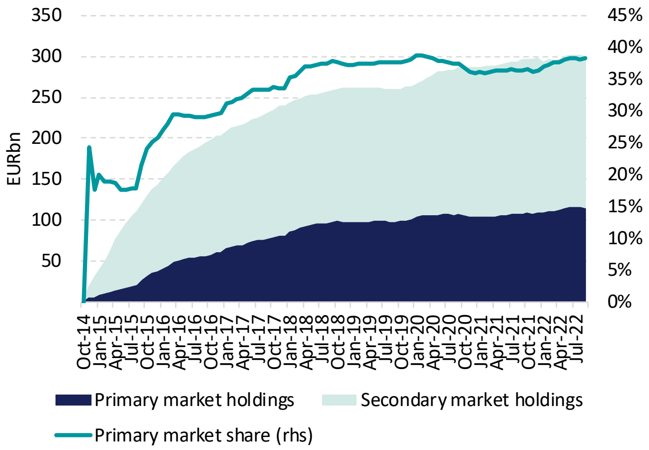
Weekly purchases



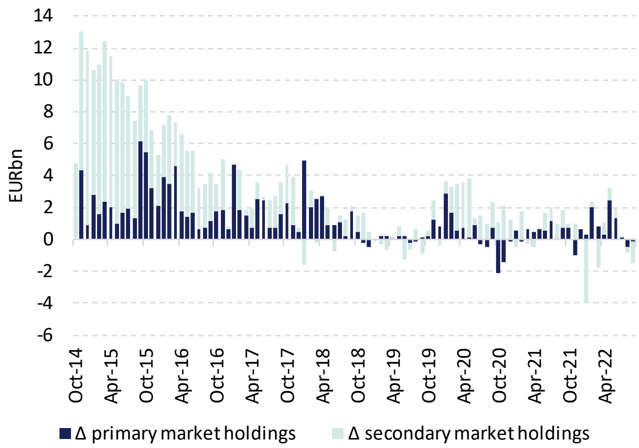
Development of CBPP3 volume



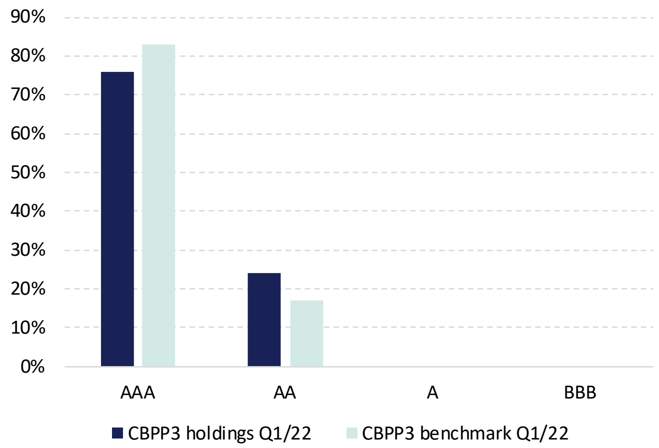
Primary and secondary market holdings



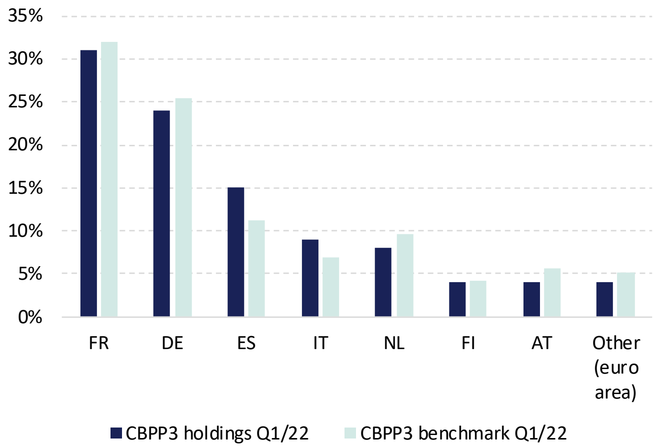
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



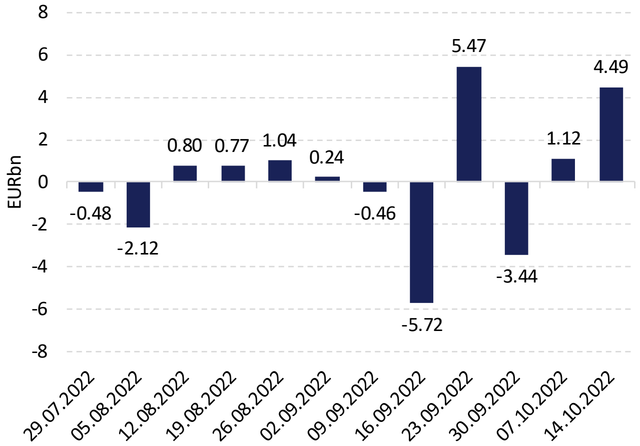
Distribution of CBPP3 by country of risk



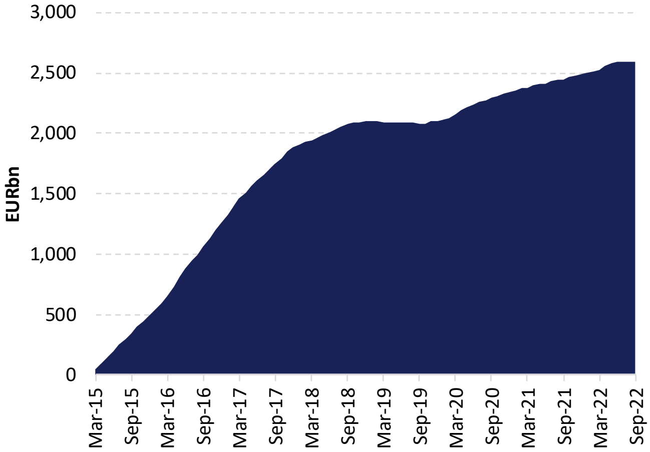
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



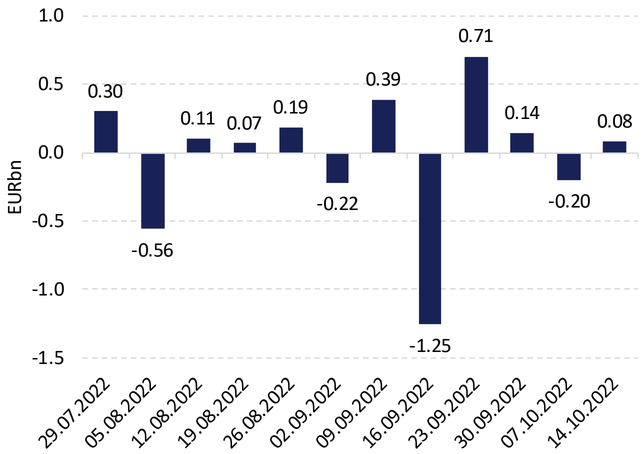
Overall distribution of PSPP buying at month-end

Jurisdiction	Adjusted distribution key[1]	Holdings (EURm)	Expected holdings (EURm)[2]	Difference (EURm)	Current WAM of portfolio[3] (in years)	WAM of eligible universe[4] (in years)	Difference (in years)
AT	2.7%	76,849	74,108	2,741	7.3	8.2	-0.9
BE	3.4%	92,985	92,246	739	7.5	10.3	-2.8
CY	0.2%	4,398	5,448	-1,050	8.6	9.1	-0.5
DE	24.3%	662,326	667,464	-5,138	6.7	8.0	-1.3
EE	0.3%	445	7,132	-6,687	7.7	7.7	0.0
ES	11.0%	318,672	301,927	16,745	7.7	8.2	-0.5
FI	1.7%	43,279	46,509	-3,230	8.2	8.9	-0.7
FR	18.8%	537,438	517,137	20,301	6.7	8.6	-1.9
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	43,582	42,876	706	8.2	10.5	-2.4
IT	15.7%	443,160	430,143	13,017	7.2	7.9	-0.7
LT	0.5%	5,915	14,654	-8,739	10.4	10.2	0.2
LU	0.3%	3,901	8,340	-4,439	5.8	7.8	-2.0
LV	0.4%	3,863	9,866	-6,003	8.9	9.0	-0.1
MT	0.1%	1,417	2,656	-1,239	11.2	9.6	1.6
NL	5.4%	131,597	148,384	-16,787	7.8	9.6	-1.8
PT	2.2%	55,924	59,261	-3,337	7.2	7.5	-0.3
SI	0.4%	11,052	12,192	-1,140	9.4	9.5	-0.1
SK	1.1%	18,418	28,997	-10,579	7.9	8.4	-0.5
SNAT	10.0%	288,489	274,371	14,118	8.1	9.4	-1.4
Total / Avg.	**100.0%**	**2,743,710**	**2,743,710**	**0**	**7.2**	**8.5**	**-1.2**

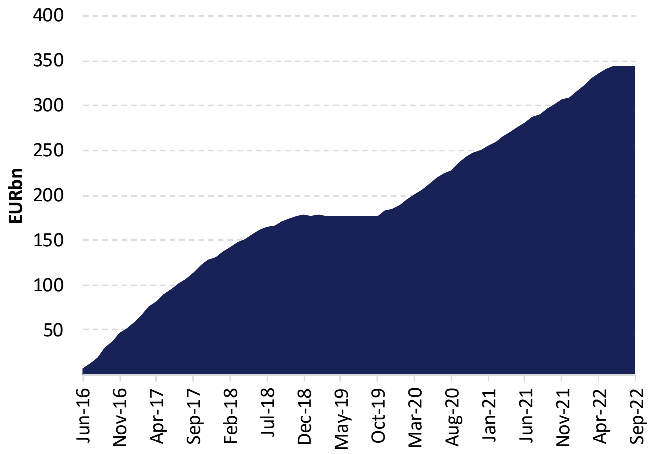
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of PSPP portfolio holdings
[4] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: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

