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

Authors: Dr Frederik Kunze // Melanie Kiene, CIIA // Stefan Rahaus

Primary market: a week of relative calm on the covered bond market, before the ECB switches its focus to QT and the secondary market

We can look back on what, at least in the EUR benchmark segment, was a comparatively quiet trading week. As such, the last few trading days prior to the ECB opening a new QT chapter for the APP securities purchase programme in March ended with just two new covered bond deals from two issuers to report on and a new issue volume of EUR 1.75bn (cf. NORD/LB Fixed Income Special from 02 February). With a view to the covered bond market and the CBPP3, the imminent pivot to the secondary market has recently also been the focus of market comments. In the current month of February, the central bank has already reduced the order rate on the primary market from 20% to 10%. It is more or less an open secret that a 0% order share has already been agreed for March for some time now. The CBPP3 volume most recently amounted to EUR 302.4bn, with maturities in the months of March up to and including June 2023 of around EUR 13.6bn. Over this period, the reinvestments for the APP will be cut by an average of EUR 15bn per month. According to our calculations, only around EUR 7.3bn of the CBPP3 maturities of EUR 13.6bn are to be reinvested by the ECB, although we continue to assume that the ECB will not stick to a rigid monthly target. Market neutrality will remain a key decision-making criterion for the active portfolio managers. Up to now, the ECB has opted not to provide details regarding the approach from July 2023 onwards and has therefore also left open the question as to whether reinvestments in the APP will be reduced to zero from this point in time. What is certain is that further repayments in the amount of EUR 10.7bn are pending under the CBPP3 in the period from July through to December 2023. Yesterday, an issuer from Germany and a bank from Canada made an appearance on the primary market, while things have otherwise remained quiet since our last weekly publication. With its covered bond in the amount of EUR 750m (5y; ms +1bp), BerlinHyp (BHH) increased the volume of Pfandbrief deals in 2023 to EUR 14.5bn. The HSBC Canada bond marks only the second deal in 2023 from Canada. HSBC Canada, which is in the process of being acquired by Royal Bank of Canada (RBC), placed EUR 1.0bn for five years at ms +32bp. After an above-average share of the EUR issuance volume came from the eurozone in the first two months of 2023, for reasons that have already been established, we now expect issuers from outside the eurozone to make more frequent appearances on the market over the coming months.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
HSBC Bank Canada	CA	28.02.	XS2595029344	5.0y	1.00bn	ms +32bp	AAA / Aaa / -	-
Berlin Hyp AG	DE	28.02.	DE000BHY0JY1	5.0y	0.75bn	ms +1bp	- / Aaa / -	-

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

Greater investor focus on the secondary market

The primary market activity discussed at the beginning (which is lower than in the previous weeks) means that greater attention is being paid to events on the secondary market. With regard to the newly placed deals in recent trading weeks, it is striking that these were consistently able to narrow versus the respective re-offer spread. This also applies in particular to new issues from those jurisdictions for which larger premiums versus mid-swap compared with German Pfandbriefe can be seen. In terms of maturities, the shorter end remains more in demand, with narrowing of one to two basis points again in evidence here. Long maturities (10y and longer) were stable, with the flat to inverse yield curve still the decisive factor behind this situation.

DBRS now rates Portuguese covered bonds as "systemically important"

In its rating approach for covered bonds, which we have explained in more detail here, the rating agency DBRS takes into account the importance of covered bonds for the respective domestic market and/or for the issuer. If covered bonds are viewed as a systemically important financing instrument in a country, there may be an uplift of one or two notches when it comes to determining the covered bond rating. Following the amendment of covered bond legislation by the Portuguese legislature, DBRS has added Portugal to the list of European countries that, from the perspective of the rating agency, use covered bonds as a systemically important financing tool. In addition to Portugal, this list also includes France, Germany, Spain, Italy as well as Denmark, Sweden and Ireland. The decisive factors for inclusion on this list are, among other aspects, the degree of interconnectedness of covered bonds, economic activity and the financial sector, as well as the strength of the legal and regulatory framework and the historical background of covered bonds as a financing vehicle. Since 2006, Portuguese banks have made regular use of covered bonds for refinancing purposes. The systemic importance is underlined by the volume of outstanding covered bonds measured against GDP, real estate financing or bank liabilities overall. In this way, the Portuguese market is similar to the jurisdictions already classified as systemically important. In France, according to DBRS, the share of outstanding covered bonds against GDP is considerable and the high proportion of real estate financing, which is funded by mortgage-backed bonds, illustrates the strong interdependence between the real economy and the covered bond market. In Germany, the legal framework for Pfandbriefe has been established for a long time. It is considered to be a particularly strict framework and has been updated regularly so that we can look back on decades of successful practical use of the Pfandbrief market. In addition, the supervisory authority has considerable powers of intervention. Even if the share of covered bonds against GDP has steadily declined in Germany, in particular due to a declining volume of public-sector Pfandbriefe while GDP is rising at the same time, the size of the covered bond market in Germany means that a high degree of interdependence between the real economy and the financial sector is still implied. In Spain and Italy, the systemic importance of covered bonds is reflected in the high proportion of covered bonds in the long-term liabilities of credit institutions. Furthermore, a significant proportion of loans for home purchases in these countries is financed through the issuance of mortgage bonds.

Moody’s comments on revised covered bond legislation in Iceland

Iceland only finalised the implementation of the EU Covered Bond Directive in its domestic covered bond law in February this year. The rating agency Moody's has now taken a closer look at the framework and takes a generally positive view of this for Icelandic covered bonds, although it does also highlight some weaknesses. According to the rating agency, the following aspects contribute to reducing the risk of cover and market risks: (1) full alignment of the domestic legal framework with the EU directive, (2) strict rules for eligible collateral, (3) minimum overcollateralization of 5% (nominal and present value), (4) requirements for extending the term, (5) cooperation obligations to protect investors when the issuer is wound up, (6) requirements for regulatory supervision and monitoring and (7) measures to reduce the risk of mixing. Moody’s sees the limited protection against liquidity risk as the greatest weakness of Iceland’s legal framework. Here, as in many other European countries, a 180-day liquidity buffer is maintained. However, for the calculation this only relates to the final maturity date, which means that there is no need to hold liquidity for principal payments on soft bullet bonds prior to the term being extended. Other points of criticism include the lack of an obligation to appoint a cover pool manager, a lack of provisions on liquidity management after an issuer default event as well as no mitigation of offsetting risks. The atypical market practices mentioned above have both positive and negative effects on the credit quality of covered bonds. The positive impact is due to a track record of good covered bond performance even in times of crisis and a strong domestic investor base. On the negative side, there are significant asset/liability mismatches from inflation-linked exposures and a lack of international swap counterparties to hedge currency risks.

Rating agency Fitch sees Canadian covered bonds in fine shape

Despite falling house prices, high inflation rates and rising interest rates, Fitch continues to award a stable outlook to the covered bonds of Canadian EUR benchmark issuers (AAA rating across the board). In a peer review, the rating agency refers to the outstanding credit quality of the cover pools and the high issuer ratings. For Fitch, this results in different buffers against a downgrading of the Issuer Default Rating (IDR). The following banks have a buffer of seven notches with a rating of AA-: Bank of Montreal (BMO), Bank of Nova Scotia (BNS), Canadian Imperial Bank of Commerce (CIBC), Fédération des Caisses Desjardins du Québec (CCDJ) and Royal Bank of Canada (RY). National Bank of Canada (NACN; IDR: A+) and HSBC Bank Canada (HSBC; IDR A; pending acquisition by RY) have lower buffers of six and three notches respectively. All cover pools consist solely of senior secured mortgages on Canadian residential real estate. The cover pools have had only minimal defaults since the programmes were launched. As at 31 December 2022, real estate loans overdue by more than 30 days averaged just 0.02%, according to pool reports. In the focus article entitled “Canada in the spotlight”, we took a closer look at the Canadian covered bond market at the end of January 2023. In mid-February, we revised our 2023 covered bond issuance forecast for EUR benchmarks from Canada downwards from EUR 25.0bn to EUR 17.0bn.

Market overview
SSA/Public Issuers

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

PEPP reinvestments: All Quiet on the Western Front

As part of our weekly publication, we seek not only to regularly provide the most up-to-date data on PEPP reinvestments in the Appendix, but also take a closer look at this data in the articles. The ECB gives us reason to do so every two months since unfortunately it does not publish updated data any more frequently. Moreover, the ECB does not disclose the precise amount of maturities – unlike in the case of the Asset Purchase Programme (APP). More detailed information is only provided about the reinvestment of the portfolio in relation to individual jurisdictions in the context of the public sector. It is fair to ask why we regard these reinvestments as so interesting. Since July 2022, the ECB has "theoretically" had a new tool at its disposal in the form of the Transmission Protection Instrument (TPI). It can be activated in order to counter unwarranted, disorderly market dynamics. In the event of activation, the Eurosystem could purchase securities from individual countries in order, for example, to combat any deterioration in financial conditions that would be unwarranted from a fundamental point of view. However, PEPP reinvestments are to be used as first line of defence before the new instrument is taken out of the ECB's tool kit. The role of the PEPP was underlined once again at the ECB's most recent interest-rate decision: "The Governing Council will continue applying flexibility in reinvesting redemptions coming due in the PEPP portfolio, with a view to countering risks to the monetary policy transmission mechanism related to the pandemic." But just how necessary does the ECB regard this flexibility? The table below makes it clear that the ECB has tended once again, if anything, to reduce holdings from periphery countries in the previous reporting period and has not regarded net investments as necessary. On the contrary: with a marked reduction in Spanish paper, the ECB is currently operating more in accordance with the adjusted capital key in order to smooth out any percentage differences. In our view, reinvestments clearly show that the ECB regards the ability of the markets to function as a given and that it sees no reason to activate the TPI either in the short or medium term.

Public sector PEPP net purchases in selected states (EUR m)

Country	Net purchases Oct 22 – Nov 22	Net purchases Dec 22 – Jan 23	Cumulative net purchases at end-January 23
Germany	2,551	593	398,297
Netherlands	1,689	-1,171	83,388
France	14	2,093	301,844
Total	**+4,254**	**+1,515**	**783,529**
Spain	-1,418	-1,382	193,376
Italy	-794	631	287,658
Greece	729	-1,847	37,760
Portugal	-1,068	-516	33,909
Total	**-2,551**	**-3,114**	**552,703**
Supranationals	0	1,173	147,088

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

Agence Française de Développement: 2023 funding programme set at EUR 9.0bn

At the end of January, the supervisory board of Agence Française de Développement (Ticker: AGFRNC) approved the funding programme volume for 2023 of EUR 9.0bn. By comparison: AFD's total issuance volume in 2022 was EUR 9.52bn, split across 27 separate issues. As the French state's main instrument for the purpose of promoting development in emerging countries and overseas territories, AFD is expected to contribute to total spending of 0.7% of French GDP on development aid by 2025. To this end, AFD has an EMTN programme amounting to EUR 60.0bn at its disposal. Reference is made in a press release relating to 2023 funding activities to at least two EUR-denominated benchmark bonds and up to two GBP-denominated benchmark issues, which will be placed in the mid to long-term segments. Moreover, the AFD is committed to issuing between 40% and 50% of its funding programme for 2023 based on its Sustainable Development Goals Bond Framework, which was developed based on established ICMA Principles and Guidelines. The AFD was again active in the ESG segment last year when it placed a EUR benchmark bond (EUR 1.2bn) with a maturity of ten years in mid-October. The press release also states that, as in the past, the issuer takes an open view of taps and floating rate notes in the form of both public and private placements. The French state is implicitly liable for the promotional institute's debts through the AFD's legal status as an établissement public à caractère industriel et commercial (EPIC).

Netherlands: BNG Bank presents "Going Green" climate plan

There is no let-up in the current flood of recently launched sustainability programmes and declarations coming from all the sectors we cover regularly: The "Going Green" climate plan published at the beginning of February by BNG Bank (Bank Nederlandse Gemeenten; Ticker: BNG) sets out how the Dutch bank aims to bring the CO_2 emissions associated with its operations and above all its credit portfolio into line with the Paris Agreement. As part of its staggered targets, BNG plans to reduce the carbon emissions associated with its credit portfolio by 25% by 2025 and by as much as 43% by 2030 compared with 2019; by 2050, the credit portfolio should be fully carbon neutral. In so doing, the bank is striving to meet stiffer sustainability requirements in the context of its public mission. As part of its new climate plan, BNG will focus mainly on carbon reduction in its core activities which involve providing financing for housing associations, healthcare and educational bodies and municipalities. Taking the example of future activities in the housing associations sector, as the market leader in the Netherlands, BNG is committed to phasing out energy efficiency categories which no longer meet requirements. Moreover, natural gas is to be replaced in the long term as a source of energy. Municipal financing activities currently account for 31% of the credit portfolio and are responsible for 22% of greenhouse gases. According to BNG's climate plan, CO^2 intensity in this area is to be reduced to just 2.8% (2050) of the current level. BNG Bank's credit business is secured to a large extent by the guarantee funds Waarborgfonds Sociale Woningbouw (WSW) and Waarborgfonds voor de Zorgsector (WFZ), for which the Dutch state is the ultimate guarantor. There is therefore an implicit state guarantee for a large part of the credit portfolio. Along with a separate analysis of BNG, our readers will find an overview of the Dutch agency market in our NORD/LB Issuer Guide 2022 – Dutch Agencies.

