# 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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**10y and Italian EUR benchmarks make a successful return to the primary market**

During our publication break around the Whitsun holiday week, a total of EUR 8.5bn split across nine EUR benchmark transactions (including two dual tranches) was placed on the primary market. One striking aspect of the deals placed in the past fortnight is that the 10y maturity segment accounted for around half of the transactions recorded, with a total of five deals placed here amounting to EUR 4.25bn. Our calculations suggest that the issuers from Germany, France and the Netherlands have had to pay eminently manageable new issue premiums of between three and seven basis points, while the bid-to-cover ratios were in a corridor of between 1.2x (CMZB) to 3.8x (DZHYP). With no 10y covered bonds having been issued between mid-February and mid-May, we can now say with certainty that the long end of the covered bond maturity curve is back up and running again. So far this year, the average duration of the new deals placed in EUR benchmark format is well down compared to previous years. It is definitely worth highlighting the fact that Italian issuers have now also returned to the primary market after an enforced absence of nearly 12 months due to the country's sluggish practical implementation of the EU covered bond directive (for further details, please also refer to the section dedicated to this subject below). With a new issuance volume of EUR 127.0bn in 2023, the market is already trending above the level achieved by the end of June 2022 (EUR 117.5bn). We expect that the market for new deals will remain lively up to the summer recess, although some issuers are seeking to seize the moment during this period of "risk-on" sentiment and are currently showing a preference for issuing unsecured bonds.

| Issuer | Country | Timing | ISIN | Maturity | Size | Spread | Rating | ESG |
|---|---|---|---|---|---|---|---|---|
| UniCredit | IT | 05.06. | IT0005549370 | 7.1y | 1.25bn | ms +57bp | - / Aa3 / - | - |
| UniCredit | IT | 05.06. | IT0005549362 | 3.6y | 1.75bn | ms +27bp | - / Aa3 / - | - |
| Commerzbank | DE | 05.06. | DE000CZ43Z23 | 10.0y | 0.75bn | ms +20bp | - / Aaa / - | - |
| Commerzbank | DE | 05.06. | DE000CZ43Z15 | 2.5y | 0.75bn | ms -2bp | - / Aaa / - | - |
| Arkea Home Loans SFH | FR | 31.05. | FR001400ICR2 | 10.2y | 1.00bn | ms +33bp | - / Aaa / - | X |
| Cooperatieve Rabobank | NL | 31.05. | XS2633136317 | 10.0y | 0.75bn | ms +18bp | - / Aaa / - | - |
| Credit Agricole HL SFH | FR | 30.05. | FR001400IAO3 | 10.0y | 1.25bn | ms +33bp | - / Aaa / AAA | X |
| Van Lanschot Kempen | NL | 24.05. | XS2629466900 | 3.0y | 0.50bn | ms +21bp | - / - / AAA | - |
| DZ HYP | DE | 24.05. | DE000A3MQU45 | 10.0y | 0.50bn | ms +16bp | - / - / AAA | - |

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

**Secondary market: trading is quiet with no pressure on spreads**

The secondary market has entered calm waters. With new deals being placed at the long end, the overloading of transactions at the short end has now started to ease off. After being issued, new covered bonds have tightened by between one and five basis points. Overall, the spread level is unchanged against the level seen a couple of weeks ago.

**After a long wait, UniCredit finally opens Italian primary market**

With Italy having dragged its heels in connection with the full implementation of the harmonised European covered bond legal framework until the end of March this year, no issuance window had been open for domestic banks during this period. However, UniCredit finally placed the first Obbligazioni Bancarie Garantite (OBG) under the new framework yesterday (06 June). The bank sought investors for a brace of covered bonds with terms of just over 3y and just over 7y respectively. In accordance with the new regulations, both feature soft bullet structures and carry the European Covered Bond (Premium) label. In addition, Moody's is expected to award a rating of Aa3 for the securities, which means that they would be ECB-eligible, eligible for LCR Level 1 and carry a risk weighting of 10% in accordance with Article 129 CRR. Moreover, the bonds have demonstrated compliance with the ECBC Covered Bond Label. Overcollateralisation (OC) of 5% is stipulated by law, although the contractual OC currently stands at 7.5% and the actual programme OC comes to 67.4% (as at 31 March 2023). In total, outstanding covered bonds of EUR 17.2bn under the programme are offset by a cover pool in the amount of EUR 28.8bn. According to the bank, its planned volume of covered bond and secured funding for Italy will amount to EUR 3bn in 2023. Given the volumes of EUR 1.75bn (3y) and EUR 1.25bn (7y) raised on Tuesday, this target has already been achieved. These were also the first OBGs to come from Italy since the end of June 2022. UniCredit paid investors a new issue premium of 2bp (3y) and 5-7bp (7y). With a high level of demand, bid-to-cover ratios of 1.6x and 1.7x were respectively generated. Overall, we expect an issuance volume of EUR 9.0bn in EUR benchmarks from Italy this year. We discussed the Italian covered bond market as part of our weekly publication and most recently in "The Southern European Covered Bond Roundtable 2023" published by The Covered Bond Report. We summarised the key aspects of the new Italian legal framework in our recently published Covered Bond Special.

**French banks: Scope sees institutes as well equipped**

The rating agency Scope has taken a closer look at the figures recently published by French banks and takes the view that the sector is resilient overall. In so doing, the agency refers to the ECB environment, which is leading to higher refinancing costs for banks due to the expiring purchase programs, long-term tenders that are falling due and rising interest rates. While it is true that the pressure on earnings is increasing, French banks - unlike their European counterparts and competitors - have not reported falling profits up to now. Nevertheless, domestic retail customer business is suffering from the faster rising conditions in connection with borrowing business than is the case for the lending business. Scope expects a continuation of this trend into 2024. Even if this is currently restricting earnings, it protects borrowers and therefore also banks from future burdens. French banks are currently benefiting from having diversified their income sources. As in many countries, there has also been a slowdown in lending in France, although we cannot talk of a market contraction just yet. Credit quality has developed in stable fashion and risk costs remain at a low level. Among other aspects, the focus is currently on any potential contagion effects from the USA or Switzerland (where significant outflows of deposits were recorded), as well as the ability of the banks to counteract declining net interest margins in the context of interest rate hikes, TLTRO repayments and persistent inflation. Even though bank funding has become more expensive and Scope evaluates this trend as "mildly negative", French banks have already issued covered bonds with a total volume of EUR 31.9bn so far this year. Across the full year 2023, we anticipate an issuance volume of EUR 42.5bn in EUR benchmarks from France, as against maturities totalling EUR 22.7bn.

**Fitch: covered bonds from Singapore with comfortable buffer against issuer downgrade…**
The risk experts from Fitch believe that covered bonds from Singapore included in the agency's coverage (i.e., those issued DBS and OCBC, in each case rated AAA) have comfortable buffers against downgrades to the issuer rating. Both programmes have a buffer of four notches. Fitch also rates the credit risk profile of the cover pools - which consist of residential mortgage loans with average LTV ratios below 55% in the case of both programmes - as low. However, in the context of increased market interest rates, the risk experts have identified changes in the breakeven OC as a result of alterations to the asset liability mismatch (ALM). Among other aspects, any potential liquidity bottlenecks and risks are mitigated by the soft bullet structure of the covered bonds. OCBC and DBS have four bonds included in the iBoxx EUR Covered (volume: EUR 2.5bn). The country's three EUR benchmark issuers - DBS, OCBC and UOB - have not yet been active on the market with new EUR deals so far in the current year. However, their total outstanding covered bond volume amounts to EUR 6.3bn. Across 2023 as a whole, we expect the gross primary market supply from Singapore to total EUR 3.0bn.