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

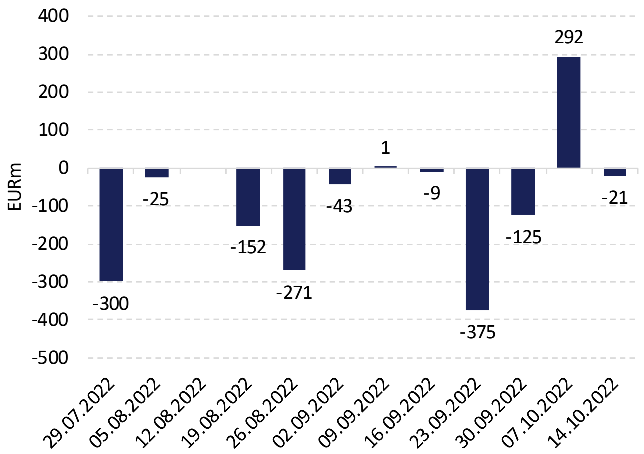


Development of CSPP volume

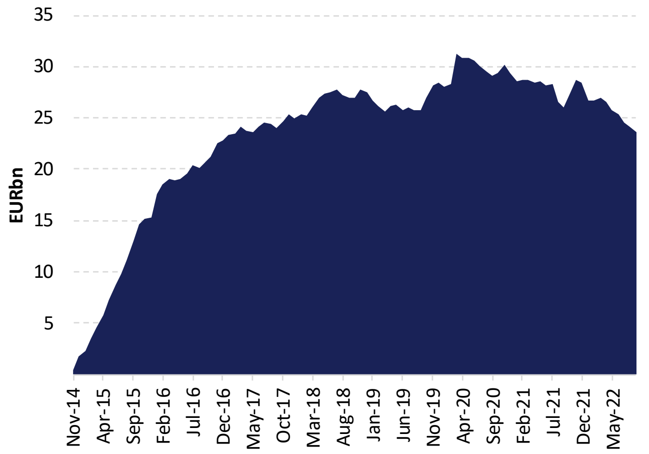


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



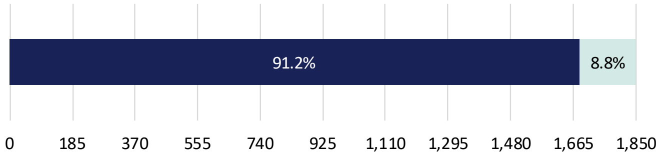
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

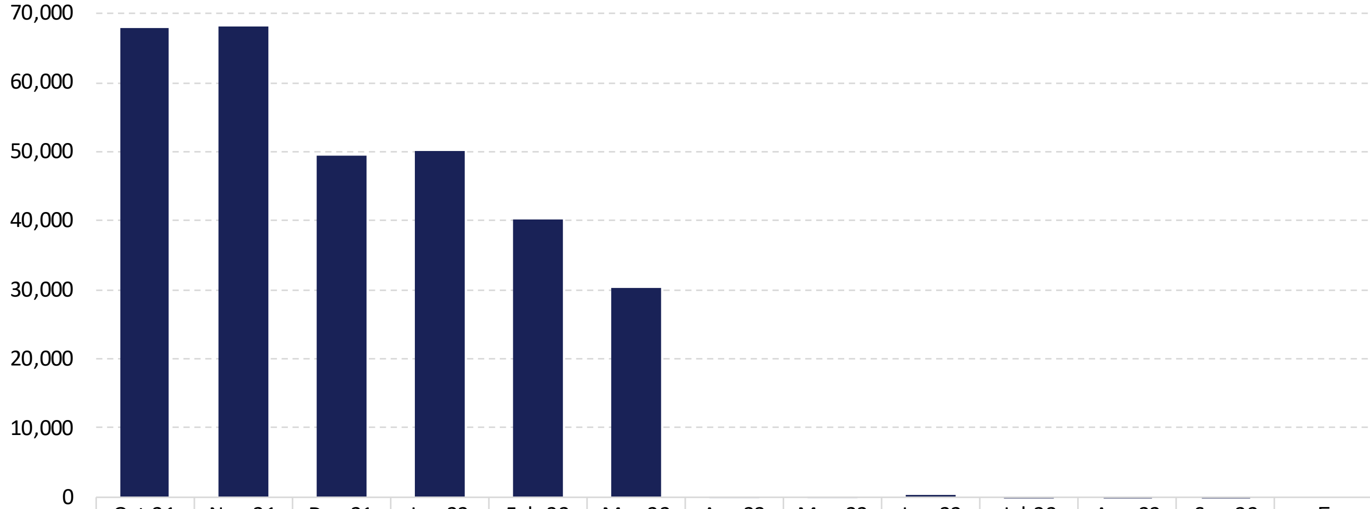
Holdings (in EURm)

	PEPP
Aug-22	1,714,539
Sep-22	1,713,035
Δ (net purchases)	-1,505

Invested share of PEPP envelope (in EURbn)

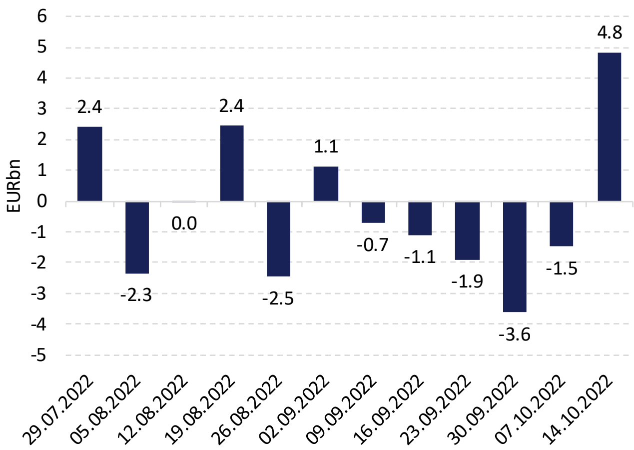


Monthly net purchases (in EURm)

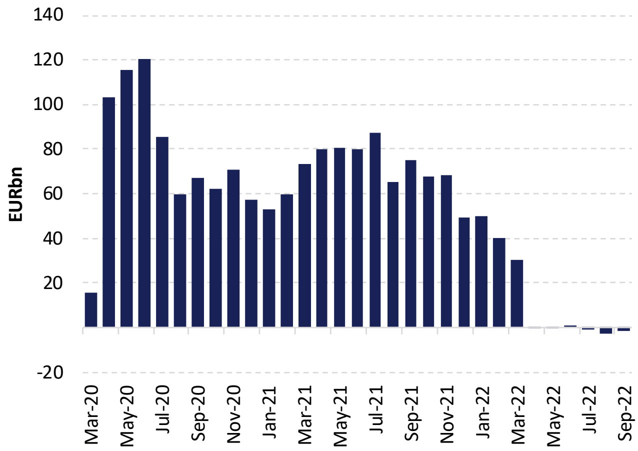


	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	∑
PEPP	67,855	68,045	49,375	50,113	40,184	30,214	-4	-10	12	-722	-2,813	-1,505	300,744

Weekly purchases



Development of PEPP volume

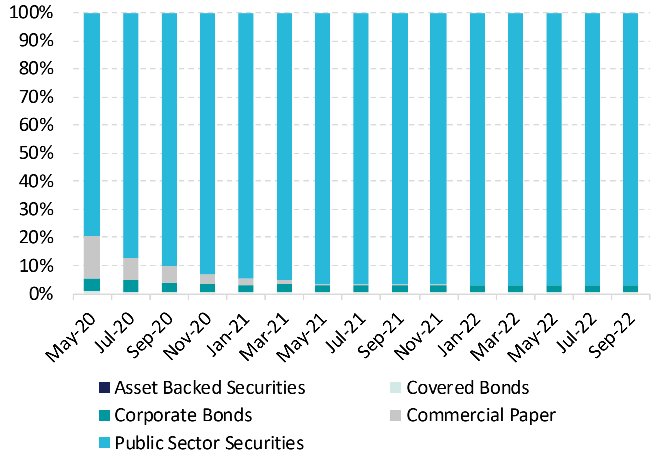


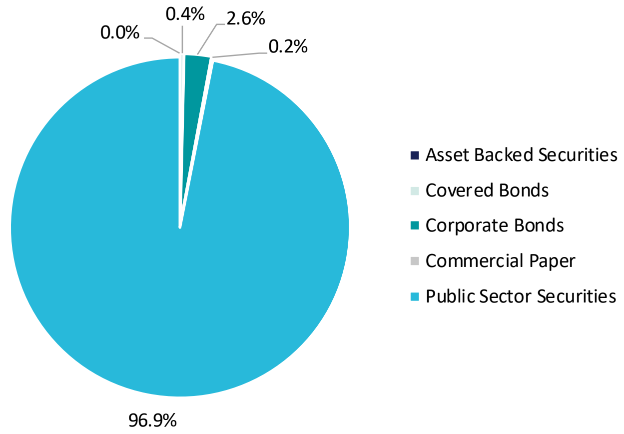
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

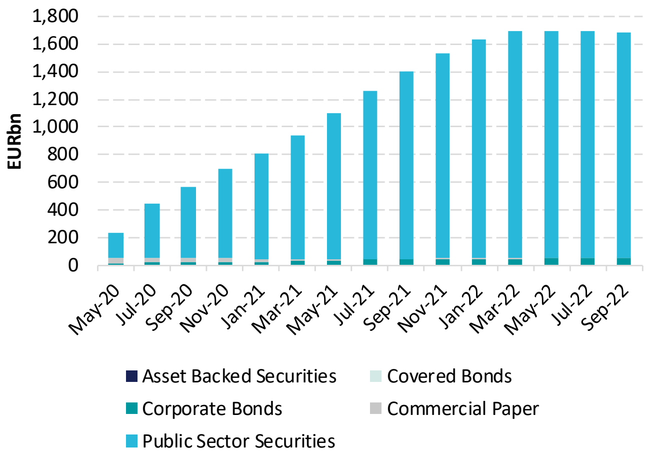
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Jul-22	0	6,062	42,814	3,322	1,639,774	1,691,971
Sep-22	0	6,056	43,233	2,871	1,631,176	1,683,336
Δ (net purchases)	0	0	+453	-450	-4,320	-4,317

Portfolio structure

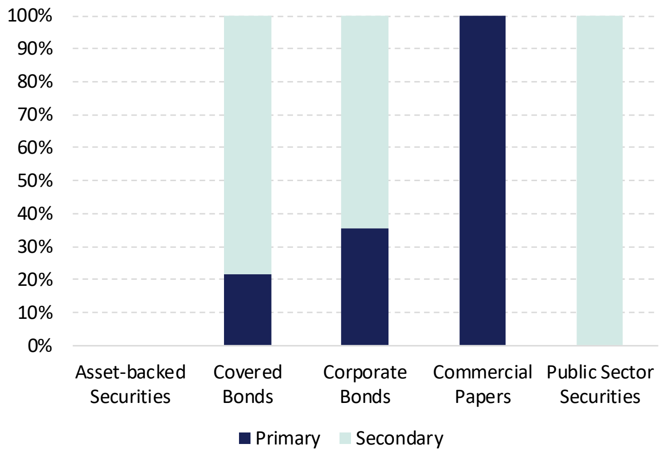




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

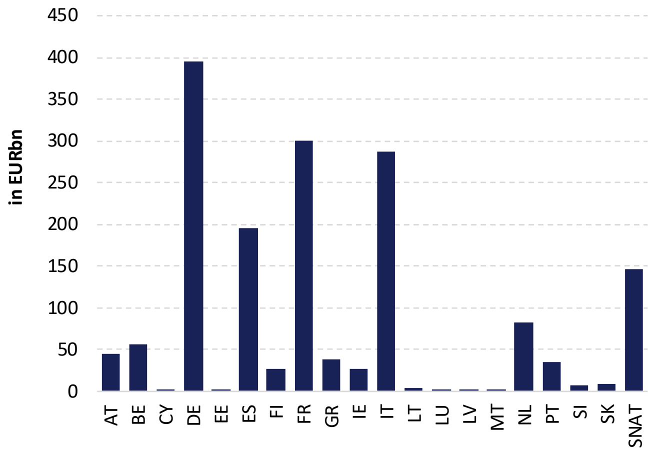
Sep-22	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	1,298	4,758	15,407	27,826	2,873	0
Share	0.0%	0.0%	21.4%	78.6%	35.6%	64.4%	100.0%	0.0%