Primary market

In today’s look at the SSA primary market, we can identify six deals which are listed in the table below. In chronological order, they are as follows: Investitionsbank Berlin (ticker: IBB) launched a ten-year EUR 500m bond at ms +2bp. It is worth noting that the guidance was also at ms +2bp area and that no details were disclosed relating to the order book. Moreover, any interested party had to look closely to find out who the actual issuer was last week; Landesbank Berlin (SNP), Berlin Hyp or in fact IBB. A lot is going on in Germany’s capital – and not just in the aftermath of the election. The above was followed by a deal from another one of Germany's city states, namely BREMEN, as per its ticker. Bremen chose the same duration and size as IBB. Pricing was three basis points tighter at ms -1bp, while the order book size was disclosed on this occasion: EUR 575m. Here, too, there was no further movement to be seen against the guidance. The next deal under scrutiny was from North Rhine-Westphalia, where Düsseldorf opted for a 50-year maturity. Obviously, such maturities are not easy to price, especially against a background where many issuers are concentrating on a maximum of ten years. The initial guidance stood at ms +106bp. The order book grew to over EUR 6bn, so that by the end of the book-building process a volume of EUR 2bn had changed hands at ms +104bp. The coupon for such a deal currently stands at 3.4%. There are still the three deals to discuss from yesterday: of particular importance for us was the issue of a seven-year bond by Frankfurter Rentenbank, for which we published the accompanying research. Initial guidance for the deal was ms -1bp area. The order books closed at over EUR 4.6bn with a spread of ms -3bp. The issuer was therefore able to opt for a volume of EUR 1.5bn. Jumping now to Spain where Galicia has issued its third sustainable bond under the JUNGAL ticker. All ESG bonds from this issuer have been issued in benchmark form. This is definitely worth mentioning given a total of only nine bonds outstanding. The EUR 500m bond came with a six-year maturity, while the deal was more than three times oversubscribed. The A/Baa1 rating is certainly among the weaker ratings in the SSA segment. Accordingly, the deal was priced at SPGB +25bp above the Spanish reference bond. However, the spread is directly overshadowed by CAF: Corporação Andina de Fomento (headquarters: Venezuela) issues at least one EUR benchmark every year. In this case, EUR 1bn changed hands for five years at ms +110bp. Initial guidance was even as high as ms +115bp area, while the order books closed at EUR 2.3bn. In addition, the monthly EU auction took place at the end of the month. Around EUR 3.5bn was raised via taps. On the same subject: apart from auctions, the EU has issued an RfP to the relevant groups and we can therefore expect further transactions in the near future. This also fits in with the issue diary as it currently stands and with the indicative windows listed therein. By yesterday afternoon, there was a further mandate on the list, namely the forthcoming deal from Investitionsbank Schleswig-Holstein (IB.SH), which is based in Kiel (EUR 500m, WNG, 8y).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
CAF	SNAT	27.02.	XS2594907664	5.0y	1.00bn	ms +110bp	AA- / Aa3 / AA-	-
JUNGAL	ES	27.02.	ES0001352626	6.4y	0.50bn	ms +31bp	- / Baa1 / A	X
RENTEN	DE	27.02.	XS2595650222	7.5y	1.50bn	ms -3bp	AAA / Aaa / AAA	-
NRW	DE	27.02.	DE000NRW0N26	50.0y	2.00bn	ms +104bp	AAA / Aa1 / AA	-
BREMEN	DE	22.02.	DE000A30V356	10.0y	0.50bn	ms -1bp	AAA / - / -	-
IBB	DE	21.02.	DE000A30V216	10.0y	0.50bn	ms +2bp	AAA / - / -	-

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

Covered Bonds
The covered bond market and the ECB: a gradual farewell?

Authors: Dr Frederik Kunze // Melanie Kiene, CIIA

Influence of ECB monetary policy on the covered bond market

We have often looked at the impact of ECB monetary policy on the covered bond market in our weekly publication, focusing on both the primary and secondary markets. In our comments, we also regularly distinguished between distortions caused by the Eurosystem on the demand side versus the supply side. With the CBPP3 purchase programme, for example, the ECB siphoned off significant shares of the primary market volume and greatly diminished covered bond supply through the additional liquidity provided by the central bank. At its peak, the third round of targeted longer-term refinancing operations (TLTRO III) ultimately provided no less than around EUR 2,339.3bn to commercial banks in the euro area, which significantly reduced the need for covered refinancing via the capital market. Although a notable share of this volume has already been repaid, the TLTRO III chapter has not yet been concluded. In today's issue of the NORD/LB Covered Bond & SSA View, we shall discuss why we would say there tends to be talk of a "gradual farewell" for the covered bond market, even in times of quantitative tightening and rising interest rates and long after the final TLTRO III allocation. In doing so, we examine both the funding side of commercial banks and the correlations with the issuing potential of covered bond institutions.

Targeted longer-term refinancing operations to support lending

Let's begin with a brief recap: back in June 2014, the ECB Governing Council decided on the first targeted longer-term refinancing operations. This first series of TLTRO aimed at improving bank lending to the non-financial private sector in the euro area (cf. ECB press release dated 5 June 2014) to enhance the functioning of the monetary policy transmission mechanism. A second series – TLTRO II – followed in 2016, again to strengthen the transmission of monetary policy and, in conjunction with this objective, to further incentivise bank lending to the real economy (cf. especially ECB press release dated 10 March 2016). The same aim was then announced three years later with TLTRO III in 2019 (cf. announcement on 7 March 2019 and the ECB press release dated 6 June 2019 on the specifics of the transactions starting in September 2019). Ultimately, the Eurosystem provided additional liquidity through ten TLTRO III transactions. The allocations of these ten tenders (TLTRO III.1 to TLTRO III.10) covered the period September 2019 to November 2021. In fact, in the wake of the coronavirus pandemic in spring 2020, the conditions of TLTRO III were made much more appealing for banks, so that commercial banks in the euro area to a very large extent resorted to the then "extremely cheap" TLTRO III refinancing (last tender transaction at the end of November 2021). In particular, these crisis measures from 2020 also have an effect up to the present in the context of TLTRO III. As mentioned earlier, the ECB ultimately issued a total of EUR 2,339.3bn in loans via TLTRO III, of which EUR 1,218.3bn is currently still outstanding. TLTRO III.4 remains the largest tender with an outstanding volume of EUR 548.7bn.

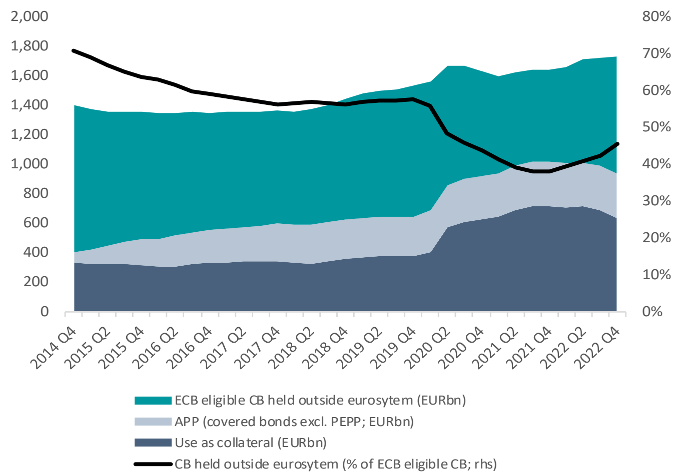
TLTRO III and (retained) covered bonds as eligible collateral

In the context of refinancing via central bank liquidity, commercial banks in the euro area provide collateral in accordance with the requirements of the ECB Collateral Framework. Covered bonds are also of great significance in this respect, which is especially due to the fact that banks can deposit their own retained covered bonds as collateral (“own use” or “retained”). From the point of view of covered bond issuers, the programmes for covered bond placement and the cover pools will then prove to be refinancing vehicles even if the bond is not issued publicly. In our weekly publication, we have often concluded that covered bonds especially fulfil their role as a valuable funding instrument in times of crisis, even though the market would be deprived of investment potential. In connection with TLTRO III, in particular, there had to be talk of a downright cannibalisation of the primary market in the EUR benchmark segment: after covered bonds amounting to EUR 134.8bn were placed here in 2019, only EUR 92.2bn followed in 2020 and EUR 95.7bn in 2021. According to this interpretation, it was not until 2022 that banks were again “forced” to offer their goods to mainstream investors at market conditions without new TLTRO tenders. This direct market distortion of the primary market by the ECB therefore no longer had an equally strong dampening effect on supply in 2022, resulting in EUR 198.6bn being placed last year. On the demand side, the ECB “still” acts as a relevant buyer. However, the central bank has also gone into reverse here by lowering the ECB’s order sizes on the primary market from 40% to 10%. From March of this year, the central bank will focus on the secondary market alone. While the ECB’s order sizes have recently been particularly relevant for reducing the risk of execution, the interdependencies of TLTRO III and “retained” covered bonds remain of great importance for our supply forecast. For example, in a world without TLTRO, the need for refinancing via public covered bond issuance is greater, while the issuance potential for the EUR benchmark segment at the same time increases with a lower need for ECB collateral. Finally, the cover assets reserved for “retained” covered bonds become free as soon as the corresponding bonds are “repaid”.

Outstanding TLTRO III tender (in EUR bn)

Tender	Settlement	Maturity	Allotted	Outst.
20210155	22.12.21	18.12.24	51.97	**44.2**
20210119	29.09.21	25.09.24	97.57	**90.93**
20210078	24.06.21	26.06.24	109.83	**76.35**
20210034	24.03.21	27.03.24	330.5	**290.17**
20200248	16.12.20	20.12.23	50.41	**45.97**
20200207	30.09.20	27.09.23	174.46	**89.79**
20200131	24.06.20	28.06.23	1308.43	**548.74**
20200029	25.03.20	29.03.23	114.98	**32.15**

ECB share of covered bond market



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

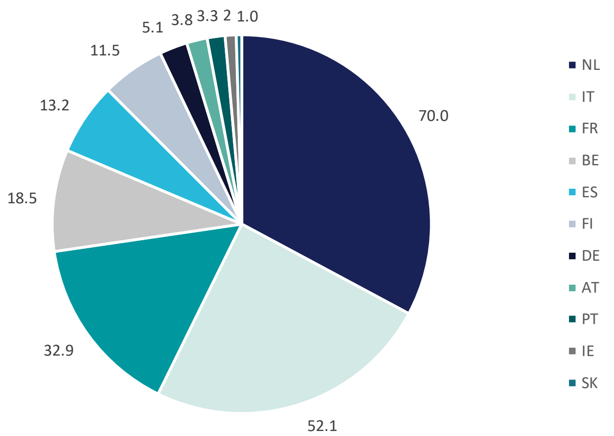
A detailed look at collateral recognised by the ECB

The graph on the right above demonstrates the ECB's continuing influence on the covered bond market. For example, we use the covered bonds approved as collateral by the central bank to approximate for the market as a whole. We initially compare this with covered bonds actually used as collateral. Here it can be assumed that a significant proportion is attributable to TLTRO III. The supply of publicly placed deals pushed back by ECB monetary policy can therefore be gleaned from the graph, while the demand side is expressed by the volume of the CBPP3. For today's article, we are particularly interested in eligible or used collateral. Our data is based on the ISINs listed by the ECB as eligible collateral (reference date 23 February 2023) and we limited this universe to the covered bond categories. In order to draw conclusions about the status of the deal ("retained" or "public"), we also used the Bloomberg field "Retained Deal". Even though some of the TLTRO III market operations have already matured or, as was last the case on 22 February 2023, have been repaid early (penultimate additional early repayment date following subsequent adjustment to conditions), a comparatively large share of this "submarket" can still be identified. The "retained" volume on the part of issuers from the euro area is EUR 328.8bn, spread between 240 covered bonds (all denominated in EUR, bar two USD bonds) from 51 institutions (some of which were groups from different entities/SPVs) from 13 countries.