**...while Australian covered bonds are resilient despite interest rate developments**
Fitch has also identified signs of stability concerning the Australian covered bonds included in its analysis. The gist of the two peer reviews for major banks and medium-sized banks is that covered bonds will overcome the current environment dominated by inflation and rising mortgage interest rates. Among other factors, the risk experts note that the majority of the mortgage loans feature variable interest rates. Moreover, fixed-interest loans feature higher rates of interest once the fixed period has expired. As a result, the rate of mortgage repayments (or redemptions by borrowers) has been at least 30% since May 2022. Fitch sees this as a consequence of the changes to the interest rate environment. The rating agency takes the view that Australian bonds are protected against potential deteriorations in the cover pool credit quality, which it attributes, among other aspects, to high credit quality. Nevertheless, Fitch also assumes that rampant inflation will eventually take its toll to some extent. With interest rates having risen by 3.75 percentage points since May 2022, Fitch explains that the share of loans more than 30 days in arrears remains low (ranging from 0.2% to 0.5%) for the four rated programmes. The cover pools do not contain any loans past due by 90 days on account of the fact that the issuers exchange them for performing loans. Furthermore, the majority of the cover pools comprise longer-dated loans and feature low LTV ratios on average, while the OC ratios are comparatively high as well. The Australian covered bond market accounts for a share of 3.3% (EUR 29.3bn) in the iBoxx EUR Covered. So far this year, three issuers (NAB, ANZ and Westpac) have already approached investors in the EUR benchmark segment with three bond deals.

# Market overview
# SSA/Public Issuers

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**Fitch downgrades French state and consequently 27 French GREs**

Following a downgrade of France's credit rating (now AA-, outlook: stable) at the end of April, the rating agency Fitch downgraded the rating of a total of 27 government-related entities (GRE) on 12 May. All outlooks were defined as "stable". In addition, the downgrade also affects related long-term guaranteed or unsecured issues, as well as a joint bond issued by eight public hospitals. France's downgrade came against a backdrop of comparatively fragile budgetary metrics and an expected expansion of government debt. In addition, the rating agency pointed to the enormous resistance among some of the French population to President Macron's reform agenda. The list of 27 GREs downgraded as a result includes 14 issuers whose ratings are equated with those of the French state and a further eight that are rated using a top-down minus one approach based on France's ratings. In addition, five social housing providers are affected, which are assessed using a bottom-up approach. The 14 GREs equated with the rating of the French state are (alphabetically, in italics in our coverage): Action Logement Groupe, Action Logement Immobilier, Action Logement Services, Agence centrale des organismes de sécurité sociale (ACOSS), *Agence française de développement (AFD)*, Assistance publique - Hôpitaux de Paris (AP-HP), *Caisse d'Amortissement de la Dette Sociale (CADES), Caisse des dépôts et consignations (CDC)*, Caisse nationale des autoroutes (CNA), *Bpifrance*, Régie autonome des transports Parisiens (RATP), SNCF Réseau, *Société du Grand Paris (SGP)* and *Unédic*. The eight GREs assessed in the top-down minus one approach are composed of Assistance publique - Hôpitaux de Marseille (AP-HM), the University Hospitals (CHU) of Angers, Nancy, Nantes, Nice, Rennes and Strasbourg, and *Île-de-France Mobilités*. The rating adjustments for social housing providers impact Clésence, Erilia, LogiRep Société d'habitations a loyer modere and Société anonyme d'Habitations à Loyer Modéré de la Réunion (SHLMR) as well as Résidences le Logement des Fonctionnaires (RLF).

**Rhineland-Palatinate: Programme launched for the partial debt relief of municipalities**

The programme for the partial debt relief of municipalities in Rhineland-Palatinate (ticker: RHIPAL) started in April. The planned medium- and long-term relief in the amount of EUR 3bn is primarily intended to support municipalities that are burdened with comparatively high liquidity loans. In recent years, liquidity loans, which are by law only intended to provide short-term liquidity protection, have in practice developed into a permanent financing instrument for current expenditure, as a result of which the liquidity loans of the municipalities reached a critical level of around EUR 7.1bn as of 31 December 2020. Adjusted for double counts and as a result of further deductions, a liquidity loan volume of around EUR 4.8bn remains as the assessment basis for debt relief of the municipalities (as of March 2023). The programme is to be represented in the core budget of the sub-sovereign. In each of the financial years 2023 and 2024, funds amounting to EUR 250m are available for repayment. In the following years, an annual burden of around EUR 100m is assumed.

**EUROFIMA presents first ever sustainability report**

In mid-March, the European Company for the Financing of Railroad Rolling Stock (EUROFIMA; ticker: EUROF) presented a sustainability report for the first time, which relates to the 2022 financial year. Tasked with promoting the development of rail transport in Europe, EUROFIMA plays a key role in sustainable transformation for its shareholders (26 railway companies from 25 European countries). Initiatives such as the UN Principles for Responsible Investment and the UN Global Compact have been signed to integrate ESG aspects into corporate processes. The rating agency MSCI ESG attests a sustainability rating of AAA, while ISS ESG awards EUROF a prime status rating (B+). EUROF, to use the ticker, has been issuing green bonds based on the Green Bond Framework and aligned with the ICMA Principles on the capital market in the ESG segment since 2018. In terms of the UN Sustainable Development Goals, the focus is on "Industry, Innovation and Infrastructure" (SDG 9) and "Sustainable Cities and Communities" (SDG 11). Sustainable issues form a key part of the refinancing strategy. In the green bond segment, the issuer was last seen at the end of March with an issuance volume of EUR 460m, meaning that a total of 13 green bonds – denominated in EUR, in addition to SEK, CHF and AUD – with a volume equivalent to EUR 5.6bn are outstanding. The issuance proceeds will be used to finance sustainable technologies for rail-based transport such as electric multiple units (60% of the allocated proceeds at year-end 2022) and electric locomotives (14%). The Impact Report published last March also shows that, after green bonds, sustainability-linked instruments and social bonds are the main pillars of ESG funding.

**Saxony-Anhalt plans first sustainability bond**

Saxony-Anhalt (ticker: SACHAN) is set to become the fifth German Land to join the ESG bond segment. As part of the planned social bond debut, invites to investor calls were already sent out on 30 May. Michael Richter, Finance Minister of Saxony-Anhalt, comments: "As regards the sustainability activities of the Laender community, Saxony-Anhalt is the first sub-sovereign to issue a purely social bond on the capital market. This further broadens Saxony-Anhalt's global investor basis and now particularly appeals to investors for whom support for sustainable overall social development is an important factor in their investment decision." The planned issue size is expected to be a EUR benchmark (EUR 500m), and the underlying framework was established at the end of May in line with the ICMA Social Bond Principles. The addressed ICMA project categories cover: I. Affordable basic infrastructure, II. Job creation and programmes to prevent and/or mitigate unemployment caused by socio-economic crises, III. Socio-economic development and empowerment, and IV. Access to basic social services. A concrete list with a total of 31 projects is provided separately. In the context of Saxony-Anhalt's overarching sustainability strategy, and, by its own account, based on its experiences with the pandemic, the social action areas of health, digitalisation, education and science, as well as strengthening and deepening the labour market were incorporated into the framework. The sustainable financial policy in Saxony-Anhalt will also rely on further sustainable issues over the years to come. Global investor calls took place in German and English at the beginning of the week and one-on-ones are being held during the rest of this week. We expect the first transaction later in June.