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

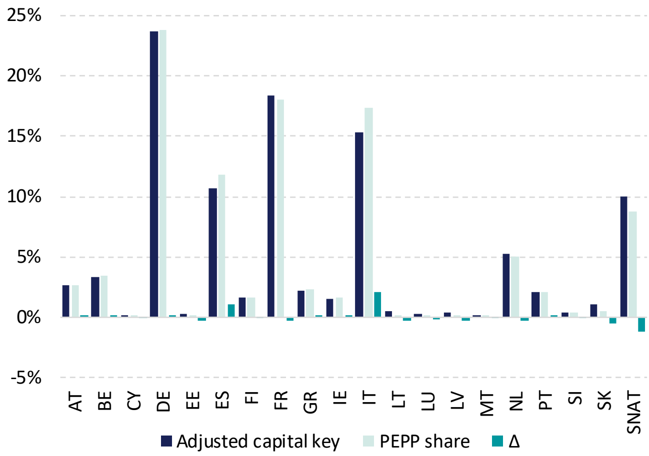
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	Current WAM[3] (in years)	WAM of eligible universe[4] (in years)	Difference (in years)
AT	44,120	2.6%	2.7%	0.0%	7.6	7.4	0.3
BE	56,872	3.3%	3.4%	0.1%	6.4	9.5	-3.2
CY	2,483	0.2%	0.1%	0.0%	8.6	8.0	0.6
DE	395,153	23.7%	23.8%	0.1%	6.8	6.9	-0.1
EE	256	0.3%	0.0%	-0.2%	7.7	6.3	1.4
ES	196,176	10.7%	11.8%	1.1%	7.4	7.4	0.0
FI	26,381	1.7%	1.6%	-0.1%	7.5	7.9	-0.4
FR	299,737	18.4%	18.0%	-0.3%	7.8	7.8	0.0
GR	38,877	2.2%	2.3%	0.1%	8.5	9.3	-0.8
IE	26,328	1.5%	1.6%	0.1%	8.6	10.0	-1.3
IT	287,821	15.3%	17.3%	2.0%	7.2	7.0	0.3
LT	3,208	0.5%	0.2%	-0.3%	9.9	9.3	0.6
LU	1,879	0.3%	0.1%	-0.2%	6.1	6.9	-0.7
LV	1,890	0.4%	0.1%	-0.2%	8.2	8.1	0.1
MT	605	0.1%	0.0%	-0.1%	10.8	8.8	2.0
NL	82,869	5.3%	5.0%	-0.3%	7.9	8.6	-0.7
PT	35,492	2.1%	2.1%	0.0%	6.5	7.2	-0.7
SI	6,567	0.4%	0.4%	0.0%	8.8	9.1	-0.3
SK	7,966	1.0%	0.5%	-0.6%	8.4	8.0	0.5
SNAT	145,914	10.0%	8.8%	-1.2%	10.5	8.7	1.8
Total / Avg.	**1,660,594**	**100.0%**	**100.0%**	**0.0%**	**7.6**	**7.6**	**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] Current WAM of public sector securities holdings under the PEPP [4] WAM of eligible universe of public sector securities holdings under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

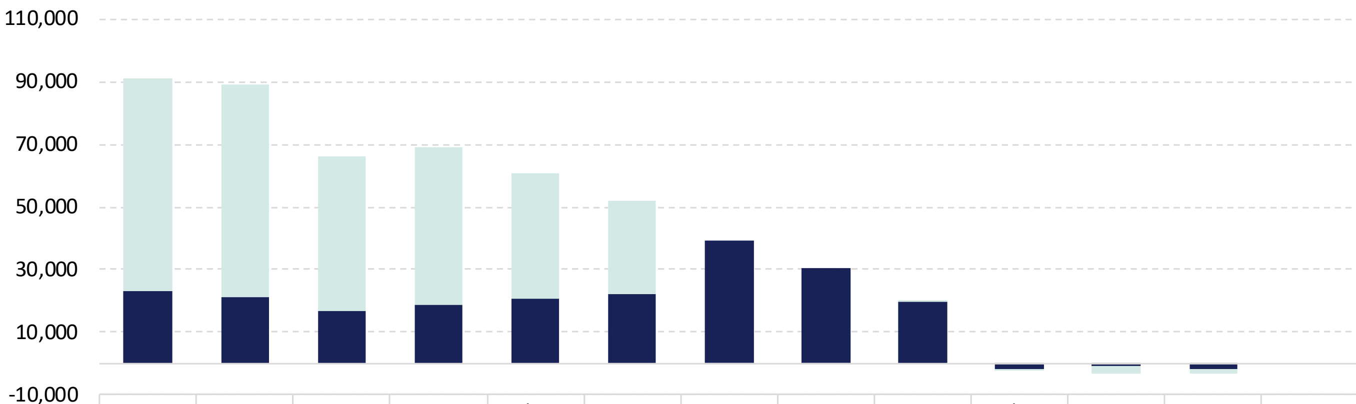
NORD/LB

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

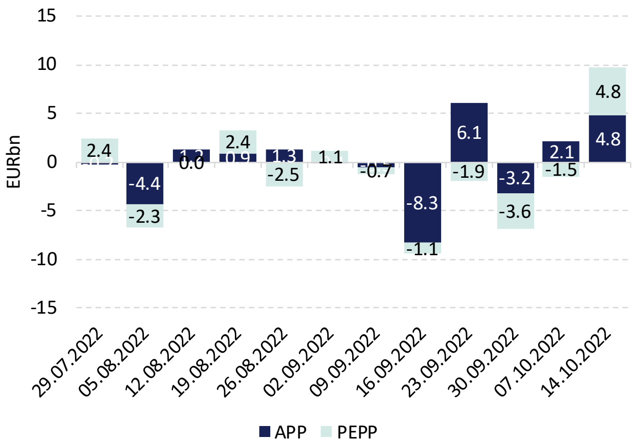
	APP	PEPP	APP & PEPP
Aug-22	3,262,729	1,714,539	4,977,268
Sep-22	3,256,302	1,713,035	4,969,337
Δ	-1,838	-1,505	-3,343

Monthly net purchases (in EURm)

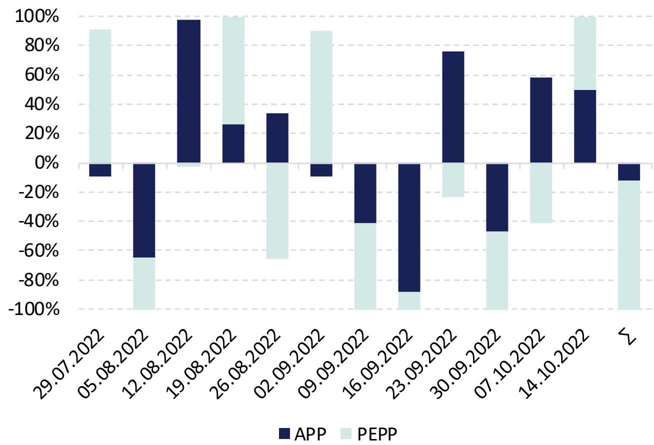


	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	∑
∑	90,872	89,245	65,971	68,951	60,882	52,143	39,393	30,222	19,734	-2,481	-3,469	-3,343	508,120
PEPP	67,855	68,045	49,375	50,113	40,184	30,214	-4	-10	12	-722	-2,813	-1,505	300,744
APP	23,017	21,200	16,596	18,838	20,698	21,929	39,397	30,232	19,722	-1,759	-656	-1,838	207,376

Weekly purchases



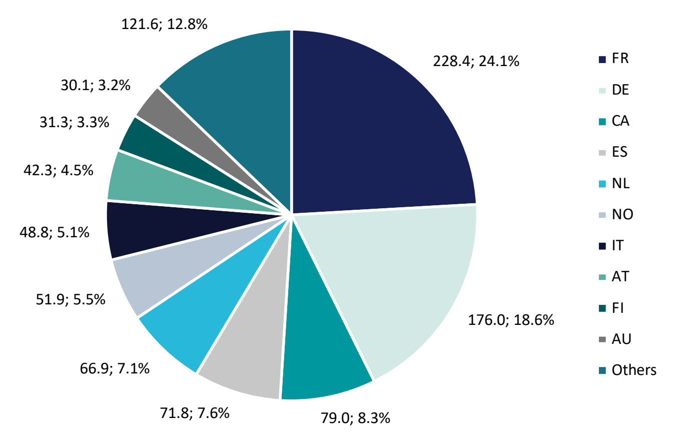
Distribution of weekly purchases



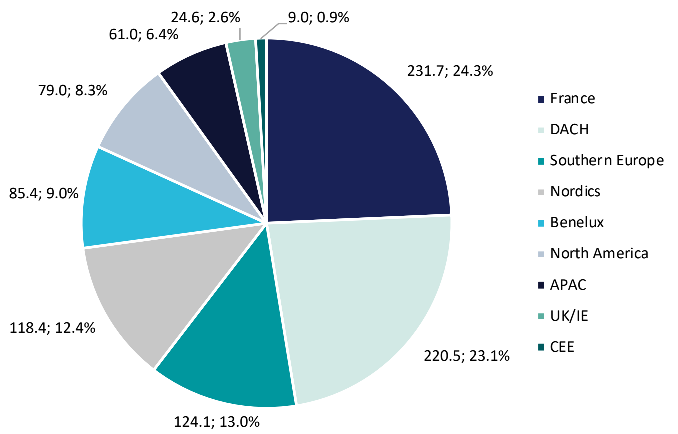
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