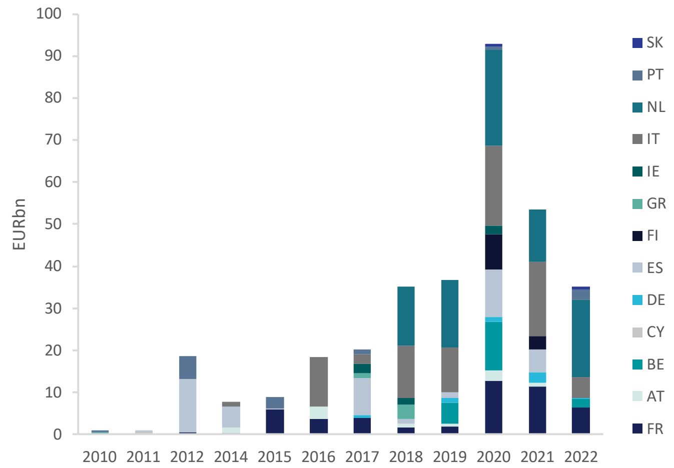
Of the "retained" deals issued since 2019, EUR 213bn are still outstanding

When considering this sub universe further, it should be borne in mind that not all "retained" covered bonds should be considered in the context of TLTRO. In addition, we look at the outstanding bonds and thereby exclude those deals that have now matured or been repaid. We also assume that the bonds in the universe outlined above, issued between 2019 and 2021, have to a significant extent been placed to be deposited with the ECB as collateral in the context of refinancing via TLTRO III. This assessment fits in with the high proportion of the outstanding volume attributable to the issue years 2019 and 2020. However, the retained bonds from 2021 and 2022 are in our view relevant for the analysis. For example, the cover pools of commercial banks at the ECB are dynamic and it is quite conceivable that some institutions will replace maturing collateral from their "holdings" with fresh retained issues. This means that "retained" covered bonds issued after 2021 also have a theoretical significance in the TLTRO III-specific analysis. This results in a EUR denominated universe of EUR 213.2bn. The largest volume is attributable to the Netherlands with EUR 70bn, followed by Italy (EUR 52.1bn) and France (EUR 32.9bn). Belgium, which follows in fourth place, nevertheless accounts for EUR 18.5bn. In our weekly publication on 18 January, we previously discussed the notable potential for "new" bonds that can be derived from this figure using Belgium as an example. For comparative purposes with retained bonds, the Belgian EUR benchmark segment currently has a volume of EUR 17.25bn.

Retained covered bonds by country (in EUR bn)



Retained covered bonds by year of issuance



Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research; outstanding covered bonds (Bloomberg flag: “retained deal”); status: 23 February 2023

Conclusion

These figures and the preceding considerations therefore allow a very high issuance potential for publicly placed covered bonds to be assumed. Even if the “retained” covered bonds can be used as collateral for other open market operations with the ECB, it can be assumed that a large part of the collateral will be released. This view also fits with the expectation that the central bank will sharply reduce its own balance sheet total. A high proportion will be attributable to the approaching end of TLTRO III. Here, the actual need for refinancing via covered bonds also plays a very important role. It is therefore reasonable to conclude that certain shares of TLTRO III are still pending to be refinanced by the institutions. However, we also see arguments for strong activity on the covered bond primary market in other areas. Specifically, we are thinking of the trend in deposits. For example, deposit growth in the euro area was negative in 2022, which had otherwise only been the case in 2020 and during the financial markets crisis. All these considerations are not new. However, it is clear that the Eurosystem continues to have an influence on the primary market. Our forecast for the 2023 issue year also takes into account these thoughts on refinancing requirements and issuance potential. At EUR 155.0bn, the Netherlands, Italy and France account for almost two-thirds of all retained covered bonds based on our definition of the universe of recognised collateral at the ECB. As a result, we anticipate increased primary market activity from these countries as well. However, while the Netherlands (EUR 7.0bn ytd, 2022: EUR 9.8bn) and France (EUR 19.4bn ytd, 2022: EUR 43.5bn) were already present on the market with new issues, this is not yet possible for Italian issuers (cf. last week’s focus article). The ECB’s shift in monetary policy also means a gradual weakening of the distortions on both the supply and demand sides triggered by the Eurosystem. However, we would continue to speak of a “gradual farewell” and have been taking this into account in our supply forecast for some time. For 2023 as a whole, we expect an extremely active primary market. Overall, we anticipate EUR 189.5bn. Looking at maturities in 2023 totalling EUR 115.5bn, this results in a net supply of EUR 74.0bn.

SSA/Public Issuers
Beyond Bundeslaender: Focus on Greater Paris (IDF and VDP)

Authors: Dr Norman Rudschuck, CIIA // Valentin Jansen

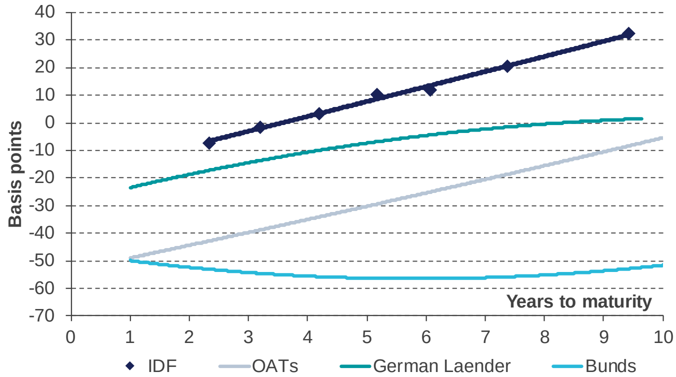
Public Issuer Special – Beyond Bundeslaender: Greater Paris (IDF and VDP) updated

Having already published an update on our established publication Beyond Bundeslaender: Belgium back in mid-January, in the recent edition of Beyond Bundeslaender: Greater Paris (IDF and VDP) published in mid-February we once again take a look at the French capital market-relevant region Île-de-France (IDF) and the local authority Ville de Paris (VDP). Both issuers represent an interesting investment alternative for ESG investors in particular. As part of our Public Issuer Special series, we are always interested in seeing your growing interest in "niche products". We will therefore continue to develop the "Beyond Bundeslaender" segment: This year, we are also planning relevant research publications on Spain and Canada. In the following, we would like to provide you with a brief overview of the two issuers in focus, which - together with the economic, political and regulatory framework conditions - are examined in detail in the publication linked above.

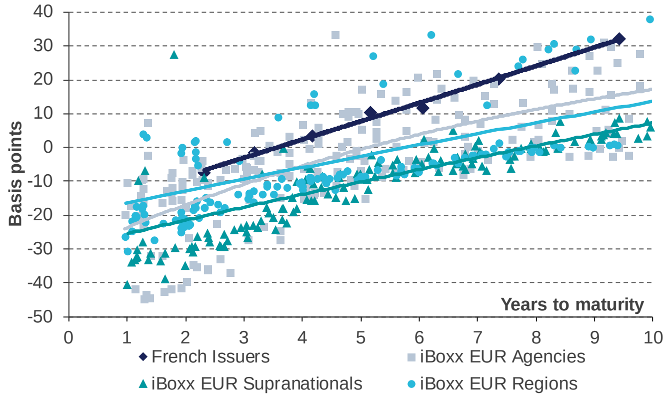
Paris regions vs. iBoxx € Regions and German Laender

Even compared with the iBoxx € Regions, both Paris regions trade with premiums. At the long end, the spread difference can reach up to 20 basis points or so. In the medium maturity segment – IDF has only one benchmark bond outstanding with terms of less than three years – the spread is lower. The differences versus Supras are greater. Compared with Supras, which boast even better average ratings, and the generally far higher liquidity of the bonds from these regular issuers, this is hardly surprising. This applies in comparison with both German and French sovereign bonds and in relation to the German Laender. Overall, as the sole benchmark issuer, IDF in particular features the widest spreads versus its peers and could therefore – with limited liquidity – generate a pick-up for investors. In addition, both issuers (IDF and VDP) may well be open to private placements and meeting certain yield expectations of institutional investors.

Generic ASW spreads – a comparison



ASW spreads of French issuers vs. iBoxx

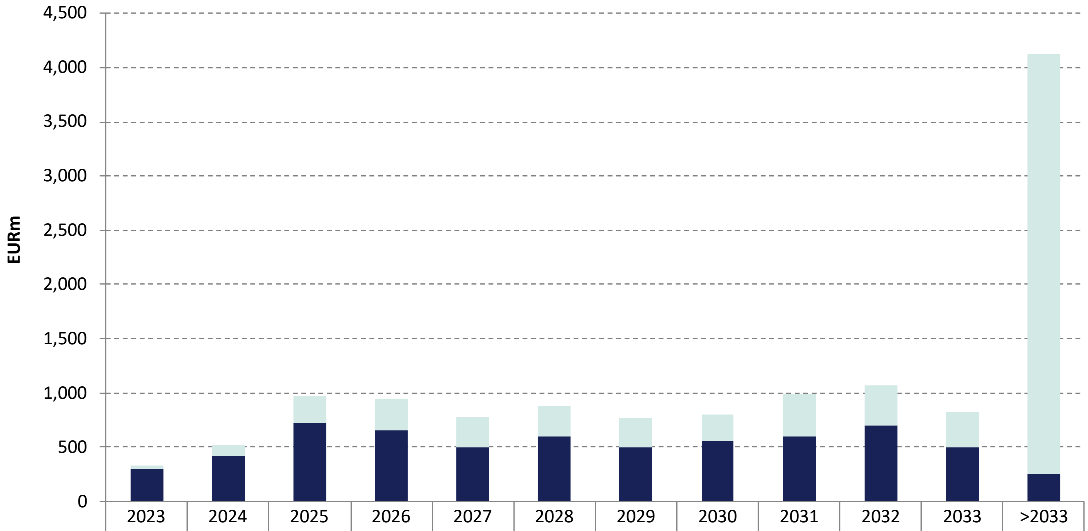


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data from 14 Feb. 2023

IDF and VDP: Outstanding volumes up again

Of course, the two tickers that form the focus of our attention here – IDF and VDP – do not represent the entirety of French regions. Various other local authorities and regional vehicles/agencies are also active on the capital market (e.g. Auvergne-Rhône-Alpes (ARA), Pays de la Loire (PDLL), MARSE (City of Marseilles) and CUDM (Communauté urbaine Marseille Provence Métropole). Nevertheless, based on our narrow definition of the relevant universe, a total of 82 bonds are now outstanding (2022: 73). This already indicates a certain granularity when it comes to Parisian regional bonds. A total of EUR 13.0bn is outstanding. In terms of foreign currency deals from these two issuers, we have identified just a single transaction (IDF) denominated in JPY. The FX segment accordingly accounts for just a fraction of the liabilities breakdown. At the end of 2020, IDF still had other FX bonds outstanding (denominated in AUD). As a result, around 99% of the outstanding volume is diversified across maturities rather than currencies. Around EUR 4.1bn will not fall due until 2033, which suggests that very long-term refinancing is the preference (largely attributable to VDP). Side note: all nine benchmark bonds pertain to the IDF ticker, meaning that EUR 5.1bn of the overall outstanding volume of EUR 6.3bn can be described as large-volume and liquid. VDP, nevertheless, has 64 ISINs outstanding, comprising a volume of EUR 6.7bn.

Outstanding bonds of French issuers (IDF and VDP)



	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	>2033
VDP	30	100	240	286	275	275	266	250	395	365	320	3,874
IDF	300	425	725	660	500	605	500	550	600	700	500	250

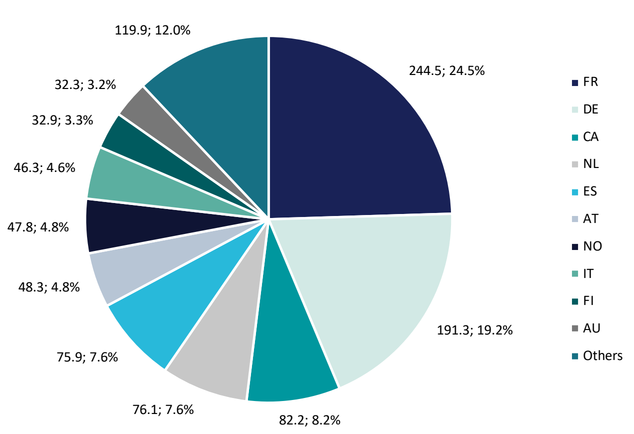
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Conclusion

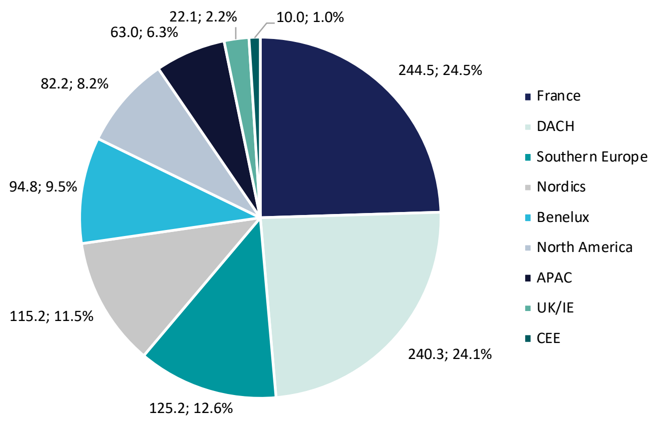
The Île-de-France region has become increasingly well-established on the capital market in recent years. As a result of its activities in the ESG segment along with outstanding green and sustainable bonds, it offers an interesting investment option, especially for investors that are keen to support sustainability and social projects. In addition, IDF boasts comparatively strong economic framework conditions and qualifies for ratings of Aa2 and AA from Moody's and Fitch respectively. As a result of the rapid recovery of the French economy after the outbreak of the pandemic, France returned to a pre-crisis level as early as 2021. The economic data for 2022 also indicates that economic growth will continue, despite the impacts of the Russia-Ukraine war. Further positive effects can be expected over the next years if the national programme of reforms, which was thwarted by the pandemic, regains momentum and lays the crucial foundations for potential future growth at a regional level.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