**Two-day annual exchange between EIB, ESM and EU**

At the 5th Annual Capital Markets Seminar (EC/EIB/ESM), the focus was on the European E-supras for two days. As is widely known, the European Commission (EC) issues its bonds via the EU ticker; while the tickers for the EIB and ESM should be obvious. The agenda was a varied mix of topics relevant to the times we are currently living in. On both days, all three issuers gave an update on their own activities during presentations and also took part in panel discussions. External guests were also invited to discuss the topic “Navigating new challenges: the end of lower-for-longer era”. Dr Alexander Stubb (“New World Order: the battle between the global West, the global East and the global South”) and Klaas Knot (“Bold, but realistic: monetary policy and financial stability”) also made an appearance at the event. The agenda was rounded off by a range of “fireside chats” with high profile people. Topics were addressed such as the current DCM business, which has proven itself for several decades and has also been operated successfully, but which has also only changed or developed insignificantly. Tokenisation was mentioned first and foremost as a future innovation. Another big question is and remains the EU’s future position in the bond market. SURE (temporary Support to Mitigate Unemployment Risks in an Emergency) was a massive factor with a value of just under EUR 100bn, but has now ended. As we know, the NextGenerationEU programme is in full swing. But what comes next? New ideas on pricing – instead of versus mid-swap, possibly versus EU bonds in the future – were also broached. We have already asked ourselves this question several times, but in our opinion new market standards are formed over time with the necessary acceptance, not by imposing them. Moreover, from 2027 onwards, it remains to be seen how the EU as an issuer can and will behave on the market after the successful end of the NGEU programme.

**Speaking of NGEU**

On 15 June 2021, the first of many more bonds was issued to finance the NGEU programme. Almost exactly two years ago, EUR 20bn was raised for a 10y maturity at ms -2bp. The order book at the time was EUR 142bn and the coupon 0.0%. Meanwhile, there are problems here and there, as was recently reported: Brussels has been withholding the third tranche of EU funds for Italy since the end of March. The reason was massive delays by the Italian administration – and, curiously, two football stadiums. According to consistent press reports, heads have been spinning in Rome lately. No matter how much you crunch the numbers, the figures just do not add up: Italy’s right-wing nationalist government under Giorgia Meloni is lagging so far behind in investments with money from the EU’s COVID-19 reconstruction fund that Brussels has now shown it the yellow card. The third tranche, EUR 19bn of the already gigantic EUR 200bn for Italy alone, could not be disbursed as planned at the end of March. Italy is the biggest beneficiary of the mega stimulus programme, with about 25% of the total pot, as we have reported several times. At least in theory. Because most of the projects in the areas of green energy transition (such as hydrogen filling stations) or digitalisation, which are supposed to make the deeply indebted Eurozone fit for the future, only exist on paper so far. According to the business newspaper “Il Sole 24 Ore”, only five of the 13 targets planned until March have been achieved. Italy's Court of Auditors also criticised that only a fraction of the promised funds has been spent so far. According to the media, there is also little investment in the critical healthcare sector, whose weaknesses were so glaringly exposed during the pandemic. Even the Minister responsible for Europe, Raffele Fitto, was resigned to admitting: Rome will simply not be able to realise some of the projects by 2026 as planned – “that is simply what the maths tells us”.

**Primary market**

Due to our one-week publication break, we are looking at significantly more deals than usual today. Nevertheless, as always, we would like to start chronologically, even if the Agence France Locale deal is already likely to be old hat by now. A total of EUR 500m changed hands for 15 years. This was 44bp above the French government bond curve (reference: FRTR 1.25% 05/25/38 & FRTR 0.5% 05/25/40) and is approximately equivalent to ms +65bp. The next issuer in line was Dexia Credit Local and the ticker DEXGRP, not so familiar to some. When this issuer appears on the market, it is usually with jumbos, as was the case this time: EUR 1.5bn (5y) was raised at ms +7bp. Compared with the guidance (ms +10bp area), a narrowing of three basis points was possible, so the books ended up at EUR 2.5bn. Moving on to Germany, the northernmost sub-sovereign was active in the primary market: SCHHOL raised EUR 500m for seven years at ms -4bp. In the end, the books totalled EUR 550m. Kexim had an interesting deal in store for us from the Far East. Not only is the Export-Import Bank of Korea rarely in the market, it also issued a dual tranche consisting of non-ESG and ESG as well as Reg S and 144a. Thus, there were four ISINs for ultimately two raised amounts, totalling EUR 1.35bn. The shorter deal (3y) had a volume of EUR 850m and came in at ms +29bp. The guidance had started at ms +37bp area. The longer deal (7y) came in as a green bond at ms +72bp and comprised EUR 500m. Speaking of ESG: NRW had a sustainability bond up its sleeve. EUR 2bn (10y) came in at ms +3bp. The books ended up at more than EUR 13bn. Guidance was ms +6bp and NRW should be very happy with this deal. It felt like our break attracted the seldom-seen issuers: IDB Invest launched its second outstanding EUR benchmark. The seven-year deal was announced at EUR 500m (WNG) and the books grew to EUR 875m. The reoffer spread ended up at ms +21bp. The biggest deal as part of our update came yesterday from KfW: EUR 5bn (3y) at ms -28bp. As usual, the deal was oversubscribed several times, and the books ended up with more than EUR 14.5bn. We also do not want the taps to go uncommented: EUR 100m came from EUROF, which tapped its green 2033 bond at ms +20bp. The EU was also involved in tapping. It opted early for the 12/2029 and 11/2042 maturities, for which it sought to raise a total of EUR 7bn (WNG) – and yesterday it managed easily to do so. The books amounted to EUR 25bn and EUR 35bn respectively. As usual, this was preceded by an RfP in the previous week. The small but perfectly formed ISB Rhineland-Palatinate also issued a sub-benchmark (EUR 250m) for seven years at ms +2bp. We have already commented above on the mandating of the new Social Framework from Saxony-Anhalt. Announcements of further deals followed: IDFMOB (ESG, 15y), BERGER (EUR 500m, 2028 tap) and BADWUR (EUR 500m, green bond investor call). A third green deal from Stuttgart and the first ESG bond in benchmark format could still follow in June.