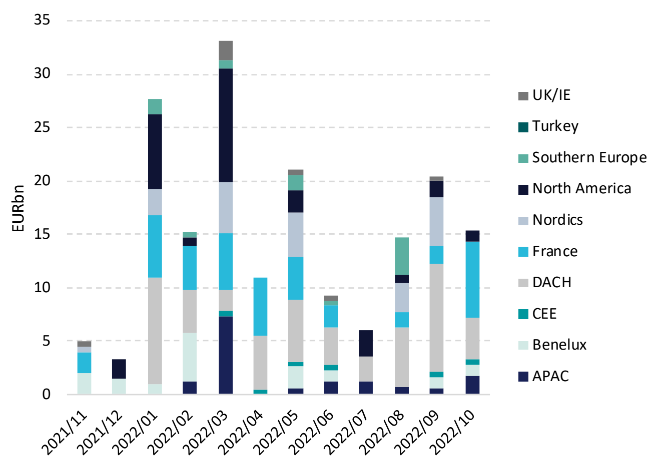
EUR benchmark volume by region (in EURbn)



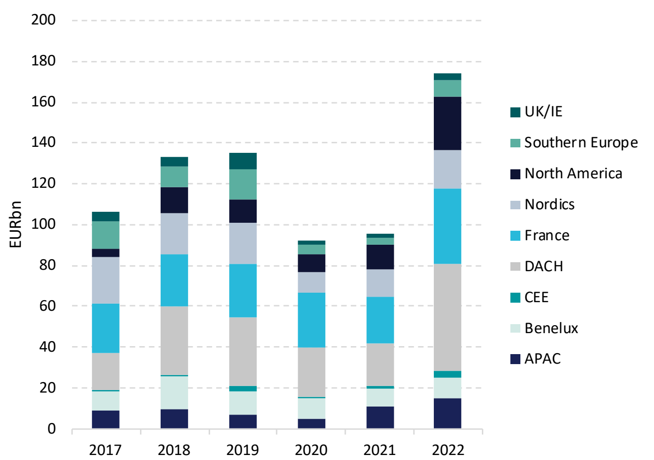
Top-10 jurisdictions

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	231.7	222	14	0.95	9.9	5.4	0.91
2	DE	177.7	254	26	0.64	8.3	4.5	0.63
3	CA	79.0	61	0	1.25	5.7	3.0	0.41
4	ES	71.8	57	5	1.15	11.7	3.7	1.74
5	NL	66.9	69	1	0.91	11.4	7.2	0.78
6	NO	51.9	61	10	0.85	7.3	3.8	0.51
7	IT	48.8	59	2	0.79	9.2	3.9	1.28
8	AT	42.8	76	3	0.56	9.2	5.8	0.80
9	FI	31.3	33	2	0.95	7.6	3.7	0.51
10	AU	31.1	32	0	0.97	7.9	3.9	0.98

EUR benchmark issue volume by month

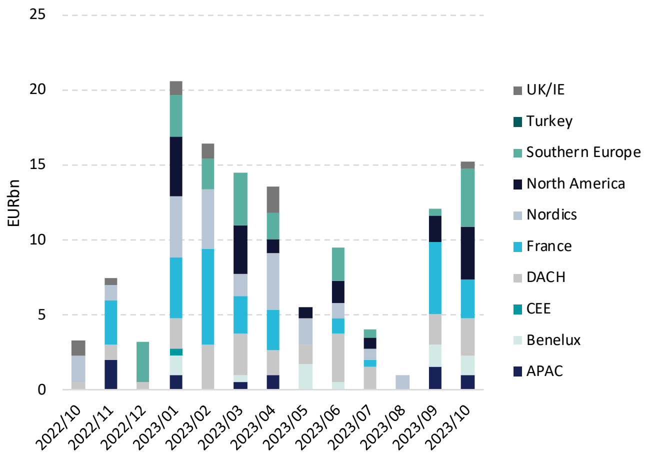


EUR benchmark issue volume by year

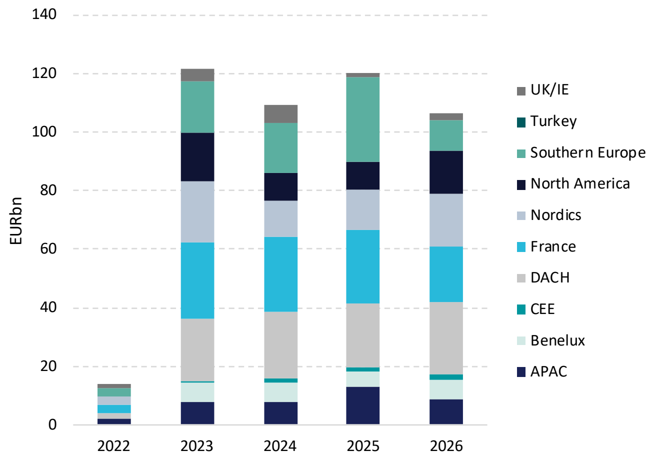


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

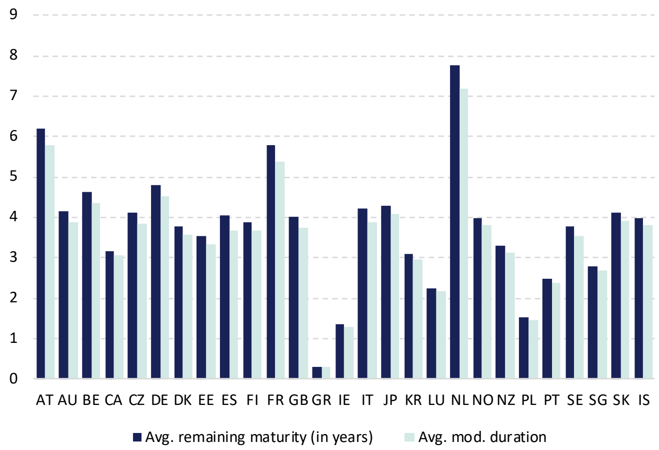
EUR benchmark maturities by month



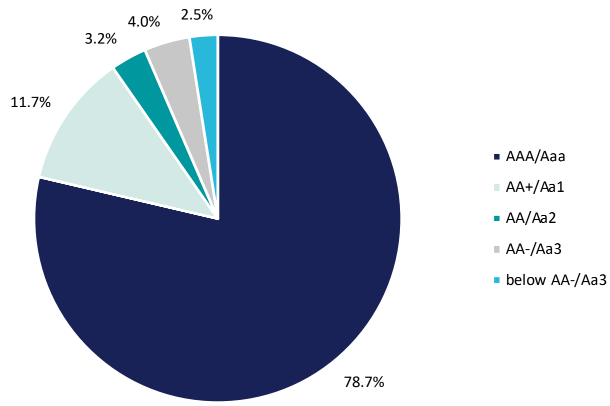
EUR benchmark maturities by year



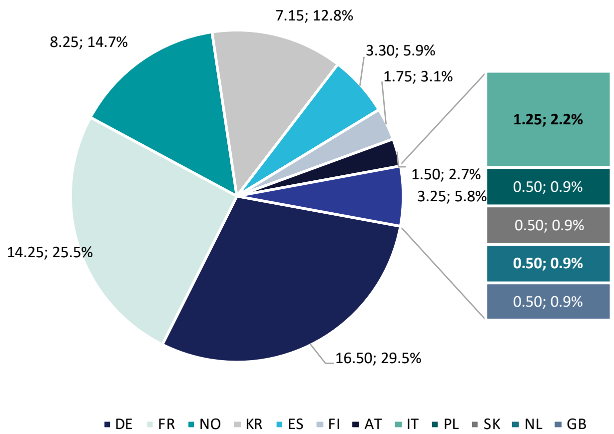
Modified duration and time to maturity by country



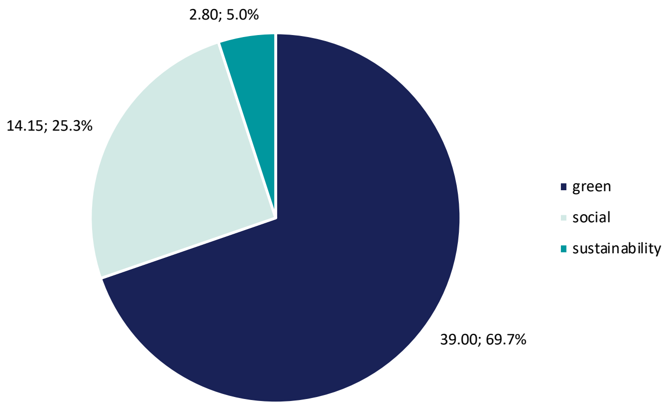
Rating distribution (volume weighted)



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

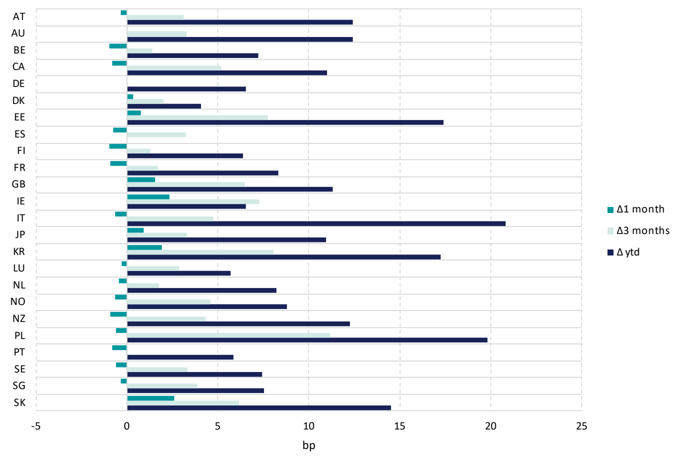


EUR benchmark volume (ESG) by type (in EURbn)