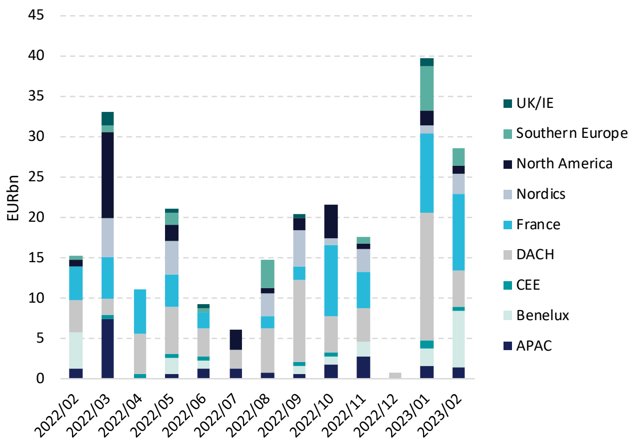
EUR benchmark volume by region (in EURbn)



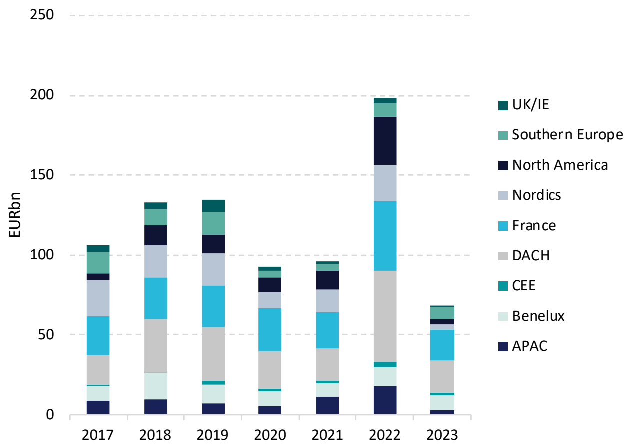
Top-10 jurisdictions

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	244.5	236	16	0.96	9.6	5.3	1.09
2	DE	191.3	273	31	0.65	8.1	4.3	0.88
3	CA	82.2	63	0	1.26	5.6	2.8	0.64
4	NL	76.1	76	2	0.94	10.9	6.7	0.98
5	ES	75.9	61	6	1.14	10.9	3.7	1.90
6	AT	48.3	83	4	0.58	8.8	5.5	1.06
7	NO	47.8	57	11	0.84	7.2	3.7	0.50
8	IT	46.3	57	2	0.79	9.2	3.7	1.24
9	FI	32.9	35	3	0.93	7.4	3.9	0.90
10	AU	32.3	32	0	1.01	7.6	3.8	1.19

EUR benchmark issue volume by month

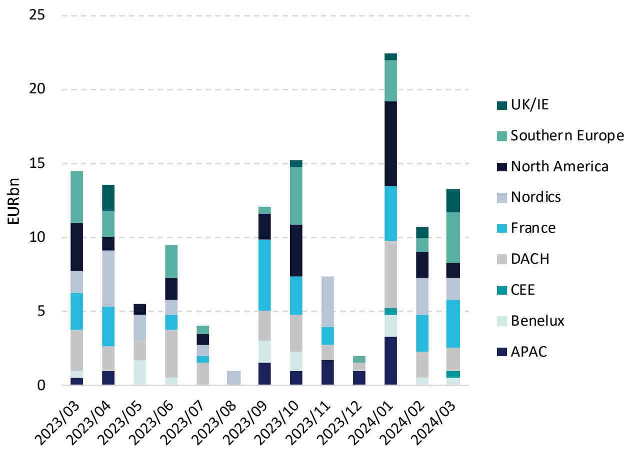


EUR benchmark issue volume by year

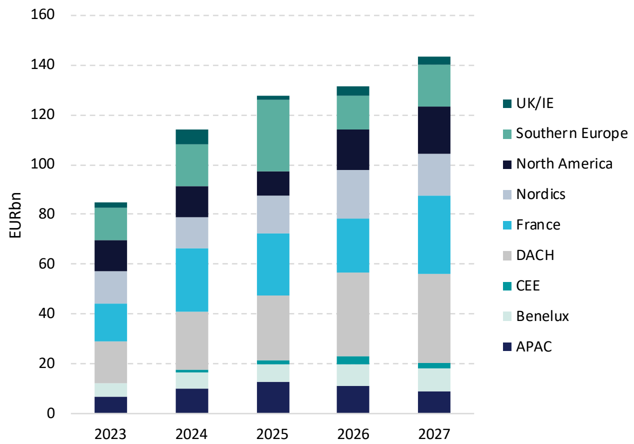


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

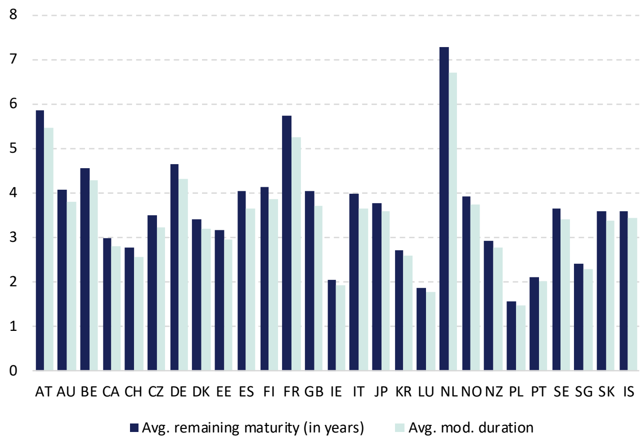
EUR benchmark maturities by month



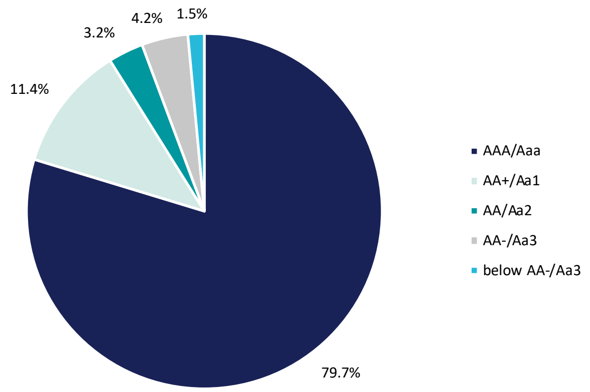
EUR benchmark maturities by year



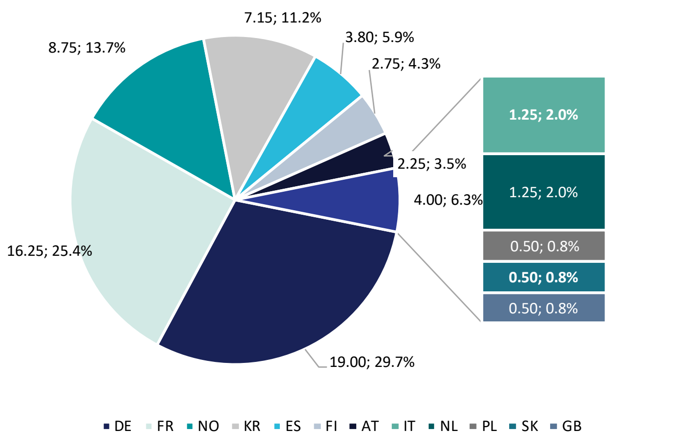
Modified duration and time to maturity by country



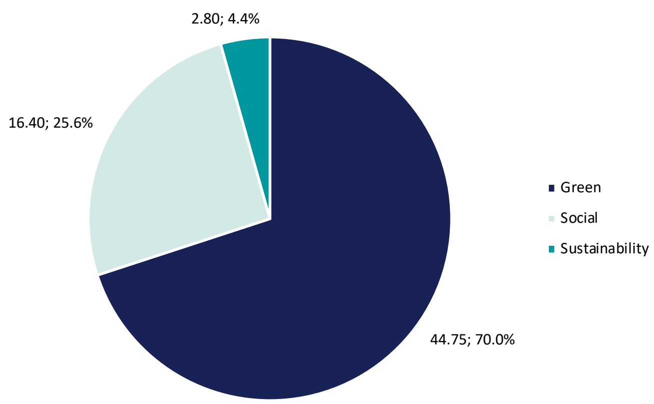
Rating distribution (volume weighted)



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

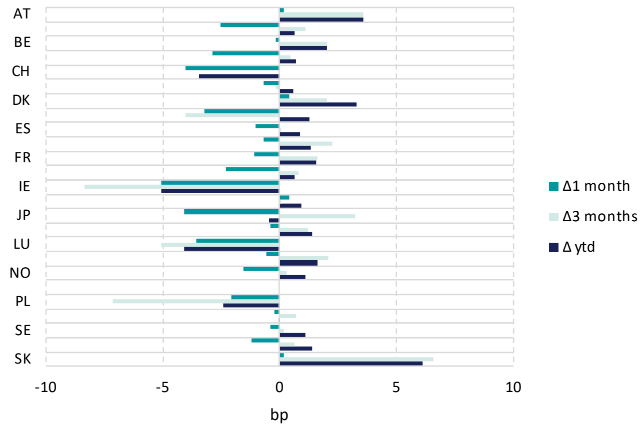


EUR benchmark volume (ESG) by type (in EURbn)

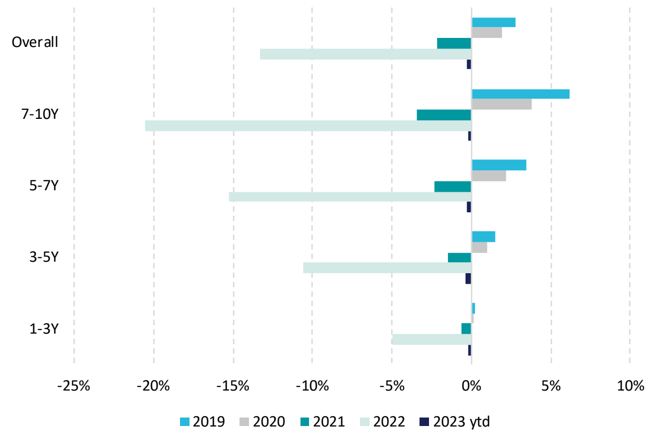


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

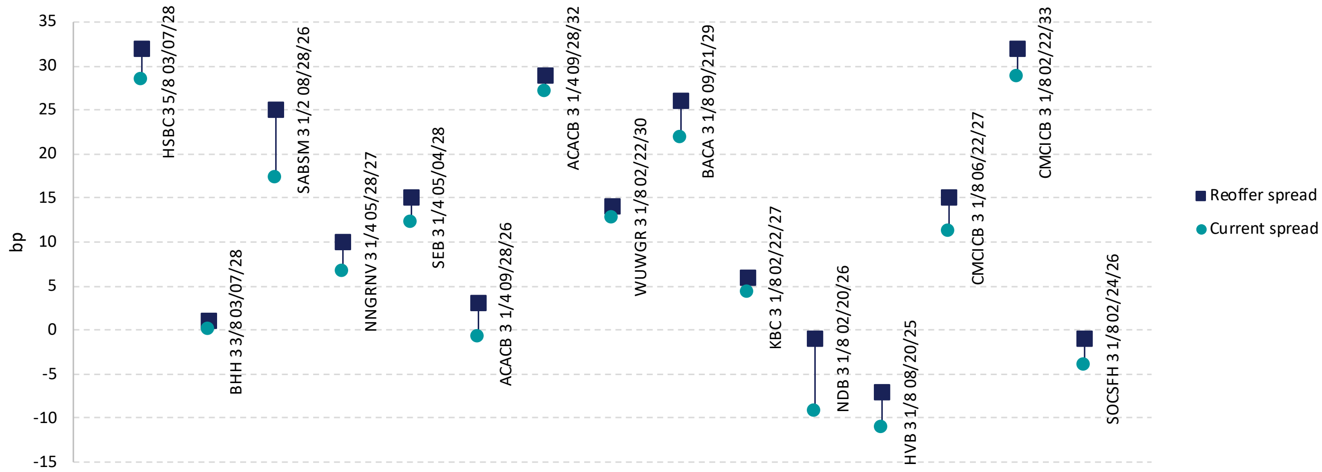
Spread development by country



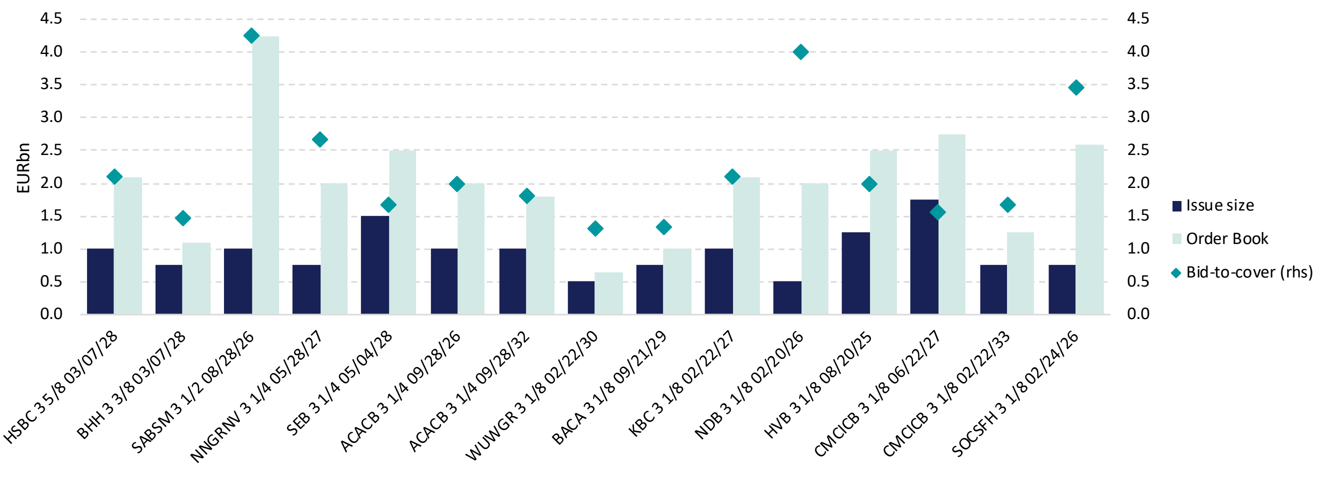
Covered bond performance (Total return)