| Issuer | Country | Timing | ISIN | Maturity | Size | Spread | Rating | ESG |
|---|---|---|---|---|---|---|---|---|
| KFW | DE | 05.06. | DE000A351MM7 | 2.9y | 5.00bn | ms -28bp | - / Aaa / AAA | - |
| IDBINV | SNAT | 30.05. | XS2633135699 | 7.0y | 0.50bn | ms +21bp | AAA / Aa1 / - | - |
| NRW | DE | 30.05. | DE000NRW0N67 | 10.0y | 2.00bn | ms +3bp | AAA / Aa1 / AA | X |
| EIBKOR | Other | 30.05. | XS2629026845 | 7.0y | 0.50bn | ms +72bp | AA- / Aa2 / AA | X |
| EIBKOR | Other | 30.05. | XS2632653510 | 3.0y | 0.85bn | ms +29bp | AA- / Aa2 / AA | - |
| SCHHOL | DE | 24.05. | DE000SHFM899 | 7.0y | 0.50bn | ms -4bp | AAA / - / - | - |
| DEXGRP | FR | 23.05. | XS2630524713 | 5.0y | 1.50bn | ms +7bp | AA- / Aa3 / AA | - |
| AFLBNK | FR | 23.05. | FR001400I9C2 | 15.0y | 0.50bn | ms +65bp | - / Aa3 / AA- | - |

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

# Cross Asset
# ECB Preview: ECB's 25th anniversary and is still going strong

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

**Many happy returns for its 25th birthday**

Established in 1998 as a strong and independent central bank with a clear mandate to guarantee price stability in the Eurozone, the ECB has remained true to its founding purpose. Even though inflation rates were higher last year than they had ever been since the introduction of the euro, the ECB is working relentlessly to bring inflation down. The German government supported this utterly and completely but also respected the independence of the ECB in doing so, as was clear from Federal Chancellor Olaf Scholz's comments regarding the anniversary: "This independence is of crucial significance for stable and credible monetary policy." Ultimately, the value of a currency is largely dependent on confidence, provided that stability and confidence do not stand in the way of progress. Future work on the digital euro is, for instance, an ambitious and forward-looking project that will strengthen European sovereignty. From the ECB's first working day (1 June 1998), Wim Duisenberg, Jean-Claude Trichet, Mario Draghi and now Christine Lagarde have worked on the official exchange rates (at the time, for example 1 euro for DM 1.95583) through the "Whatever it takes" saga, the Greek tragedy and the acid test for the Eurozone, right up to the APP, PEPP and TLTRO. We send the ECB our heartfelt congratulations and best wishes for continued success in stormy times!

**Lagarde in Hanover**

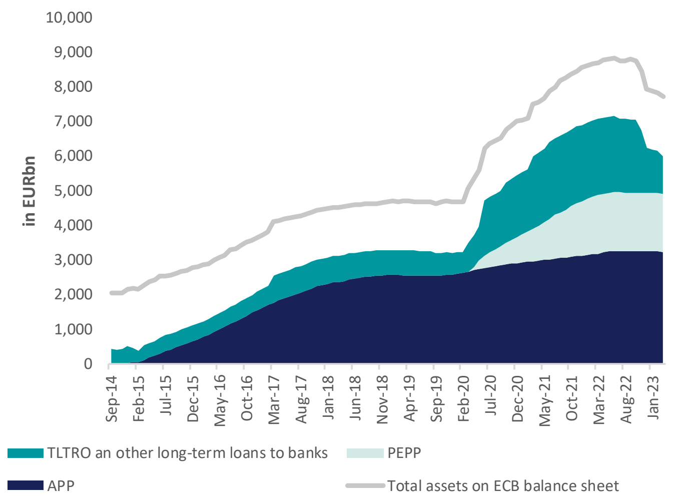
The Deutsche Sparkassentag (meeting of the German savings banks), which had been postponed by a year, took place in Hanover on Wednesday and Thursday last week (31 May and 1 June). Stephan Weil, Minister-President of Lower Saxony, emphasised the importance of bank branches as a calming influence in stressful times there. During the event, Federal Chancellor Olaf Scholz (SPD) confirmed his intention to adhere to the target of 400,000 new homes. Robert Habeck, Christian Lindner and Friedrich Merz also spoke. Ex-German President Joachim Gauck called on employees to ease the anxieties felt by people in Germany with knowledge and proposed solutions. At the world's largest trade fair site in Hanover, the President of the ECB, Christine Lagarde, stated that citizens of the Eurozone would have to adapt to further rate hikes. The ECB had raised key interest rates seven times since July 2022 in an unparalleled series of rate hikes. The rate for main refinancing operations now stands at 3.75%. The reason for raising the key rate is to bring high levels of inflation down. We shall look at this and the future schedule in depth today.

**ECB meeting on 15 June: cruising speed to be slowly reduced in preparation for landing**

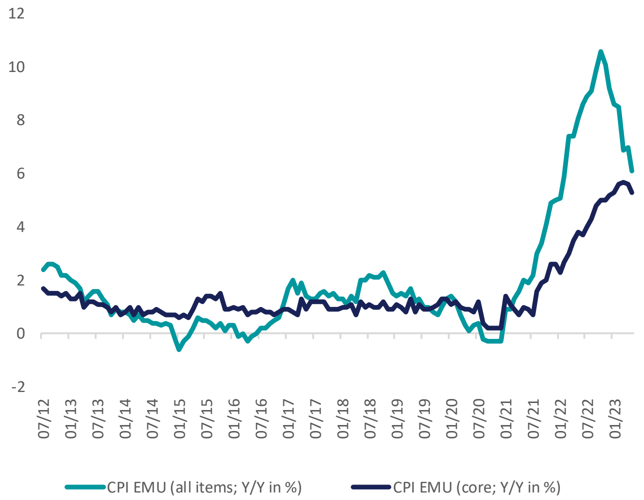
The focus now turns to the ECB meeting on 15 June. The last scheduled meeting of the ECB's Governing Council in the first half of the year took place in an environment in which a significant proportion of central banks outside the single currency area were obviously about to stop tightening monetary policy or were at least adopting a wait-and-see approach. Even the monetary policy-decision making body of the ECB is likely to have reached the proverbial end of the line in the near future. But although it is clear that the ECB's Governing Council has come very close to the peak with hikes of 375 basis points in total, the majority of the central bank representatives responsible for decision-making is likely to think that the appropriate "terminal rate" for has not yet been reached.

**Opinions from around the ECB: en route to optimal cruising height**
At this point in our ECB Preview, we regularly summarise a selection of comments and opinions from members of the Governing Council. Following the latest inflation figures, in particular, which indicated a significant fall for the Eurozone, attention was certainly focused somewhat more on statements from around the ECB. Last Thursday in Hanover – which was the date on which latest information on price dynamics in the single currency area was published – Christine Lagarde made it clear that the inflation rate was still too high and although the final “altitude” was closer, it had not yet been reached. Among other things, she focused attention on the trend in wages. She also had no clear evidence that inflation rates had peaked and were now falling. Boštjan Vasle, President of the Slovenian central bank, also stated that there would be further rate hikes. He believes that two additional hikes of 25 basis points each are needed and justified this with the high core inflation rate. Gabriel Makhlouf, who is a member of the Governing Council and President of the central bank of Ireland, also expects two further hikes (one in June and one in July). Fabio Panetta from Italy and the Frenchman François Villeroy de Galhau also expressed similar views, indicating that the ECB is not yet at the target but is now very close to it, from their perspective. However, Panetta, who ranks more as one of the monetary policy doves within the Governing Council, also stressed that no excessive haste should be displayed with the rate hikes and instead favoured concentrating on the question of how long interest rates should be kept so high. Among other matters, our understanding of his comments that he would argue in favour of spending longer at the current altitude to avoid overshooting the target. With regard to the holding time, Makhlouf expressed similar views in saying that they would definitely spend some time at “peak rates”. Villeroy de Galhau also believes that only marginal steps are required now, as the majority of the rate hikes have taken place. He also thinks that the effects of monetary policy are beginning to become apparent. This indicates that the debate is likely to concentrate very heavily on the question of how the latest setbacks in the inflation rate are to be interpreted and whether inflation is really on a sustainable path towards the 2% target.