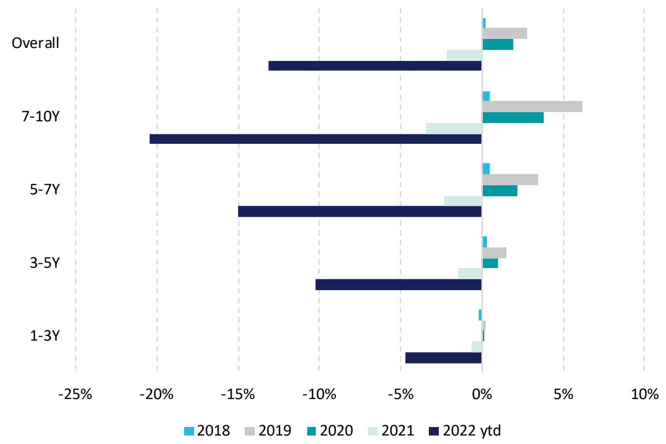


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

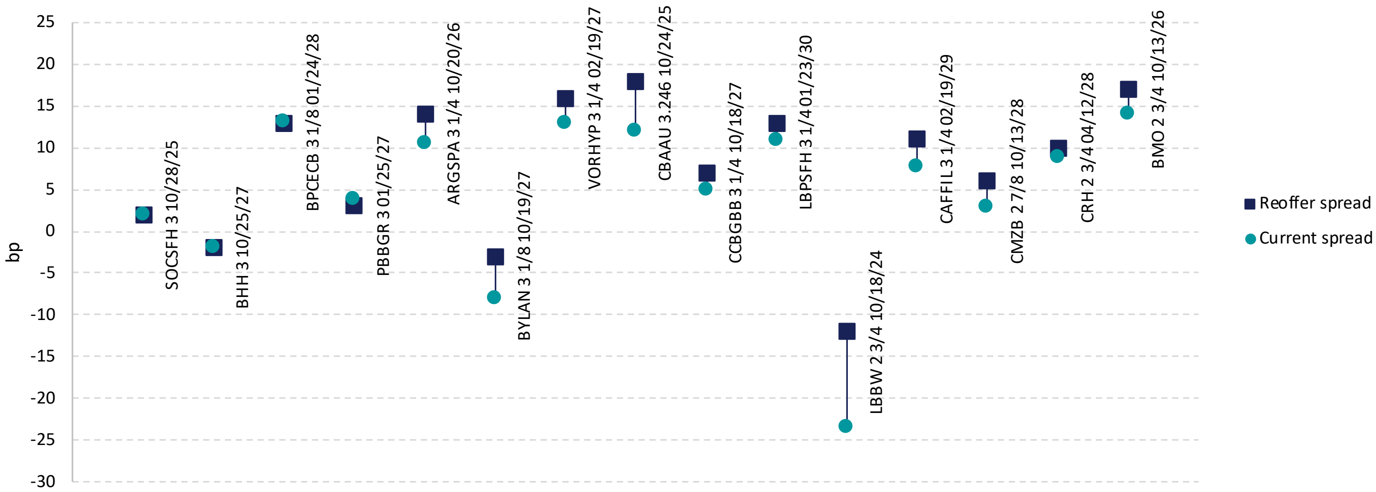
Spread development by country



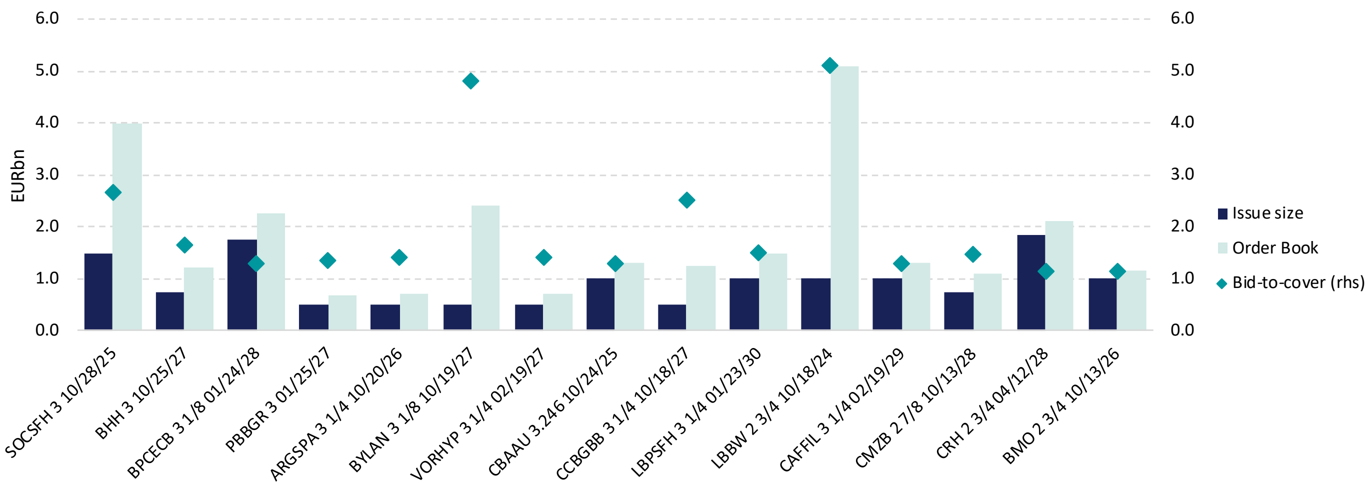
Covered bond performance (Total return)



Spread development (last 15 issues)



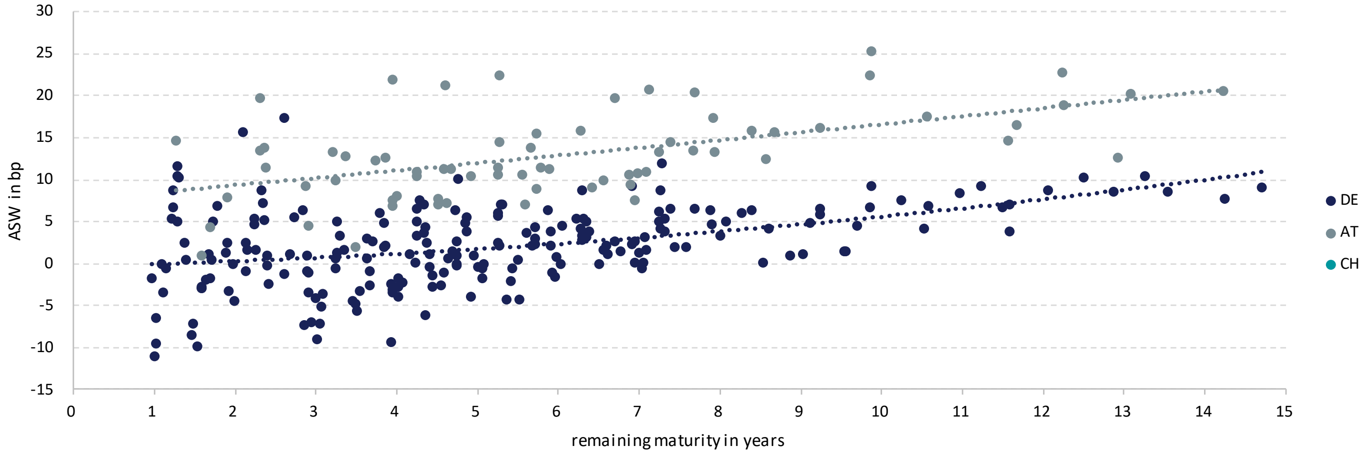
Order books (last 15 issues)



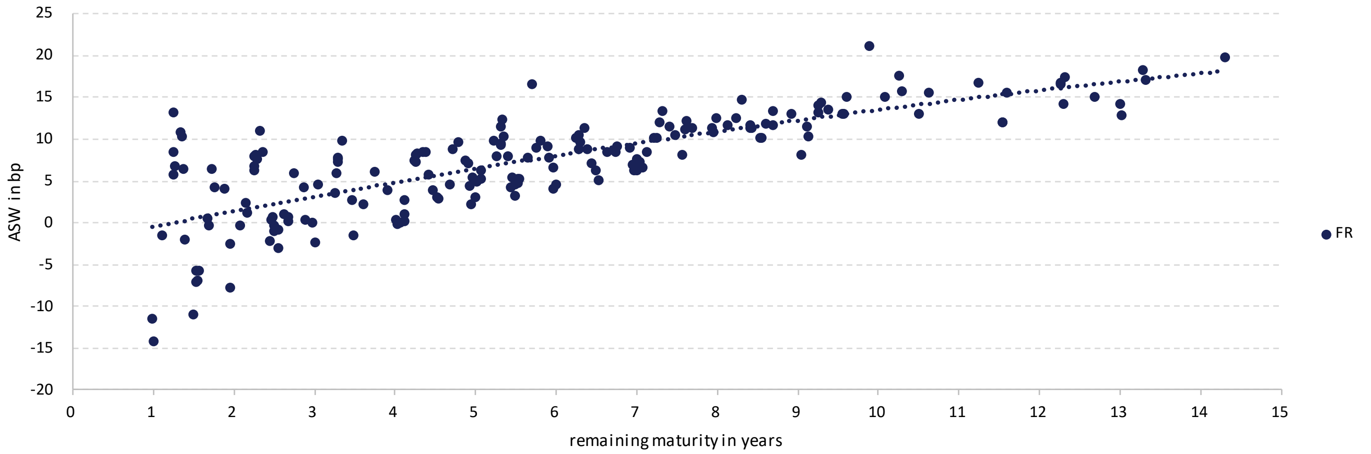
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