Spread development (last 15 issues)



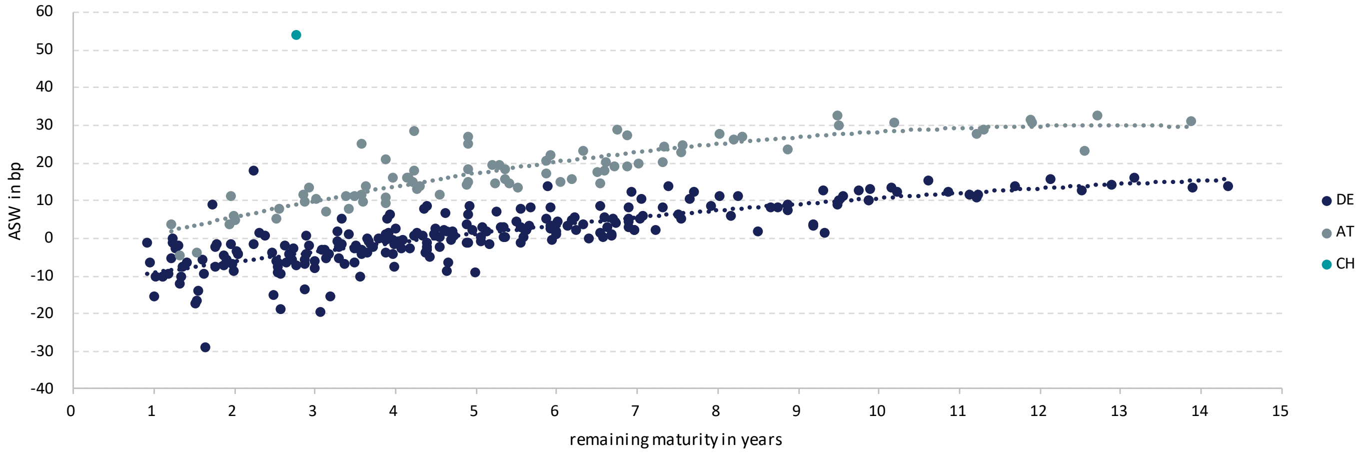
Order books (last 15 issues)



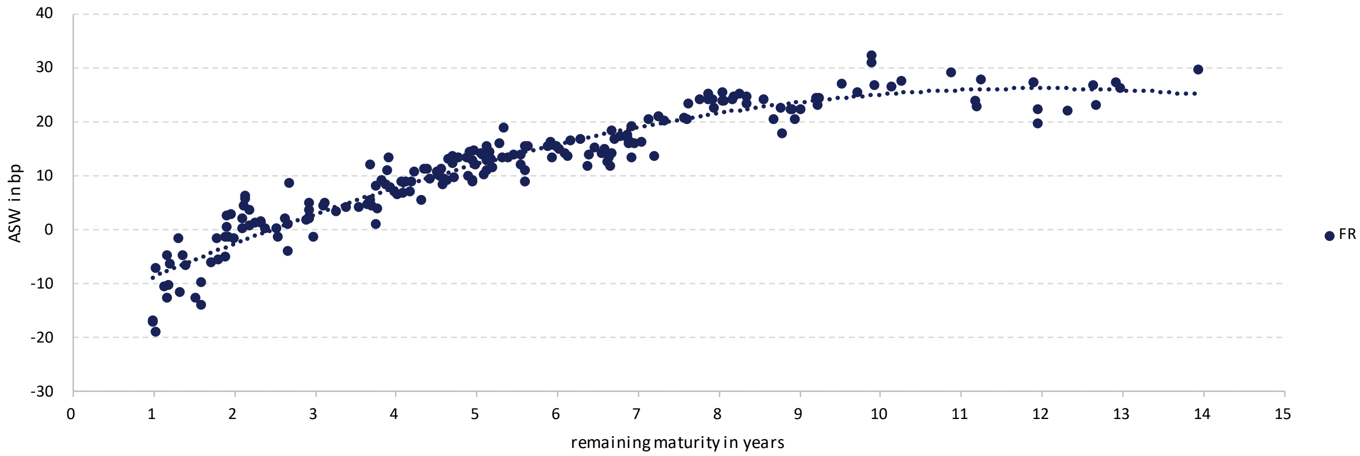
Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

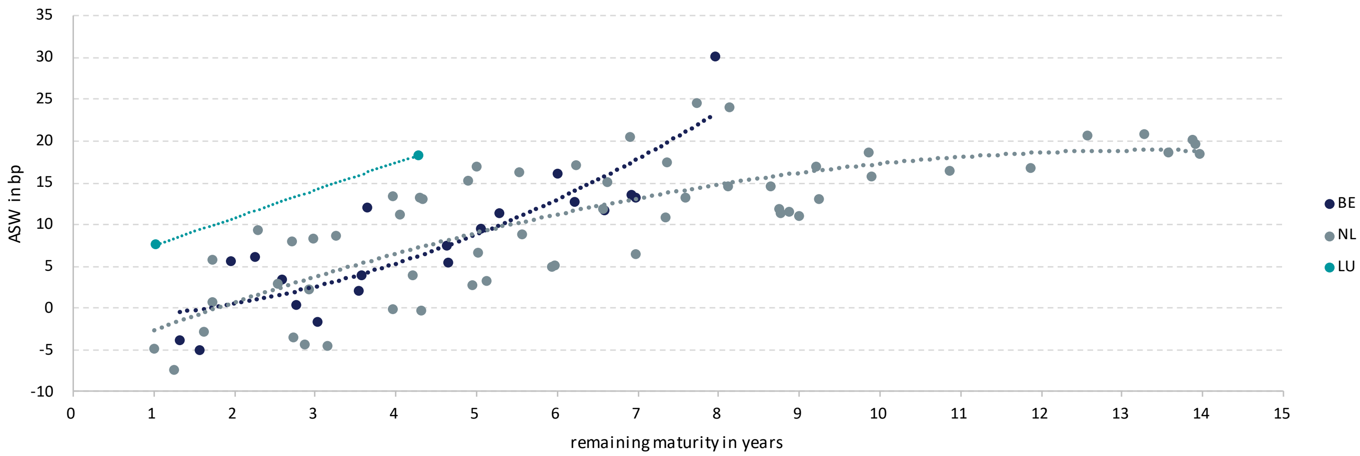
DACH



France



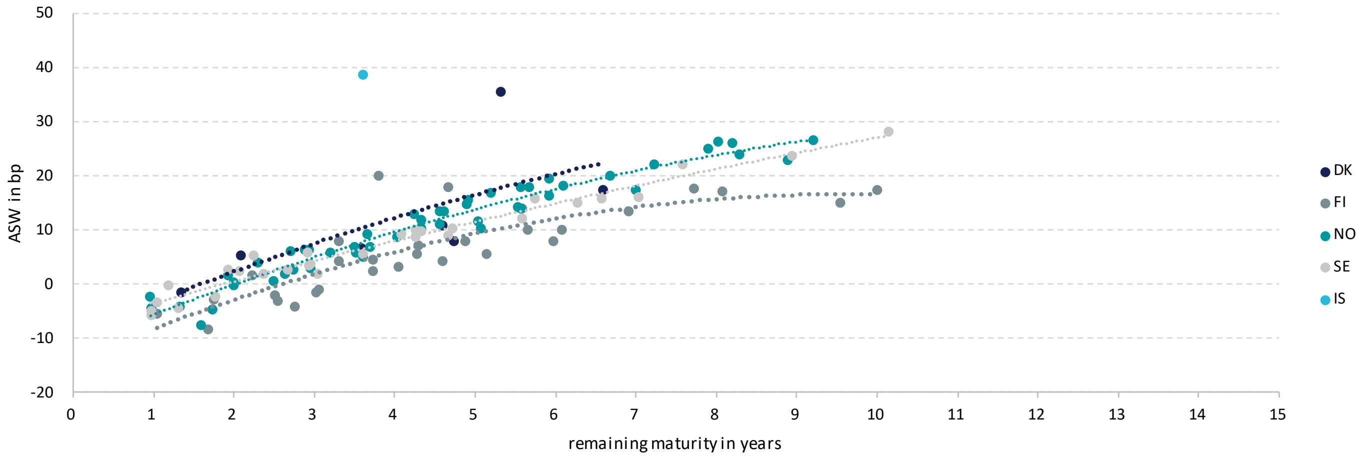
Benelux



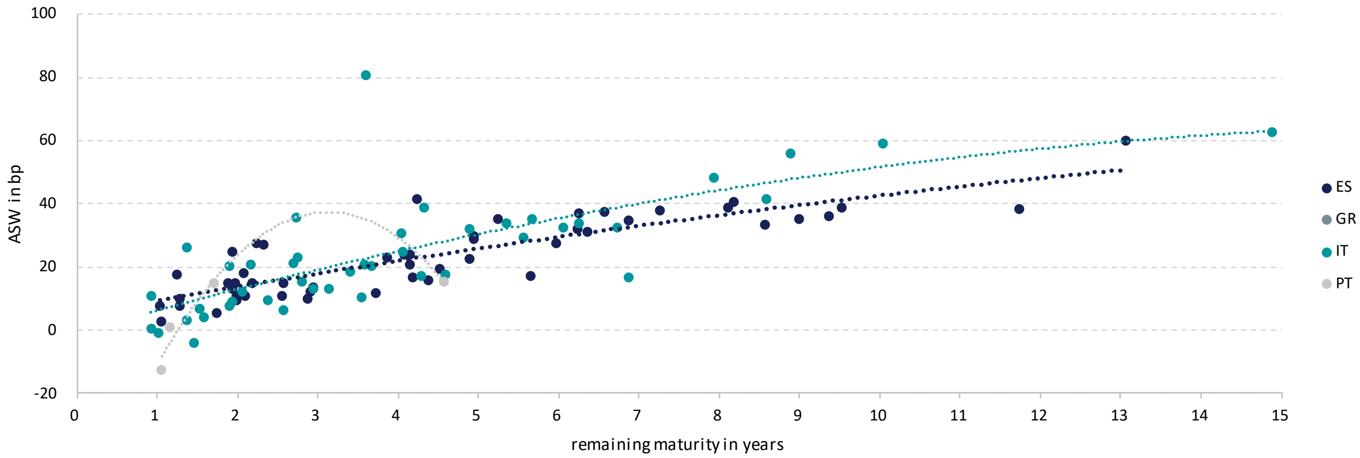
Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