**ECB balance sheet**




**Trend in inflation**

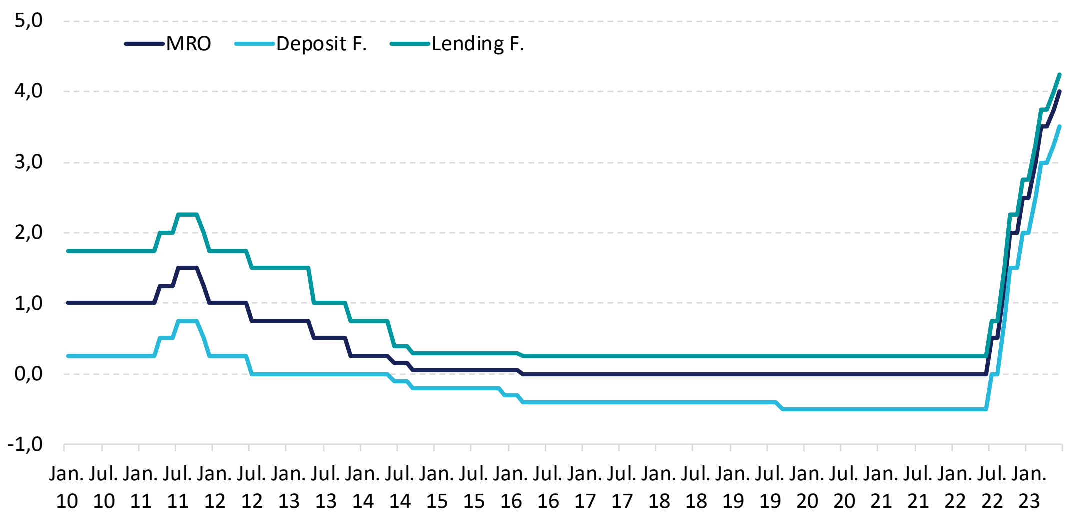



Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

**Minutes of the May meeting: echo of financial market turbulence**

On 1 June, the ECB presented the minutes of the May meeting. As far as the fundamental framework conditions are concerned, it must be noted that the environment of the May meeting was seen as far more stable with respect to possible stress scenarios for the banking sector. Nevertheless, it is clear from the minutes that the turbulence is still resonating on financial markets. However, this is also put in context by the fact that bank shares or even the yields on sovereign bonds in the Eurozone were performing well. It was stressed here that the resilience of sovereign bond yields would "not be challenged" by changes in market expectations regarding the reduction in the APP portfolio. Accordingly, "both the start of quantitative tightening and the expectations of a complete repayment from the market were accommodated smoothly". The decision to announce the end of reinvestment under the APP from July 2023 was largely unanimous. The need to reduce the ECB balance sheet emerges unequivocally from the minutes. This is necessary not least "to obtain political leeway for possible future situations if key interest rates again come close to the lower limit". The secondary effects of the ECB's large balance sheet should also be scaled back so that maturity premiums would not be kept down longer than necessary via the APP security holdings, among other aspects. The distortion of maturity premiums could finally have a negative impact on bank balance sheets and consequently on lending to the private sector. It is also clear from the minutes that the view was shared in the Governing Council that the financial markets would need time to digest this announcement. With regard to key interest rates, the hawks retained the upper hand. In actual fact, some Governing Council members initially favoured a hike of 50 basis points during the meeting and justified this, among other aspects, with the risk that inflation expectations could become de-anchored. However, the proposal to hike rates by 25 basis points was then acceptable, since the clear "directional bias" was included in the announcement after "additional rate hikes would be justified on the basis of the current prospects". This should avoid the 25 basis points being misinterpreted as a "signal for a pause in the current series of rate rises".

**Expected ECB key interest rates (in %)**




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

**Our expectations: +25bp – little to no prospect for potential surprises**

The ECB and all market participants are currently experiencing their last month of reinvestment under the APP: for us, the Eurosystem is withdrawing unexpectedly rapidly from reduced reinvestment of maturing bonds at the end of June. Falling inflation data and the stable market environment definitely offer scope for acting in this way. The focus is now on the future trend in key interest rates: 25 basis points are already fully priced in for 15 June. Since this is unlikely to be the last rate hike this year, we do not see any potential for downside surprises either ("no rate rise" scenario: 0.1%). We also think it extremely unlikely that the rate hike will be more than 25bp. As is known, we have often referred to the wider corridor in the past. For 25 years, the ECB has set rates on the money market for the discount window, the main refinancing instrument (generally known as the key rate) and the deposit facility through the ECB's Governing Council. As a rule, these interest rates differ in amount, whereby the highest is for the discount window (0.5 to 1.5% points <u>above</u> the key rate) and the lowest for the deposit facility (0.5 to 1.5% points <u>below</u> the key rate); the range between this upper limit and lower limit is referred to as the corridor or rate range. If the ranges remain the same, the interest corridor will not change when the level of rates changes. Rather the ECB must amend the ranges between the three facilities to change the corridor. This last happened during the period of low interest rates, when a negative rate was applied to the deposit facility in June 2014. Our periodic reminders are based on the fact that we do not have a symmetrical corridor at present. This has nothing to do with the fact that only symmetry and order make us happy. The quarterly macroeconomic projections are also waiting in the wings. Their aim is to predict and understand the future general economic situation. They include information on economic growth, inflation, wages, unemployment and trade. Experts from the Eurosystem and the ECB prepare the macroeconomic projections, which depict the prospects for the Eurozone and the global economy. The ECB's Governing Council bases its discussions and assessment of economic development and the risks for price stability on these projections. The macroeconomic projections are published four times a year (in March, June, September and December).