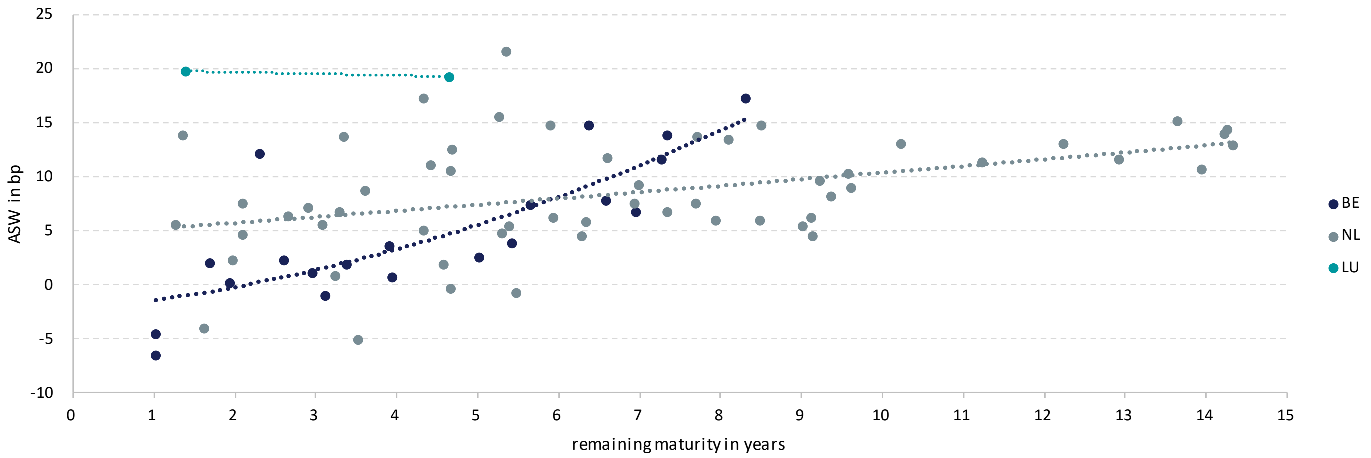
DACH



France

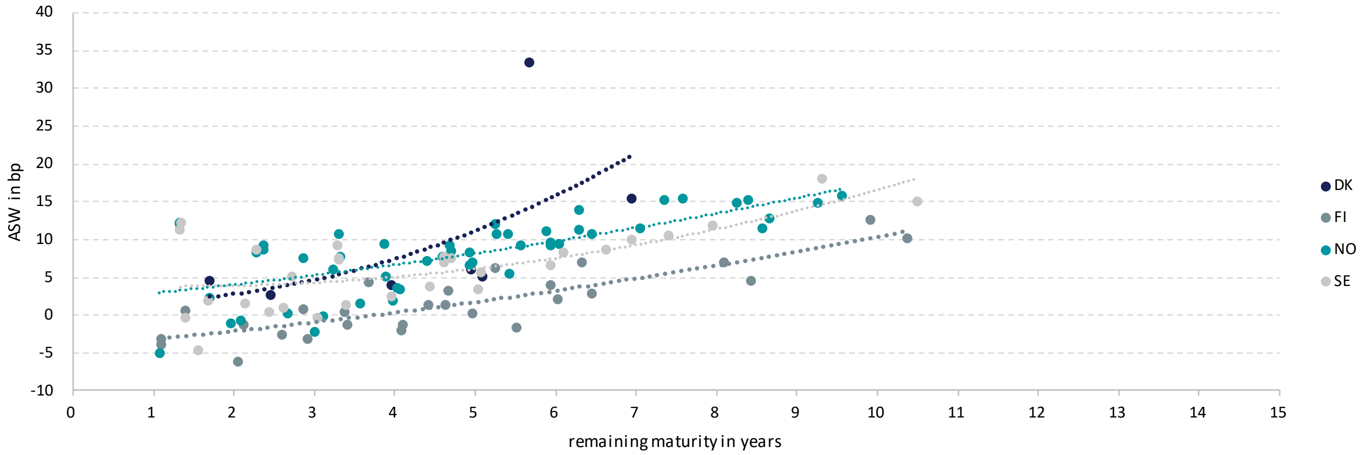


Benelux

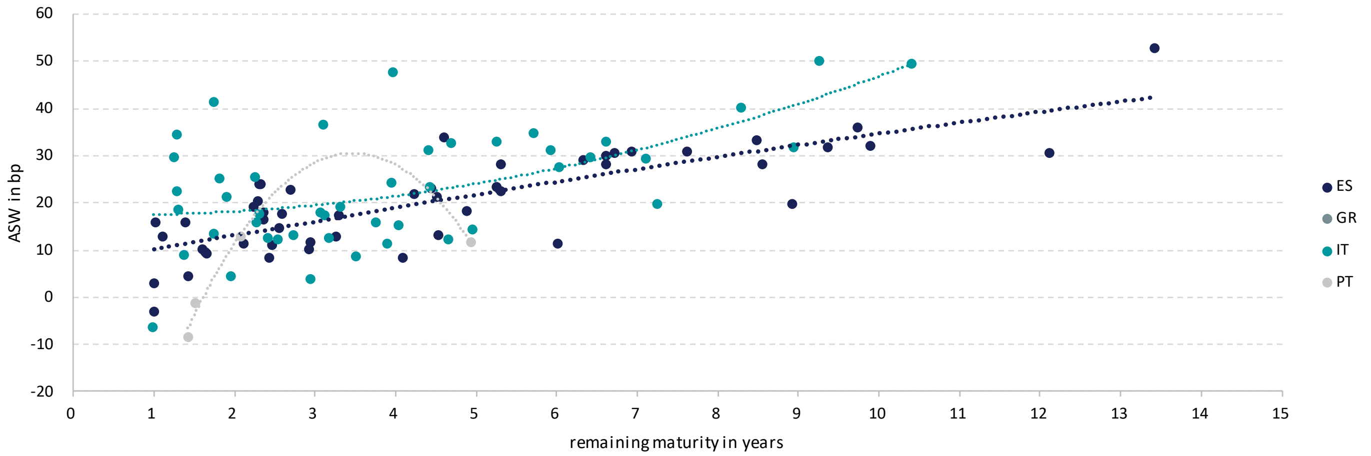


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

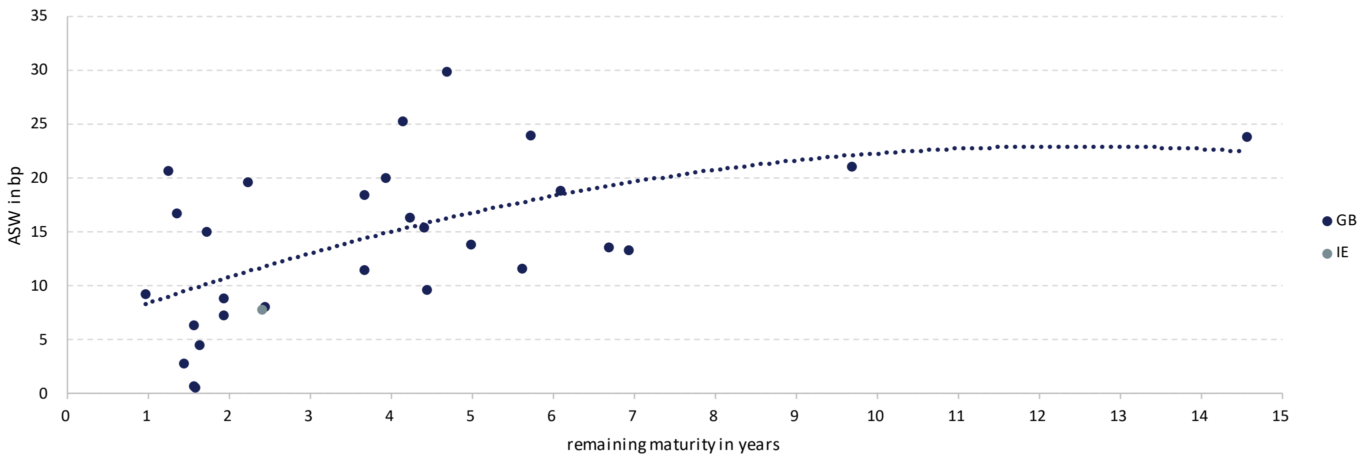
Nordics



Southern Europe



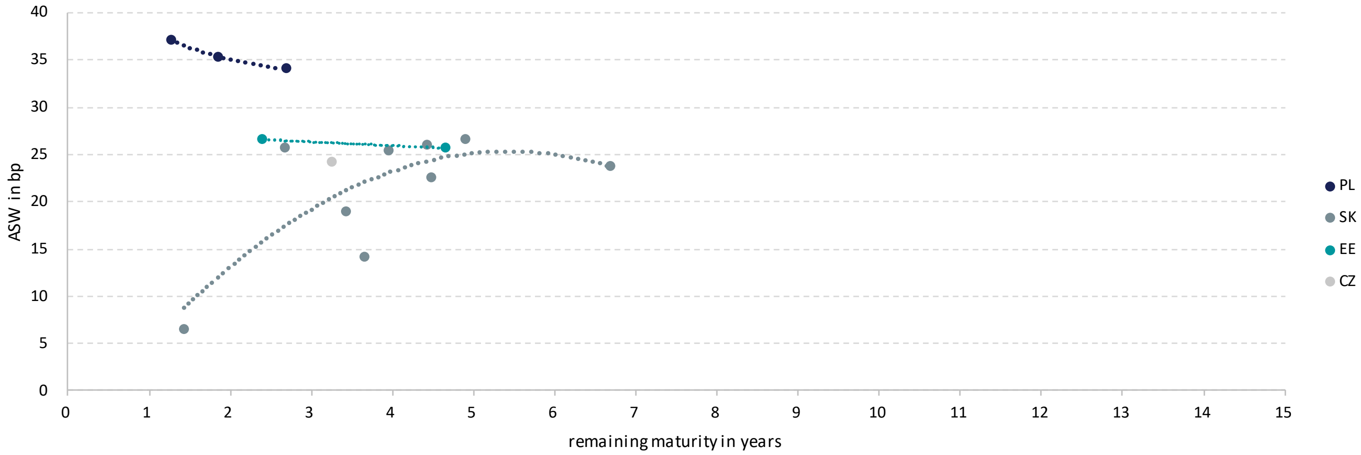
UK/IE



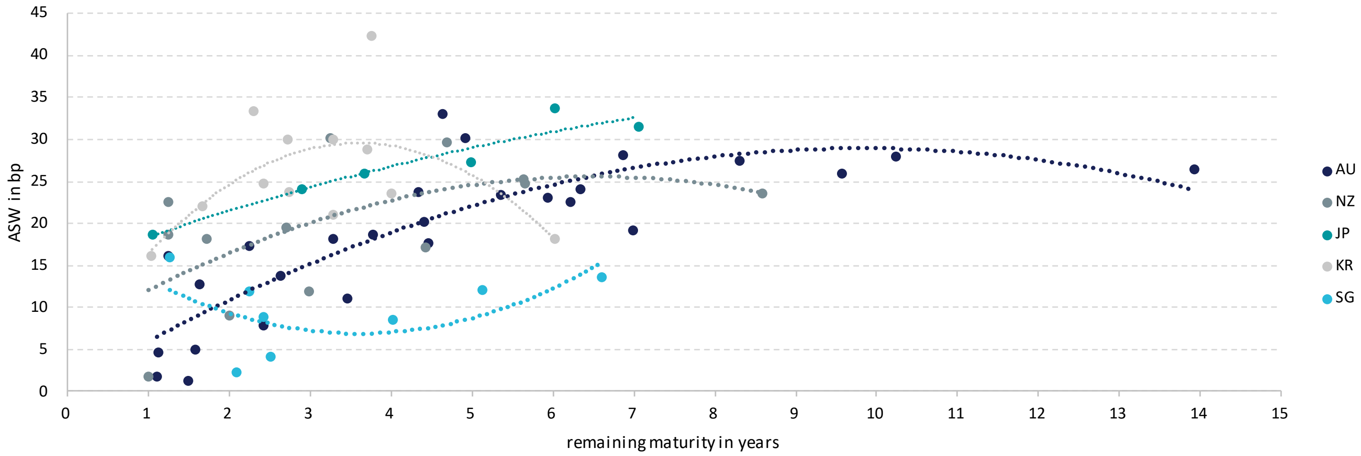
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