NORD/LB

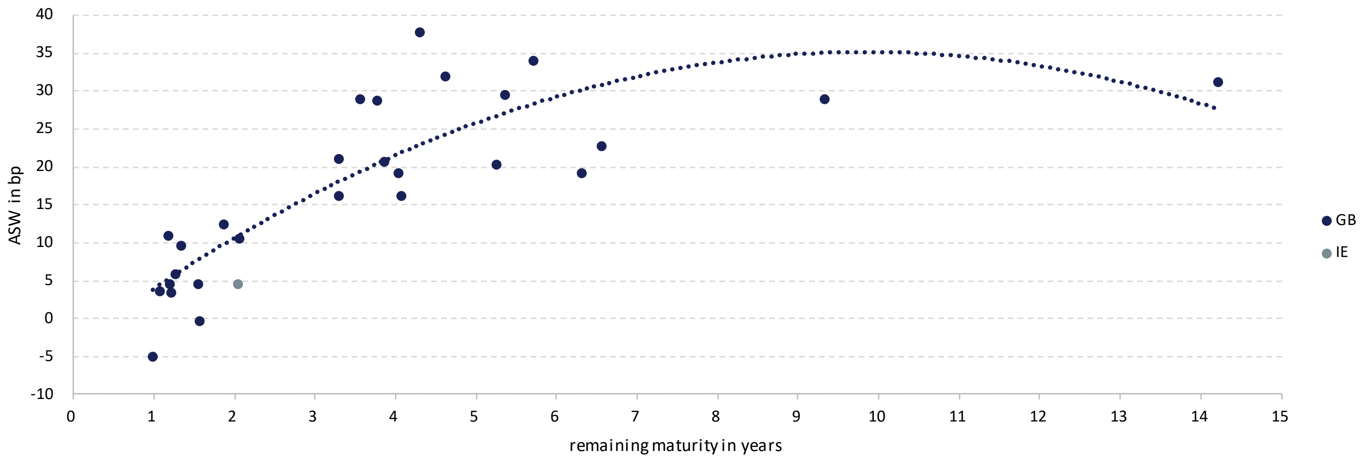
Nordics



Southern Europe

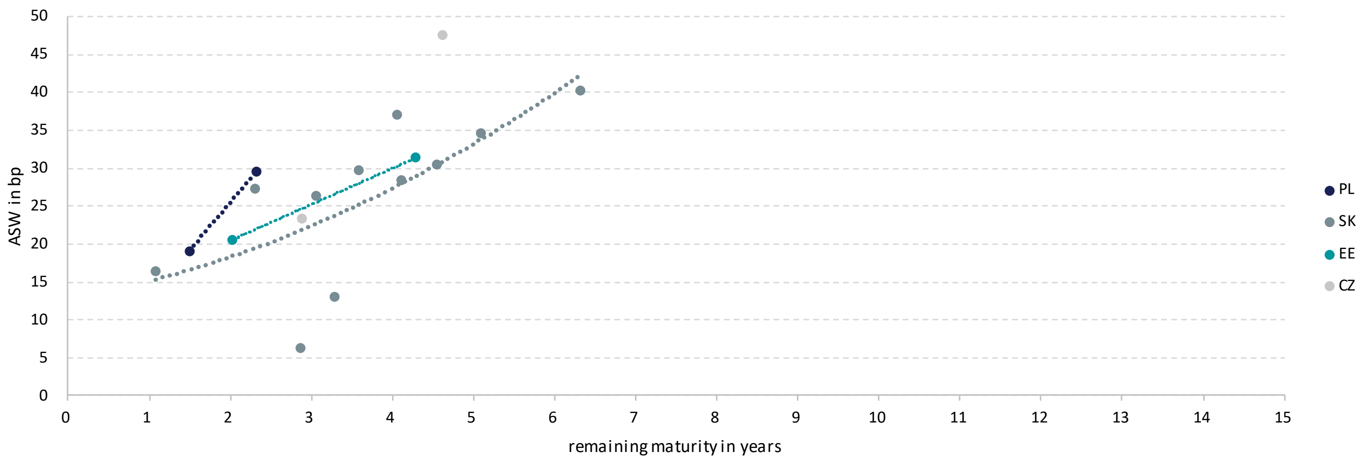


UK/IE

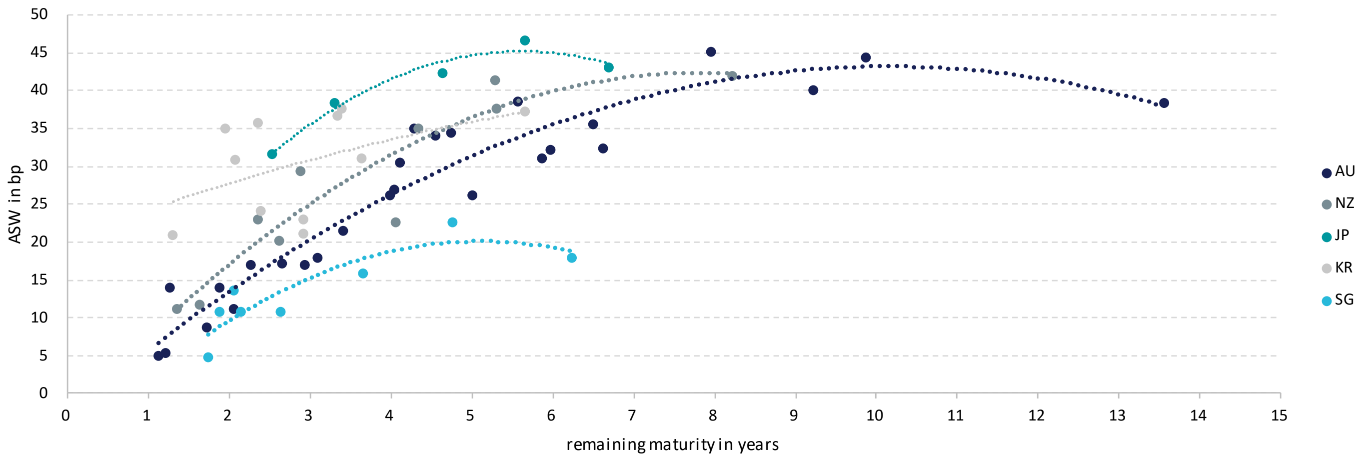


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

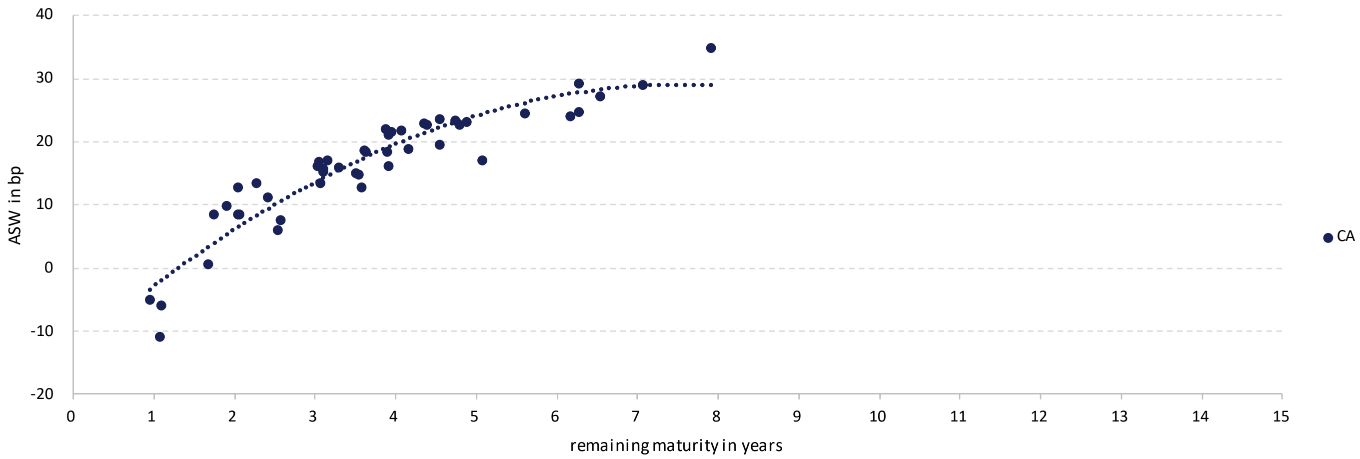
CEE



APAC



North America

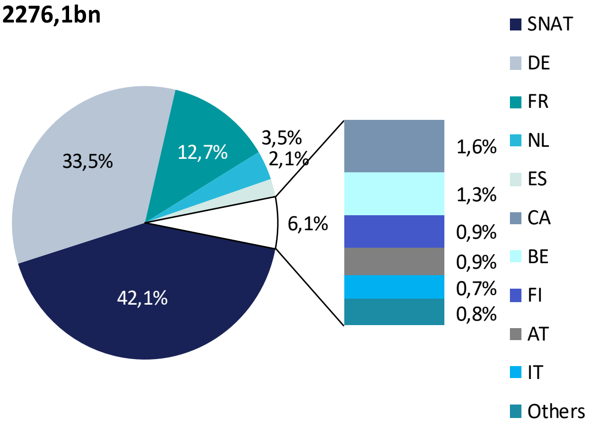


Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
SSA/Public Issuers

Outstanding volume (bmk)

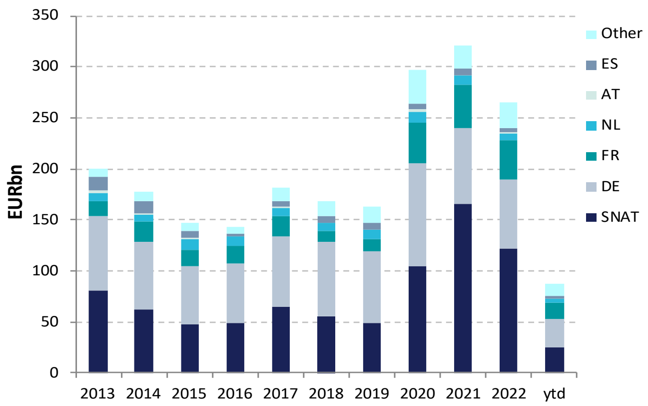
EUR 2276,1bn



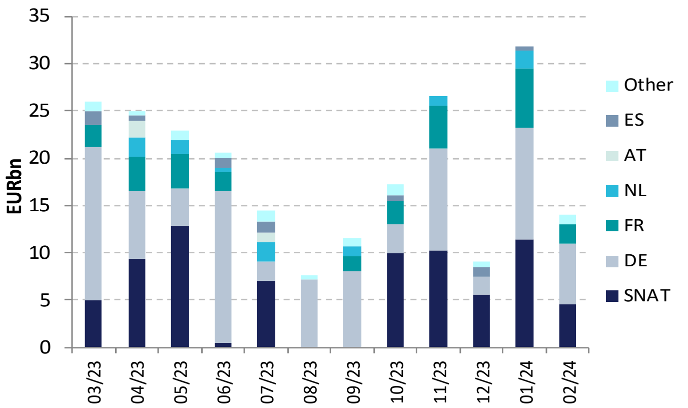
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	958,4	225	4,3	8,0
DE	763,1	565	1,4	6,3
FR	288,1	190	1,5	6,2
NL	78,7	70	1,1	6,5
ES	48,3	64	0,8	4,6
CA	35,5	25	1,4	4,5
BE	29,5	33	0,9	11,5
FI	21,1	24	0,9	5,2
AT	19,6	22	0,9	4,4
IT	15,5	20	0,8	4,8

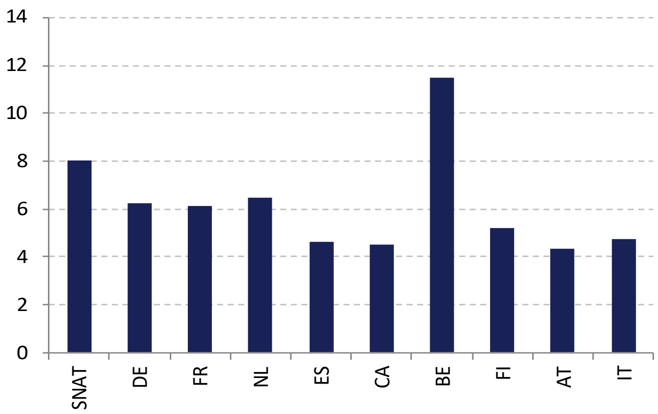
Issue volume by year (bmk)



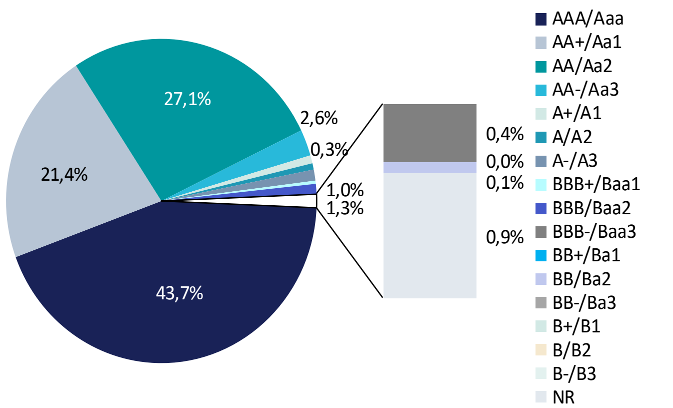
Maturities next 12 months (bmk)



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

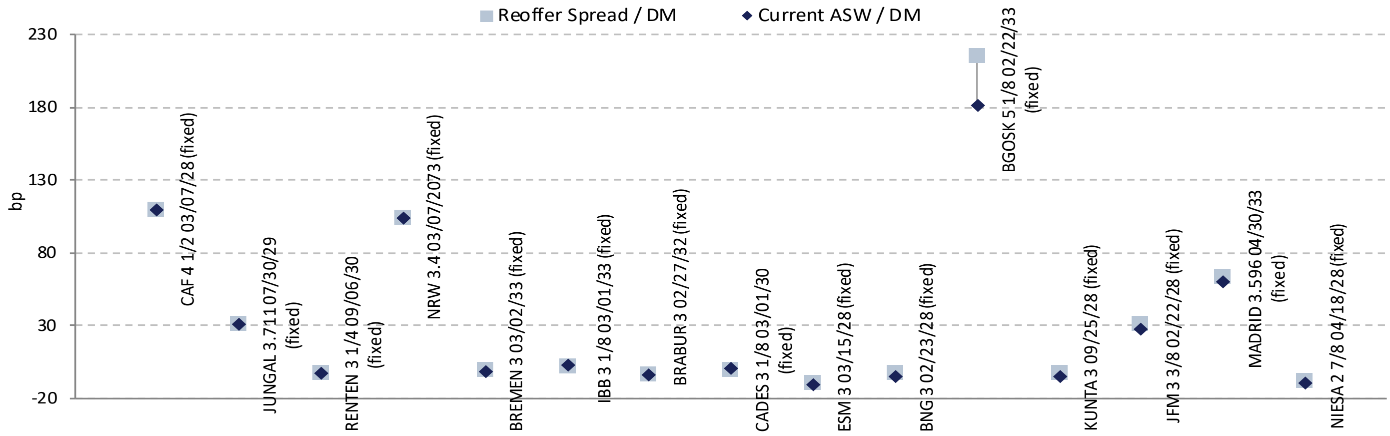


Rating distribution (vol. weighted)