**Future schedule: what does the ECB still have in store for us?**

**Base scenario:**

- All three key rates are raised by 25 basis points
- Reinvestment under the APP ends on 30 June
- Another rate hike of 25bp in the second half (data dependent, possibly not until September with the latest projections)
- Sole focus on PEPP reinvestment as the first line of defence
- No rate cuts in prospect

**Possible surprises:**

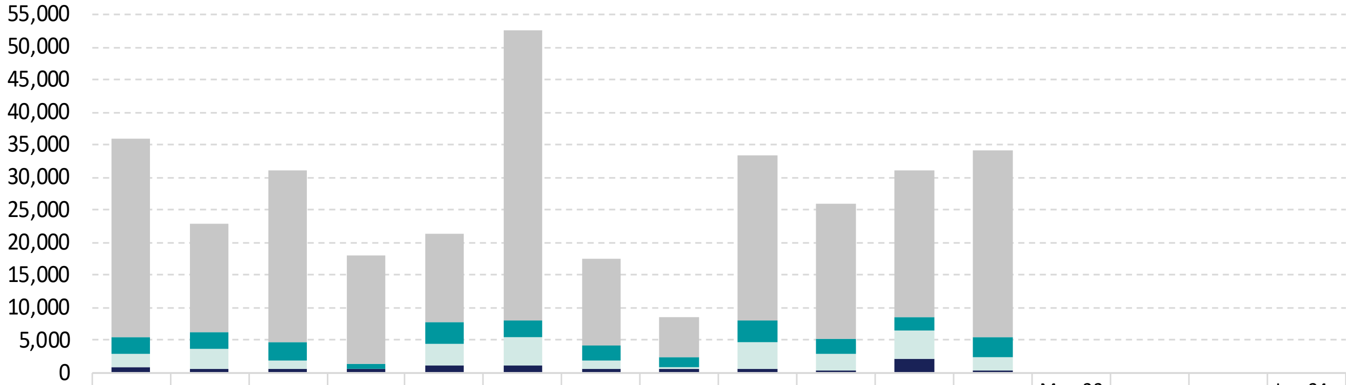
- Not all three key rates are raised to the same extent in June (corridor)
- All three key rates rise by more than 25 basis points
- Deviation from forward guidance with regard to the PEPP
- No pause in hiking rates in July
- No further reduction in inflation rates until autumn

As a result, in our opinion, the picture for the second half of the year remains halfway predictable but at the same time fascinating in these uncertain times.

**Upcoming ECB decision: impacts on public sector issuers (SSA)…**

The imminent rate hike of +25bp is already expected by most market players and is therefore priced in. The reduction in the balance sheet (known as QT), which is currently still proceeding slowly, applies to the SSA segment, in particular, in terms of volume. Around 80% of the APP consists of public sector securities. Since direct government financing via the primary market has always been prohibited since 2015, the Eurosystem could only concentrate on the secondary market in the last eight years anyway. The reduction of EUR 15bn per month is still incommensurate with the sums financed under the APP and PEPP (amounting to more than EUR 5,000bn). What we could observe was some investors stocking up with adequate amounts of bonds with the aim of selling them to the Eurosystem very rapidly at a profit. This frequently led us to state that the ECB operates like a vacuum cleaner at virtually each spread level. Each issuer was and would still be well advised to approach the market before any further rate rises to secure funding at the still relatively favourable interest rates. Bonds worth circa EUR 148bn will still mature in the second half of the year. Of this figure, not one single euro will be reinvested. This is around two and a half times the non-reinvested volume in the first half of the year. We discern an imminent acceleration in the reduction of the Eurosystem's balance sheet total. From January 2024 to the end of May, the APP will reduce by a further EUR 162bn at least as a result of bonds maturing. However, these are all known facts and should be priced in. We therefore do not see any <u>additional</u> distortions in the spread landscape here either – even in the second half.

**Expected monthly maturities (EURm)**




| | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-23 - Apr-24 | 2022 | 2023 | Jan-24 - Apr-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 35,838 | 22,893 | 30,972 | 17,880 | 21,245 | 52,491 | 17,537 | 8,579 | 33,502 | 25,995 | 31,021 | 34,264 | 332,217 | 299,142 | 331,128 | 124,782 |
| PSPP | 30,451 | 16,619 | 26,192 | 16,445 | 13,374 | 44,431 | 13,261 | 6,336 | 25,524 | 20,840 | 22,413 | 28,712 | 264,598 | 228,585 | 255,132 | 97,489 |
| CSPP | 2,579 | 2,557 | 3,038 | 986 | 3,377 | 2,589 | 2,393 | 1,336 | 3,363 | 2,325 | 2,177 | 3,315 | 30,035 | 17,670 | 30,429 | 11,180 |
| CBPP3 | 1,874 | 3,112 | 1,170 | 0 | 3,346 | 4,467 | 1,351 | 408 | 4,109 | 2,449 | 4,434 | 1,814 | 28,534 | 41,244 | 35,147 | 12,806 |
| ABSPP | 934 | 605 | 572 | 449 | 1,148 | 1,004 | 532 | 499 | 506 | 381 | 1,997 | 423 | 9,050 | 11,643 | 10,420 | 3,307 |

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

**…and on the covered bond market**

The ECB did not really torment the covered bond market with the announcement that APP reinvestment will end from July 2023. Therefore, a whole series of announcements with a direct market-related bearing on the spread landscape for covereds passed off without collateral damage in principle. A direct impact of the change in monetary policy is certainly the renewed appeal of covered bonds as an asset class for some investors. Depending on their investment strategy and their own expectations, some investors are also likely to exercise some restraint with their covered bond sales, which can be understood as a small amount of reserve demand. As we have already commented on more regularly in other publications, negative side-effects, such as the emergence of new risk factors, cannot be ruled out. The repayment of the TLTRO III tender has revived covered bond issues, however, the reduction of central bank liquidity in banking books could depress the provision of corresponding assets at some banks. The increase in rates was viewed as a welcome driving force for banks' profitability especially at the beginning of the cycle of rate hikes. However, the negative factors for the property market, lending and the basic credit quality of the banking sector are now being revealed. We do not see any dramatic development here but must definitely acknowledge that influences are emerging on the covered bond segment, especially with regard to banks' refinancing activities, that are difficult to forecast at the current date. This is particularly true because the conceivable stimuli of the new monetary policy could cancel each other out in part. A reduction in lending resulting from higher rates could, for example, result in a reduction of funding requirements. However, this may be offset by some issuers possibly focusing on covered financing if risks again play a greater role for investors and unsecured funding becomes more expensive. We do not expect any dramatic changes from the current meeting, but the devil will continue to be in the detail.

**Conclusion and outlook**

Is central bank policy easy? No. Is it easy for analysts to make forecasts? No. Have there been more difficult meetings in the past? Yes. The ECB always has to navigate a course between combatting inflation and/or financial market stability. The hawks clearly believe that the goal of combatting inflation is at risk if the target rate for key interest rates is reached soon. For the doves (and some banks), the rate rises to date may have been imposed too rapidly. A further rise of +25 basis points therefore seems to be priced in for June and we see little potential for surprises. If this does happen, the ECB would consequently have raised rates at each individual meeting in the first half. That smacks of a pause in rate hikes in July and a final hike in September. However, here we see a 50:50 decision for the last rate hike for the time being in the second half. Raising rates for the last time in July, and consequently arriving at the target exactly one year after raising them for the first time, would also have a certain charm to it. The rate rises since July 2022 could then finally start to take effect and spread into the real economy owing to the sluggish transmission mechanism. Delayed impact is more the rule than the exception here, 12-18 months are generally seen as "normal". We are ruling out rate cuts until 2024. The ECB has a lot on its plate a quarter of a century after it was founded – we wish it all the best for at least the next 25 years.