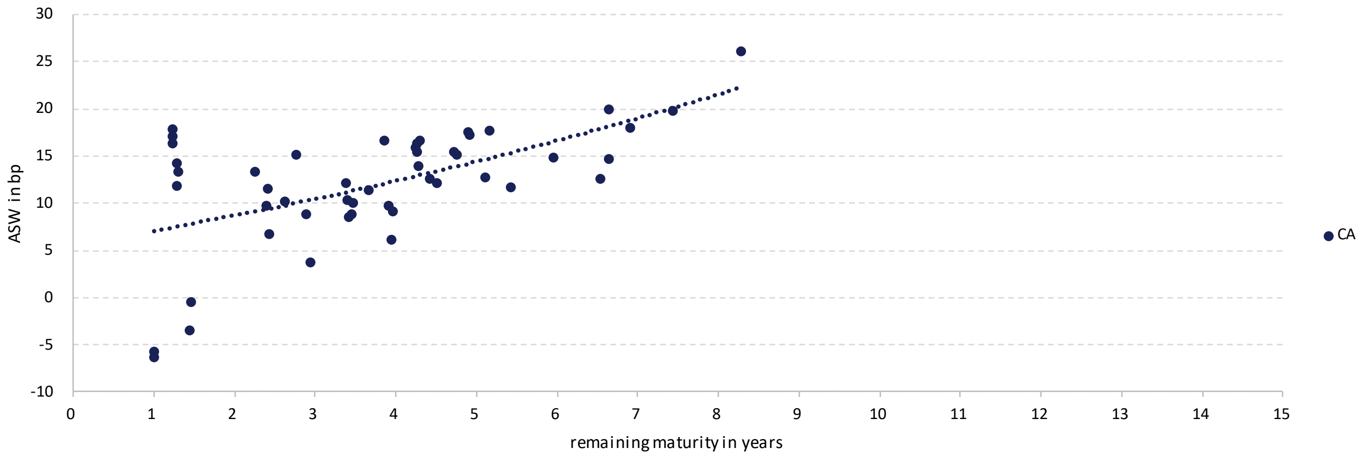
CEE



APAC



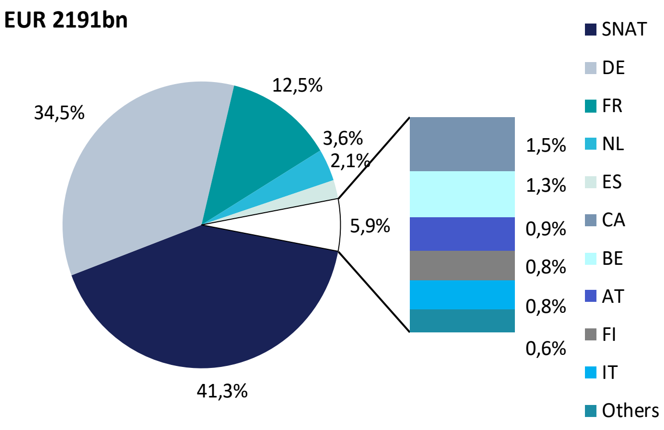
North America



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

Charts & Figures
SSA/Public Issuers

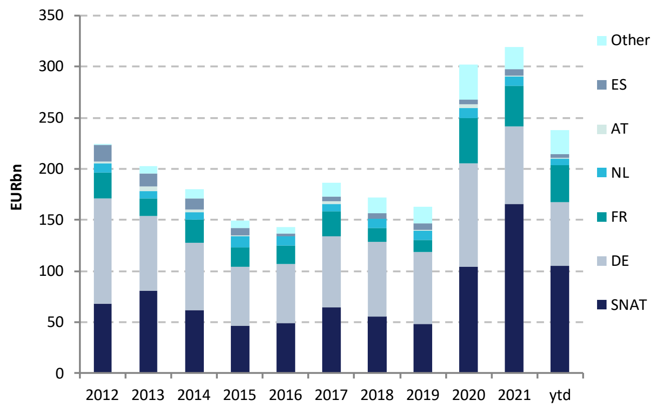
Outstanding volume (bmk)



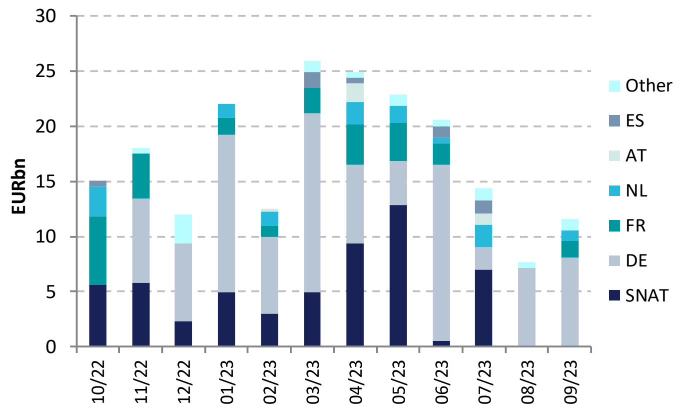
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	905,6	217	4,2	8,2
DE	755,7	562	1,3	6,3
FR	275,0	186	1,5	6,2
NL	79,4	69	1,2	6,4
ES	46,1	61	0,8	4,8
CA	32,6	23	1,4	4,8
BE	27,5	31	0,9	12,0
AT	19,8	23	0,9	4,6
FI	18,2	22	0,8	5,6
IT	17,3	21	0,8	4,7

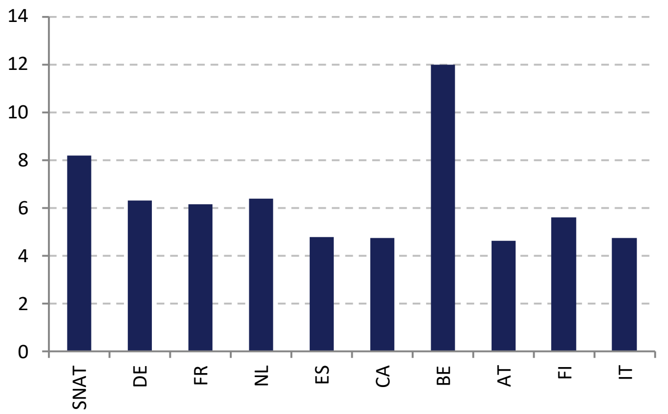
Issue volume by year (bmk)



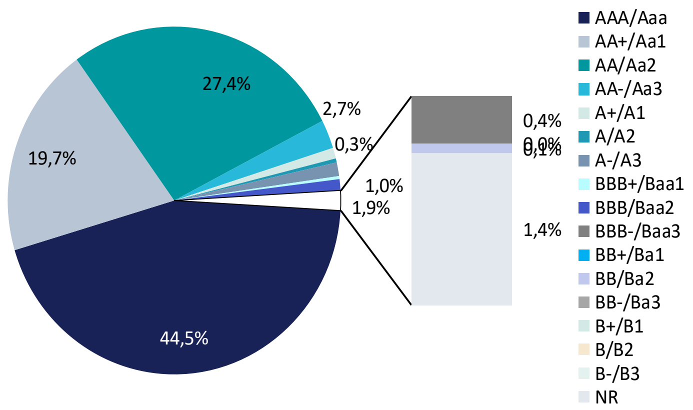
Maturities next 12 months (bmk)



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

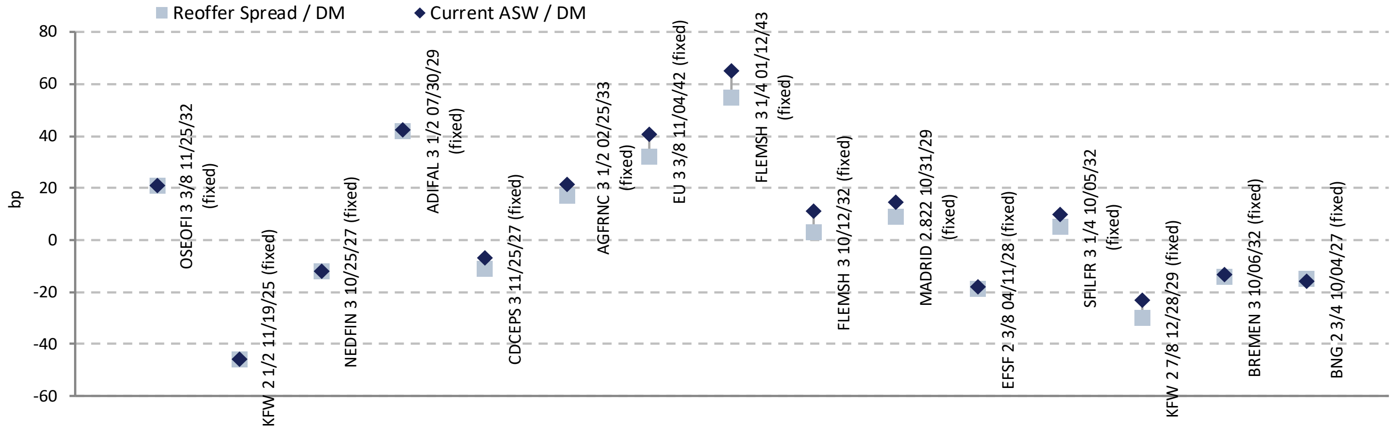


Rating distribution (vol. weighted)

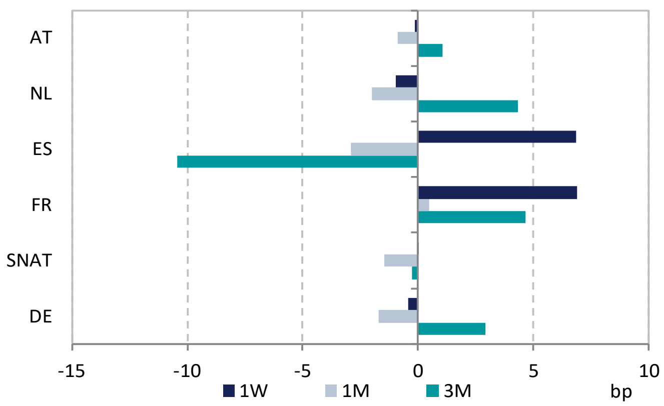


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

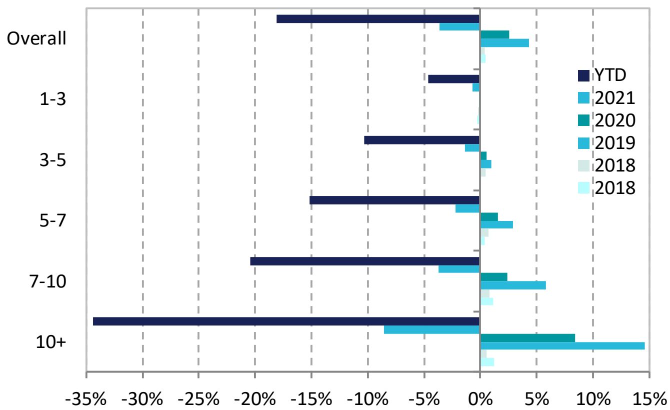
Spread development (last 15 issues)