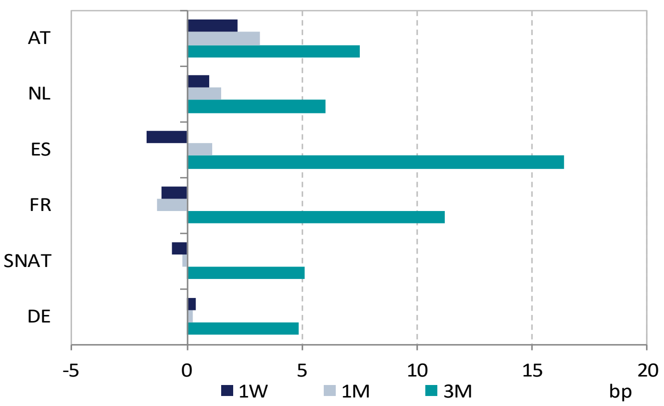


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

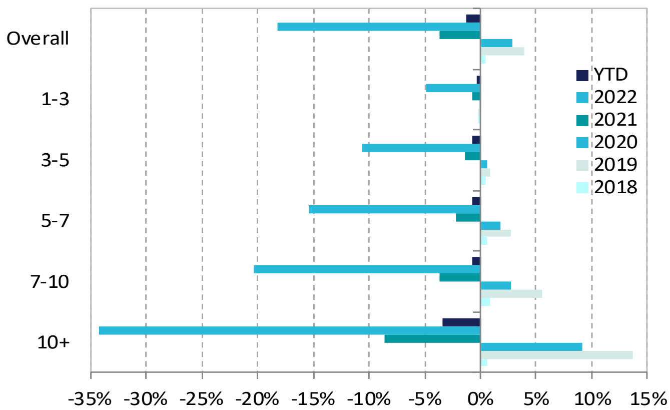
Spread development (last 15 issues)



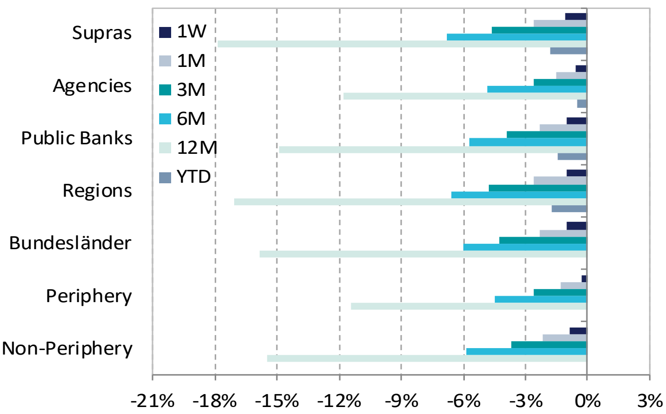
Spread development by country



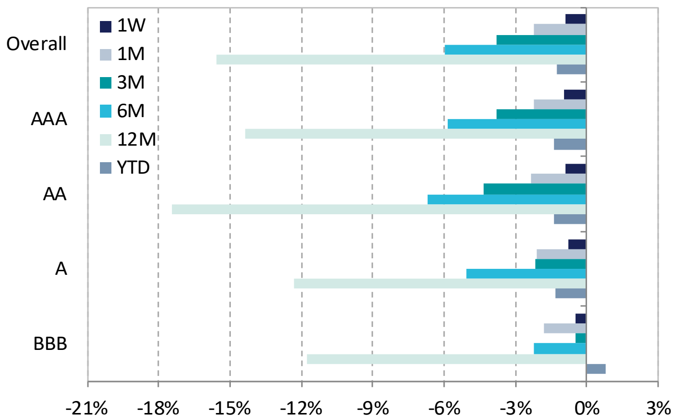
Performance (total return)



Performance (total return) by segments

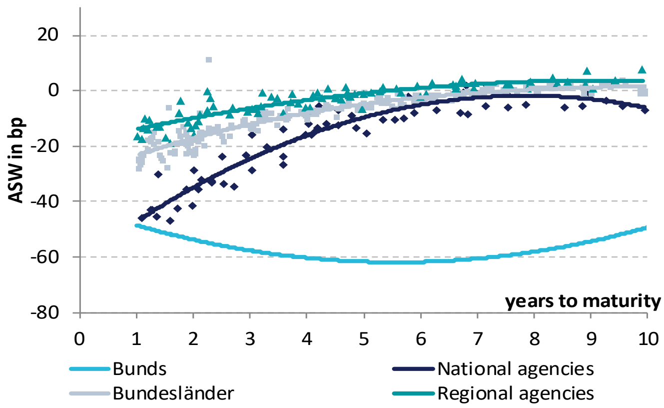


Performance (total return) by rating

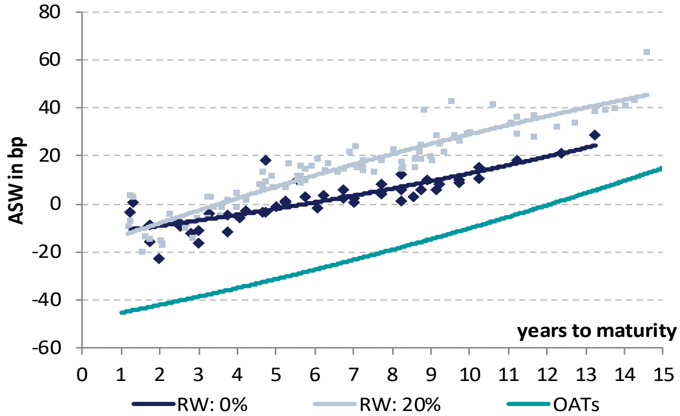


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

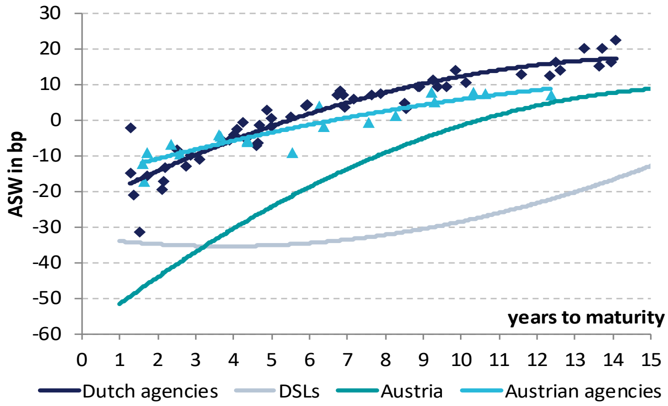
Germany (by segments)



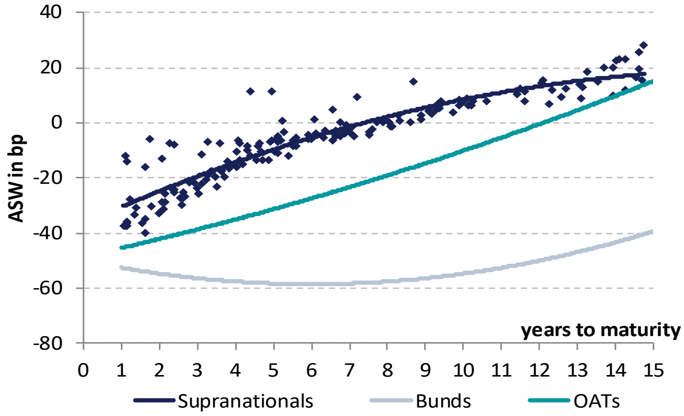
France (by risk weight)



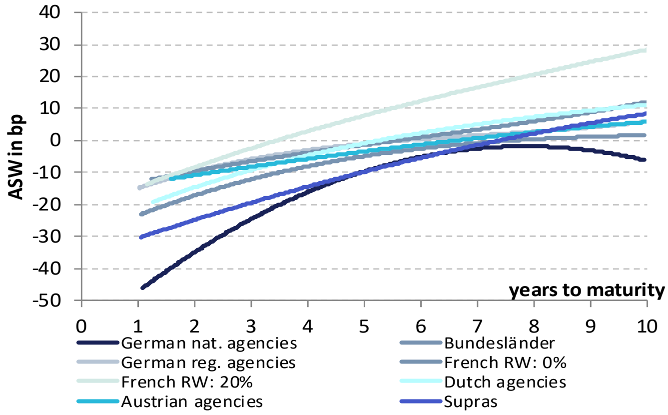
Netherlands & Austria



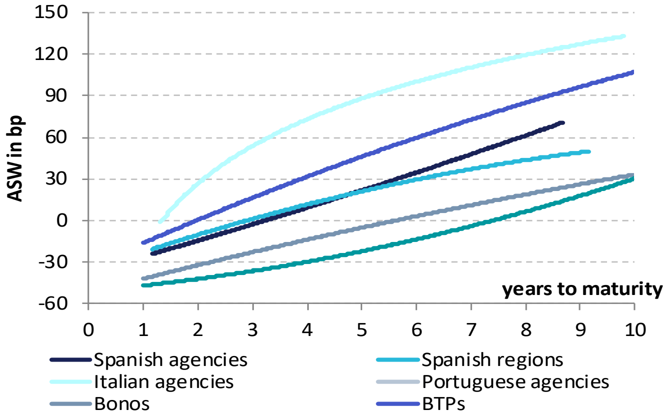
Supranationals



Core



Periphery



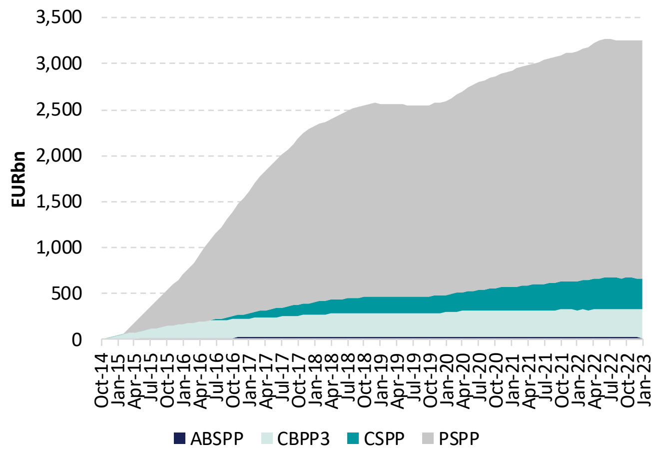
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

ECB tracker

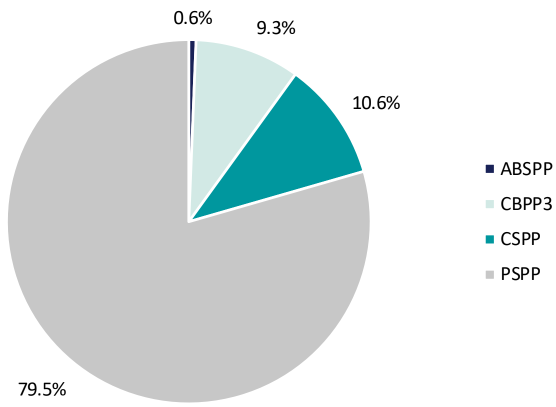
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Dec-22	22,895	301,973	344,119	2,584,666	3,253,653
Jan-23	20,835	303,269	344,010	2,584,798	3,252,912
Δ	-2,060	+1,296	-109	+132	-741

Portfolio development

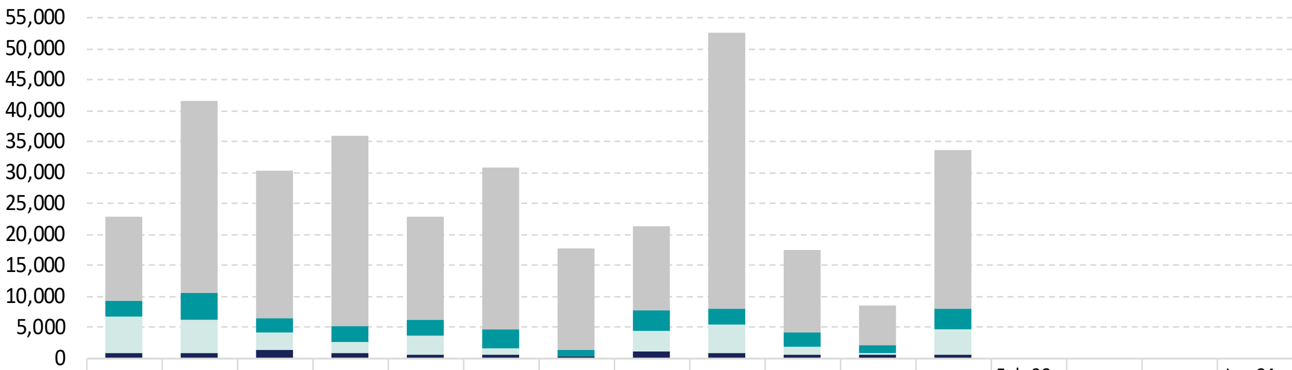


Portfolio structure



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

Expected monthly redemptions (in EURm)