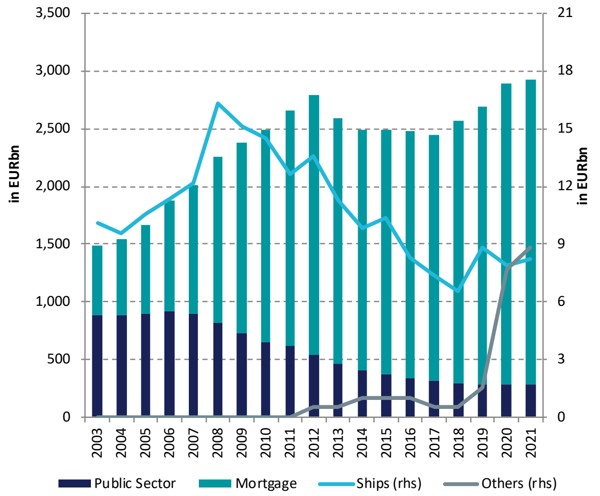
# Covered Bonds
# Focus on legal requirements for covered bonds

Author: Dr Frederik Kunze

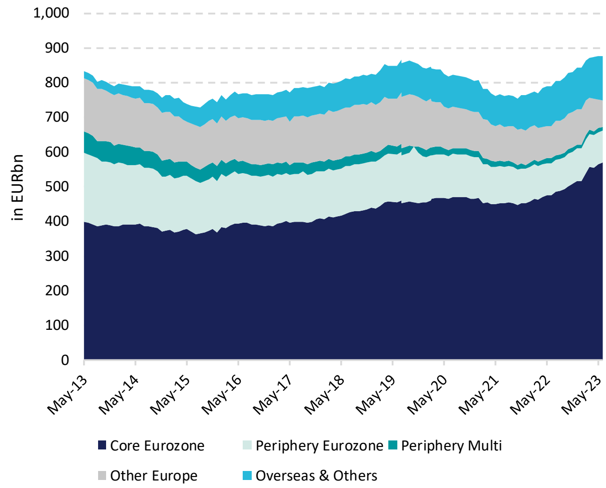
**Legislative covered bonds dominate the market**

In our weekly publications, we have been pointing out the importance of covered bonds for years, both as a refinancing instrument for credit institutions and as an asset class for a broad range of investors. In particular, the crises of the recent and most recent past have demonstrated the advantages of covered bonds and their crisis resilience, not only in terms of banks' access to the capital market. This also applies to their role as a "safe haven" for a large number of investors. In this respect, it is not surprising that the global covered bond market has continued its impressive growth history after a Covid 19-related break. Based on the ECBC annual statistics, a total volume of outstanding covered bonds of EUR 2,940bn can be determined as of 31 December 2021. The iBoxx EUR Covered, which is to be used as a benchmark index for the covered bond segment, last came to a total volume of EUR 877bn in June 2023. This difference is firstly due to the fact that especially in Denmark, the largest covered bond market (as per ECBC statistics for 31 December 2021: EUR 455bn), the institutions mainly rely on issues in local currency. In addition, the iBoxx EUR Covered does not include any issues with a residual maturity of less than one year. There is also a certain proportion of issuers who have not issued their publicly placed deals at benchmark level. Furthermore, the ECBC statistics include both private placements and retained issues, neither of which are included in the iBoxx EUR Covered. What the two data sources do share, however, is a very high proportion of covered bonds issued on the basis of covered bond legislation. In fact, contractual or structural covered bonds play only a minor role. While this observation is unsurprising from today's perspective, in a more historical context it is the result of a steady proliferation of legislative covered bonds.

**Covered bond volume by asset class**




**Covered bond volume iBoxx EUR Covered**




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

**NORD/LB Covered Bond Special provides tabular overview of legislation**
Covered bond laws form the basis for the corresponding bank bond issuance programmes with the dual recourse right of the bondholders. This normally involves appropriate supervision of the banks in terms of them meeting their obligations to covered bond investors. Ultimately, the legal requirements result in regulatory preference within the meaning of the CRR or eligibility in the context of LCR management (see below). Given the existing legal frameworks, the covered bond has long ceased to be a European product, which is reflected in the EUR benchmark segment by the established markets of Canada, Australia, Singapore and New Zealand. In addition, Japan has been working for some time on setting the course for the introduction of a legal framework for the placement of covered bonds. At present, Japan is probably the most important covered bond market without its own legislation. For all those covered bond jurisdictions for which legislative covered bonds in EUR benchmark or EUR sub-benchmark format are outstanding, we have produced a tabular overview of covered bond laws as part of a NORD/LB Covered Bonds Special published on Tuesday.

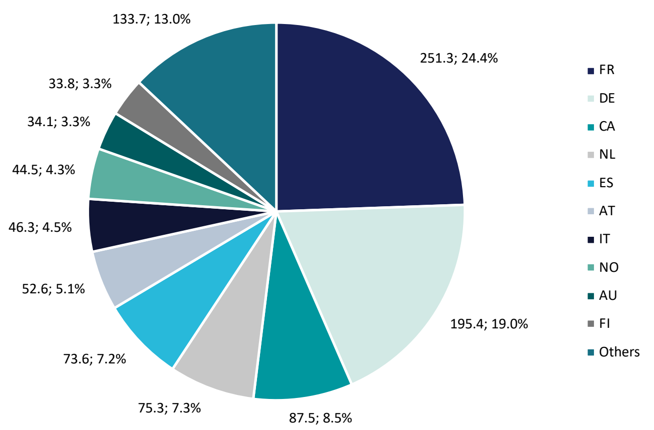
**Why is such an overview still relevant?**
Even in times where the EU Covered Bond Directive has been successfully implemented, a multitude of national idiosyncrasies remain in the respective legal frameworks. Moreover, the requirements of the directive should be seen more as minimum standards and less as harmonisation or alignment. Although the directive is a welcome development, there is still a need to obtain a general overview of the relevant covered bond laws and requirements. In addition, the Directive is a purely European project, which is only directly relevant to non-EU countries such as Canada, Australia, South Korea, Singapore, New Zealand and the United Kingdom in a few aspects.

**Regulatory treatment within and outside the scope of the Covered Bond Directive as well as central bank eligibility of covered bonds**
The tabular overview of the legal frameworks, together with our NORD/LB Covered Specials on risk weights and LCR classifications and on central bank eligibility, forms a publication series which is intended to enable our readership to recognise lingering differences in outstanding EUR benchmarks and at the same time to acknowledge the regulatory treatment. Especially in the context of risk weights and LCR classifications, the legal framework is a significant factor.

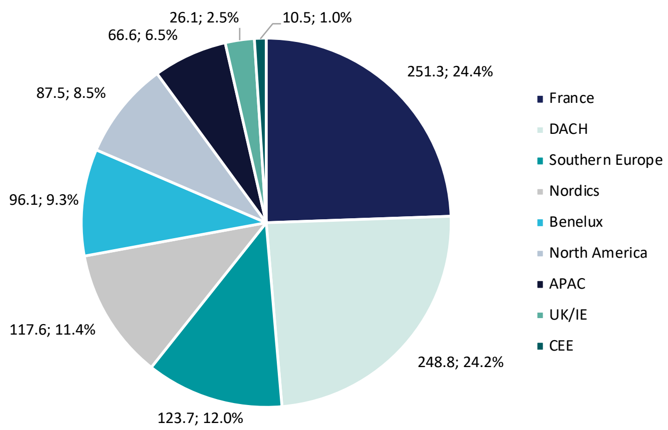
**Conclusion and outlook**
In our view, even after the EU covered bond harmonisation, it is very important to have a fundamental understanding of the relevant legislation at national level. This also applies in light of the fact that the covered bond has long since become a global and not exclusively a local product. This is precisely where our current Covered Bond Special comes in. Looking ahead, however, it is also important to bear in mind that issues such as the equal regulatory treatment of “third countries” and the concept of reciprocity (e.g., in LCR recognition or central bank eligibility) will gain currency. On the one hand, this may result in adjustments to regulatory requirements and, on the other hand, it may bring about a new round of revisions to legislation within or outside the EU.