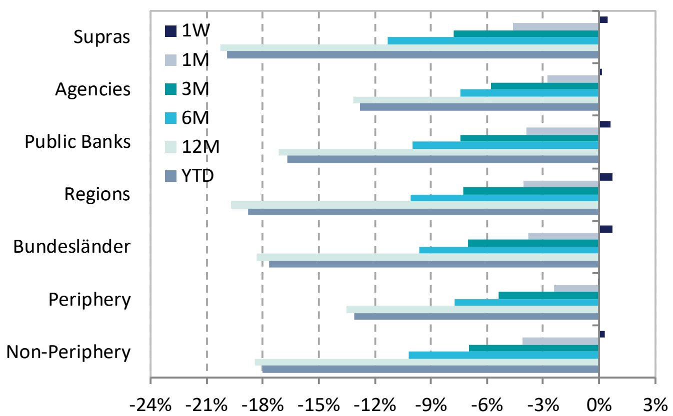
Spread development by country



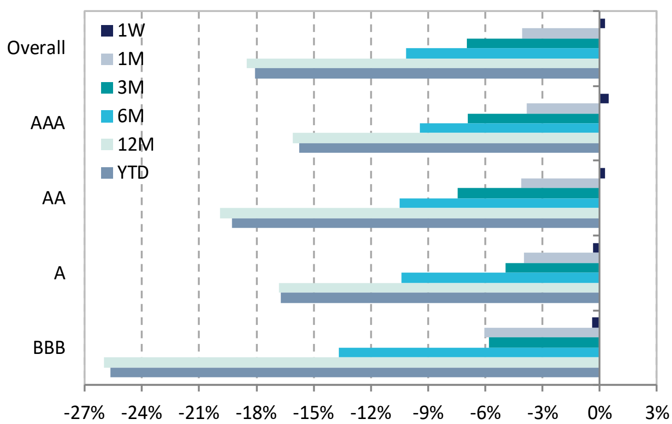
Performance (total return)



Performance (total return) by segments



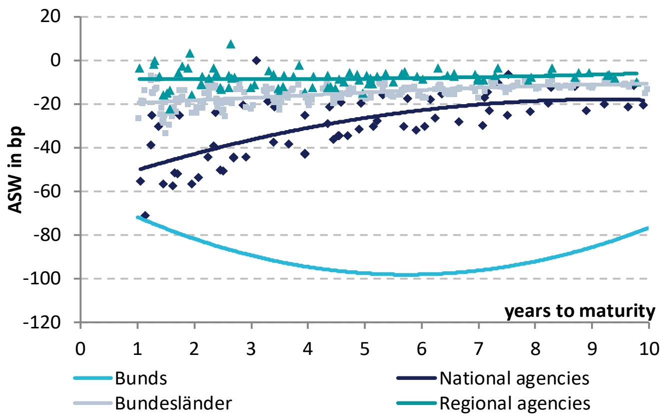
Performance (total return) by rating



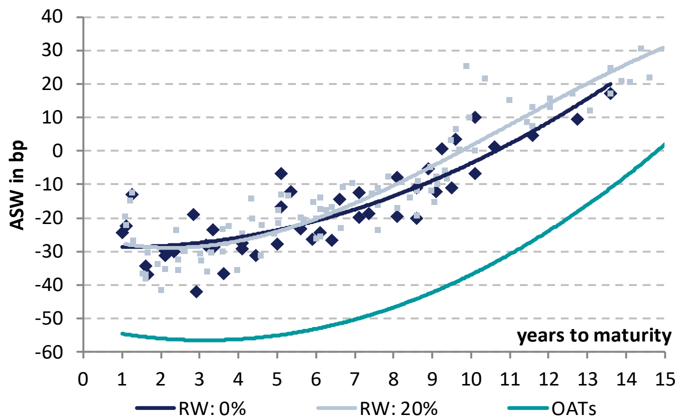
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

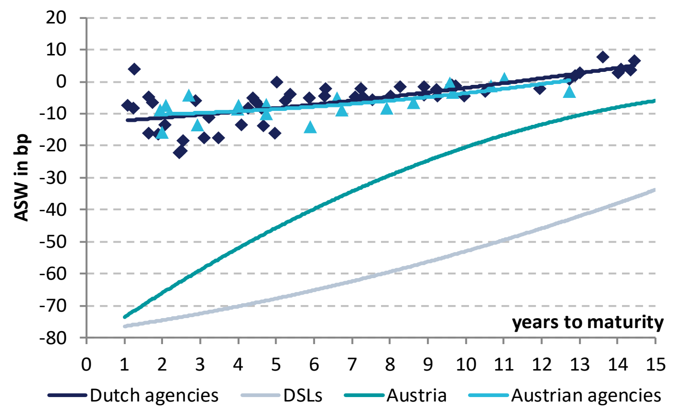
Germany (by segments)



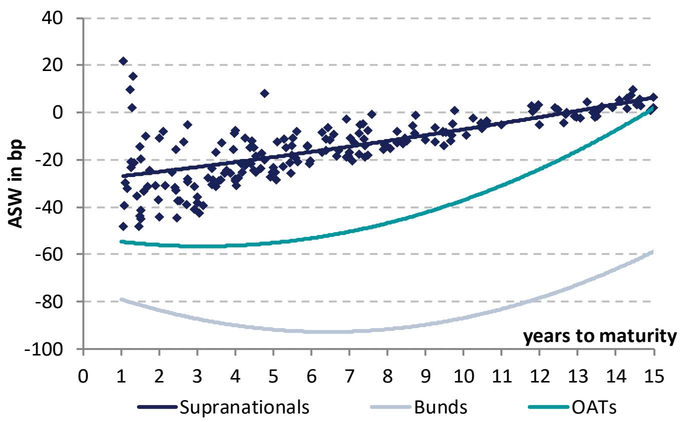
France (by risk weight)



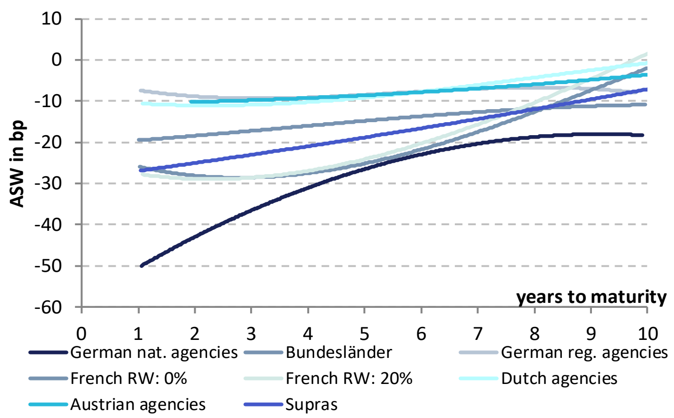
Netherlands & Austria



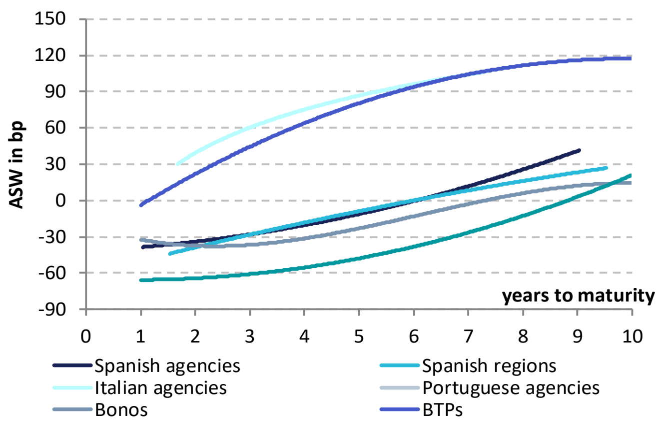
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
31/2022 ♦ 12 October	▪ The covered bond rating approach of S&P ▪ Benchmark indices for German Laender
30/2022 ♦ 28 September	▪ Focus on covered bond jurisdictions: Singapore in the spotlight ▪ German Laender: more ESG issues on the horizon?
29/2022 ♦ 21 September	▪ ECBC publishes annual statistics for 2021 ▪ Update: Gemeinschaft deutscher Laender (Ticker: LANDER)
28/2022 ♦ 07 September	▪ Primary market: A little more to come! ▪ ECB: PEPP visibly active as first line of defence
27/2022 ♦ 31 August	▪ ECB rate hikes: minimum of +100bp still to come by year-end ▪ Australia: Macquarie returns to the EUR benchmark segment
26/2022 ♦ 24 August	▪ Development of the German property market ▪ Transparency requirements §28 PfandBG Q2/2022
25/2022 ♦ 27 July	▪ ECB likes abbreviations: After OMT and SMP, we now have TPI ▪ Covereds vs. Senior Unsecured Bonds
24/2022 ♦ 20 July	▪ A brief spotlight on the EUR sub-benchmark segment ▪ Deutsche Hypo real estate climate: index falls again
23/2022 ♦ 13 July	▪ ECB preview: might the ECB go slightly further? ▪ EBA Report on Asset Encumbrance: levels increasing
22/2022 ♦ 06 July	▪ H1 review and outlook for H2 2022 ▪ Half time in the 2022 SSA year – taking stock
21/2022 ♦ 22 June	▪ Focus on ESG covered bonds: BayernLB's "green rail" public sector Pfandbrief ▪ Stability Council convenes for 25th meeting
20/2022 ♦ 15 June	▪ Covered bond jurisdictions in focus: a look at Australia and New Zealand ▪ NGEU: Green Bond Dashboard
19/2022 ♦ 01 June	▪ ECB: 3, 2, 1 – lift-off! Decisive June, active summer ahead ▪ The covered bond universe of Moody's: an overview ▪ ECB Financial Stability Review identifies increasing risks in the eurozone: a brief overview of covered bonds
18/2022 ♦ 25 May	▪ Transparency requirements §28 PfandBG Q1 2022 ▪ ESG: EUR-benchmarks 2022 in the SSA segment (ytd)
17/2022 ♦ 18 May	▪ Development of the German property market ▪ The SSA market in 2022 a review of the first four months
16/2022 ♦ 11 May	▪ Focus on covered bond jurisdictions: a look at Austria ▪ Update on DEUSTD – Joint German cities (bond No. 1)

NORD/LB:	**NORD/LB:**	**NORD/LB:**	**Bloomberg:**
Markets Strategy & Floor Research	Covered Bond Research	SSA/Public Issuer Research	RESP NRDR <GO>

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Appendix
Publication overview

Covered Bonds:

- Covered Bond Directive: Impact on risk weights and LCR levels
- Issuer Guide Covered Bonds 2021
- Risk weights and LCR levels of covered bonds **(updated semi-annually)**
- Transparency requirements §28 PfandBG **(quarterly update)**
- Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

- Issuer Guide – German Laender 2021 **(updated annually)**
- Issuer Guide – German Agencies 2022
- Issuer Guide – Dutch Agencies 2022
- Beyond Bundeslaender: Greater Paris (IDF/VDP)
- Spotlight on Belgian regions
- Spotlight on Spanish regions

Fixed Income Specials:

- ESG-Update 2022
- ECB acts as the 'House of Hikes' - or: Winter is coming!
- ECB frontloads rate hike by +50bp and breaches pre-commitment
- ECB ready for lift-off: Every journey starts with a first step
- Face-saving ECB decision: Hawks have won – for now

NORD/LB:	NORD/LB:	NORD/LB:	Bloomberg:
Markets Strategy & Floor Research	Covered Bond Research	SSA/Public Issuer Research	RESP NRDR <GO>

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