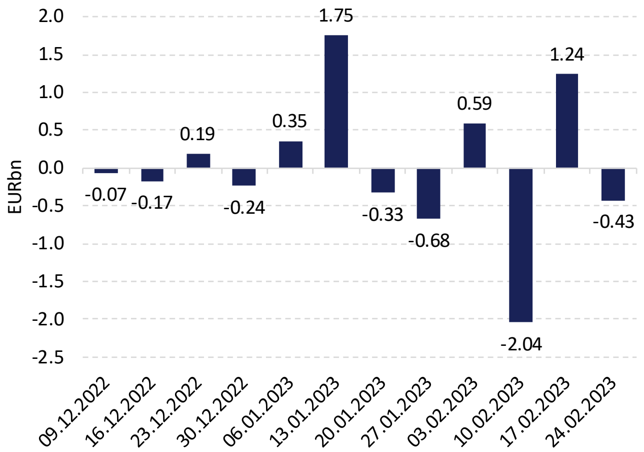


	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-23 - Jan-24	2022	2023	Jan-24 - Jan-24
APP	22,809	41,620	30,245	35,856	22,878	30,890	17,855	21,218	52,641	17,511	8,558	33,570	335,651	299,142	331,410	331,410
PSPP	13,625	31,072	23,883	30,559	16,619	26,133	16,445	13,364	44,611	13,258	6,336	25,524	261,429	228,585	255,374	255,374
CSPP	2,352	4,219	2,162	2,579	2,557	3,038	986	3,366	2,616	2,393	1,336	3,464	31,068	17,670	30,614	30,614
CBPP3	6,065	5,631	2,937	1,874	3,112	1,170	0	3,346	4,465	1,351	408	4,109	34,468	41,244	35,145	35,145
ABSPP	767	698	1,263	844	590	549	424	1,142	949	509	478	473	8,686	11,643	10,277	10,277

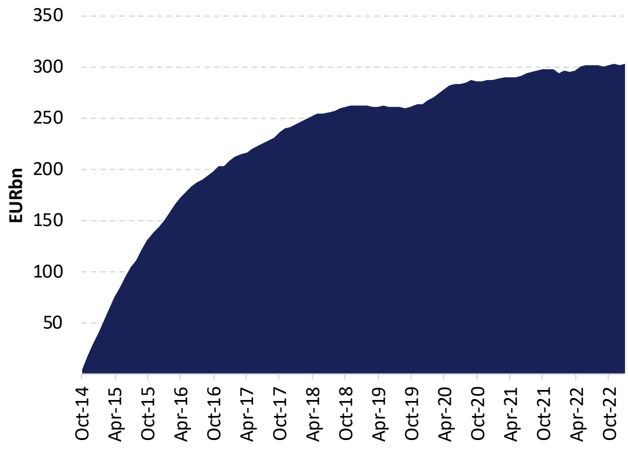
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

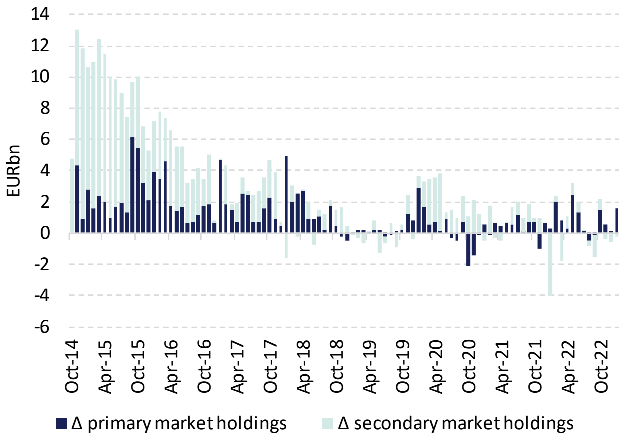
Weekly purchases



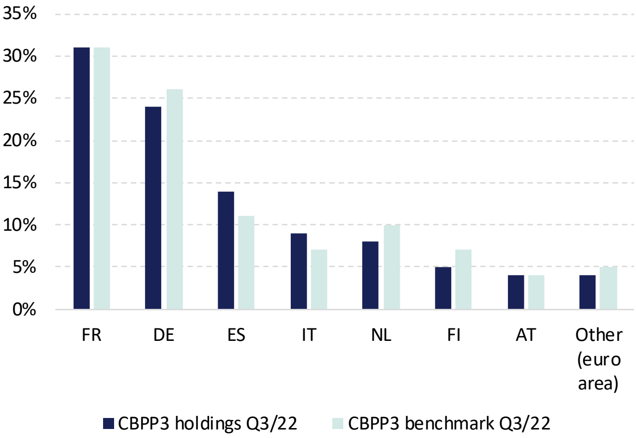
Development of CBPP3 volume



Change of primary and secondary market holdings

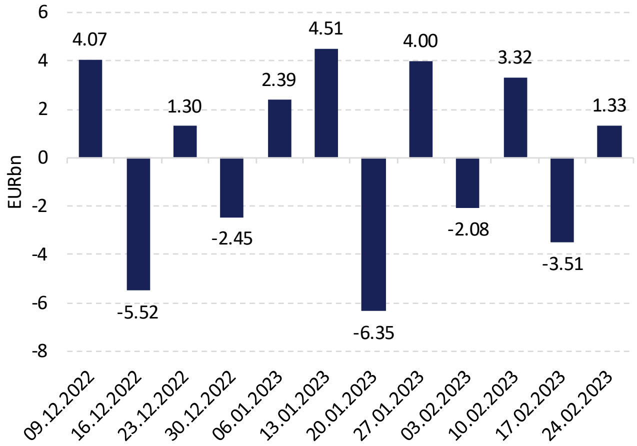


Distribution of CBPP3 by country of risk

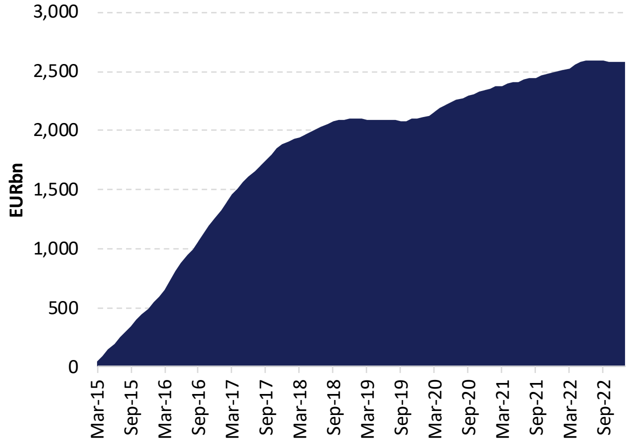


Public Sector Purchase Programme (PSPP)

Weekly purchases



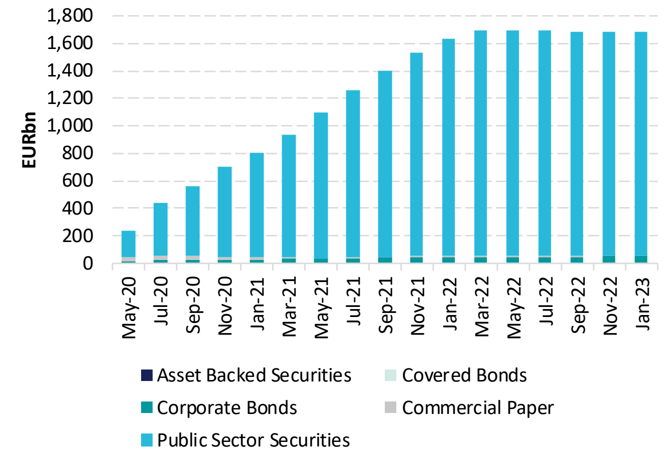
Development of PSPP volume



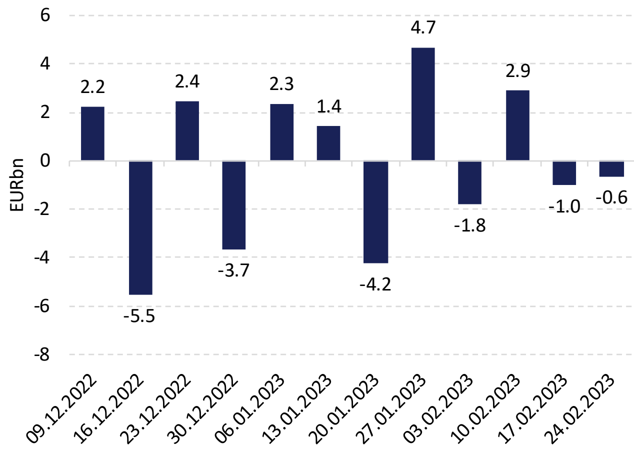
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Δ Holdings previous period	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)
AT	44,037	-671	2.6%	2.7%	0.0%	7.5	7.4
BE	55,795	-698	3.3%	3.4%	0.1%	6.3	9.3
CY	2,493	4	0.2%	0.2%	0.0%	8.3	8.1
DE	398,297	2,551	23.7%	24.0%	0.3%	6.7	6.9
EE	256	0	0.3%	0.0%	-0.2%	7.4	8.0
ES	193,376	-1,418	10.7%	11.6%	0.9%	7.4	7.3
FI	26,953	-173	1.7%	1.6%	0.0%	7.4	7.5
FR	301,844	14	18.4%	18.2%	-0.2%	7.6	7.8
GR	37,760	729	2.2%	2.3%	0.0%	8.5	9.4
IE	25,998	-503	1.5%	1.6%	0.0%	8.8	10.2
IT	287,658	-794	15.3%	17.3%	2.0%	7.2	6.9
LT	3,256	14	0.5%	0.2%	-0.3%	9.5	9.1
LU	1,922	19	0.3%	0.1%	-0.2%	5.9	6.5
LV	1,911	0	0.4%	0.1%	-0.2%	7.9	7.4
MT	607	1	0.1%	0.0%	-0.1%	10.4	8.6
NL	83,388	1,689	5.3%	5.0%	-0.3%	7.7	8.7
PT	33,909	-1,068	2.1%	2.0%	-0.1%	6.8	7.3
SI	6,627	19	0.4%	0.4%	0.0%	8.5	9.4
SK	8,031	0	1.0%	0.5%	-0.5%	8.1	8.2
SNAT	147,088	0	10.0%	8.9%	-1.1%	10.2	8.8
Total / Avg.	**1,661,205**	**-281**	**100.0%**	**100.0%**	**0.0%**	**7.5**	**7.6**

[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

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
07/2023 ♦ 22 February	▪ The Italian market for EUR benchmark covered bonds ▪ European supranationals - an overview
06/2023 ♦ 15 February	▪ Maturity premiums on covered bonds ▪ Development of the German property market ▪ Spotlight on the EU: a mega issuer spawned by the crisis
05/2023 ♦ 08 February	▪ January 2023: record start to the new covered bond year ▪ SSA monthly review: dynamic issuance activity to kick off the new year
04/2023 ♦ 01 February	▪ Focus on covered bond jurisdictions: Canada in the spotlight ▪ Focus on covered bond jurisdictions: Slovakia and Czech Republic in the spotlight ▪ 26th meeting of the Stability Council (December 2022)
03/2023 ♦ 25 January	▪ ECB preview: all eyes and ears on the press conference ▪ Successful start to the year for EUR sub-benchmarks as well ▪ ESG covered bonds from France: La Banque Postale SFH issues inaugural social covered bond
02/2023 ♦ 18 January	▪ Focus on covered bond jurisdictions: Belgium in the spotlight ▪ The Moody's covered bond universe: an overview ▪ Beyond Bundeslaender: focus on Belgian issuers
01/2023 ♦ 11 January	▪ ECB review: 2022 entailed all manner of monetary policy action ▪ Covered Bonds Annual Review 2022 ▪ SSA: Annual review of 2022
39/2022 ♦ 14 December	▪ Our view of the covered bond market heading into 2023 ▪ SSA outlook 2023: ECB, NGEU and the debt brake in Germany
38/2022 ♦ 07 December	▪ ECB preview – next hike but total assets (finally) reduced?! ▪ Covered bond jurisdictions in the spotlight: a look at Spain
37/2022 ♦ 30 November	▪ Transparency requirements §28 PfandBG Q3 2022 ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
36/2022 ♦ 23 November	▪ ESG covered bonds - another record year ▪ Current LCR classifications for our SSA coverage
35/2022 ♦ 16 November	▪ Covered bond jurisdictions in the spotlight: a look at Austria ▪ Development of the German property market ▪ EIB goes Blockchain… again!
34/2022 ♦ 09 November	▪ Covered bond jurisdictions in the spotlight: a look at Norway ▪ Tenth edition of the NORD/LB Issuer Guide Covered Bonds ▪ SSA primary stats ytd before the final sprint
33/2022 ♦ 26 October	▪ Repayment structures on the covered bond market: EU harmonisation project consigns hard bullets to the shadows ▪ The debt brake at Laender level

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

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2022

Covered Bond Directive: Impact on risk weights and LCR levels

Risk weights and LCR levels of covered bonds (updated semi-annually)

Transparency requirements §28 PfandBG Q3/2022 (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2022

Issuer Guide – German Agencies 2022

Issuer Guide – Dutch Agencies 2022

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Spotlight on Spanish regions (Update planned in 2023)

Fixed Income Specials:

ESG-Update 2022

ECB interest rate decision: Roadmap to QT

ECB: The Wishing-Table, the Gold-Ass, and the Cudgel in the Sack

ECB interest rate decision: delivered as expected?

ECB acts as the 'House of Hikes' – or: Winter is coming!

Appendix
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