# Charts & Figures
# Covered Bonds

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



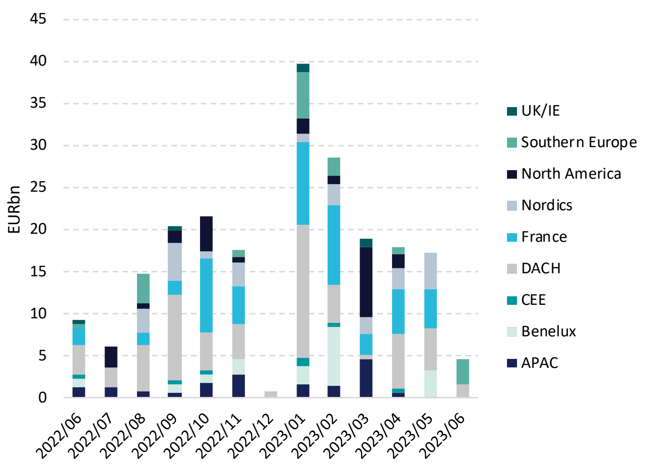

### EUR benchmark volume by region (in EURbn)



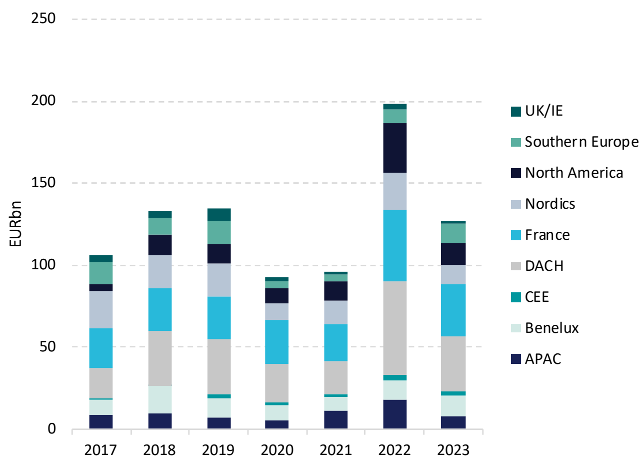

### Top-10 jurisdictions

| 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 | 251.3 | 241 | 18 | 0.97 | 9.6 | 5.2 | 1.19 |
| 2 | DE | 195.4 | 278 | 32 | 0.65 | 8.1 | 4.3 | 1.00 |
| 3 | CA | 87.5 | 65 | 0 | 1.32 | 5.5 | 2.9 | 0.92 |
| 4 | NL | 75.3 | 75 | 2 | 0.94 | 10.9 | 6.7 | 1.05 |
| 5 | ES | 73.6 | 59 | 6 | 1.14 | 11.1 | 3.6 | 1.93 |
| 6 | AT | 52.6 | 89 | 4 | 0.58 | 8.4 | 5.2 | 1.25 |
| 7 | IT | 46.3 | 56 | 2 | 0.80 | 9.1 | 3.6 | 1.27 |
| 8 | NO | 44.5 | 53 | 12 | 0.84 | 7.3 | 3.9 | 0.57 |
| 9 | AU | 34.1 | 33 | 0 | 1.03 | 7.3 | 3.6 | 1.35 |
| 10 | FI | 33.8 | 37 | 3 | 0.89 | 7.2 | 3.9 | 1.10 |

### EUR benchmark issue volume by month

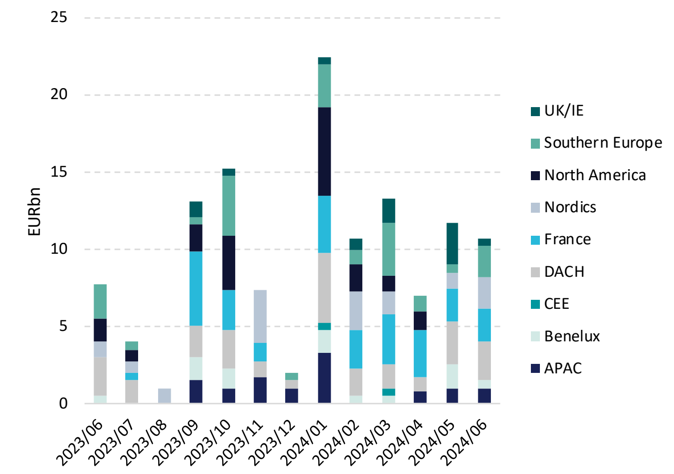



### EUR benchmark issue volume by year

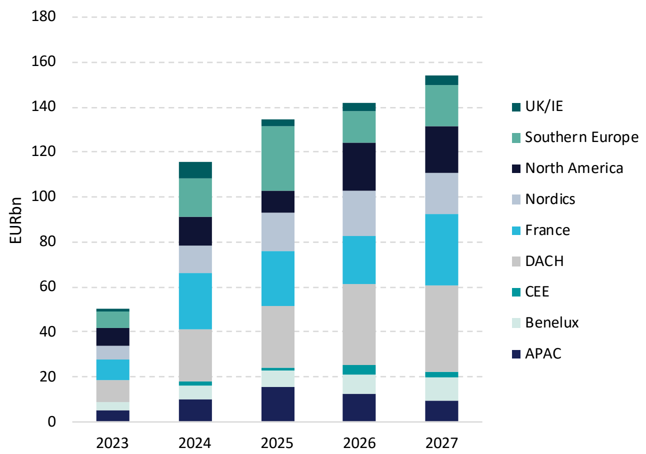



Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

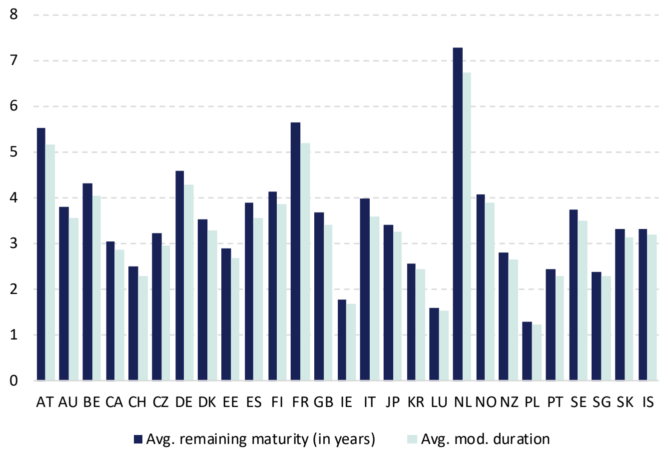
## EUR benchmark maturities by month



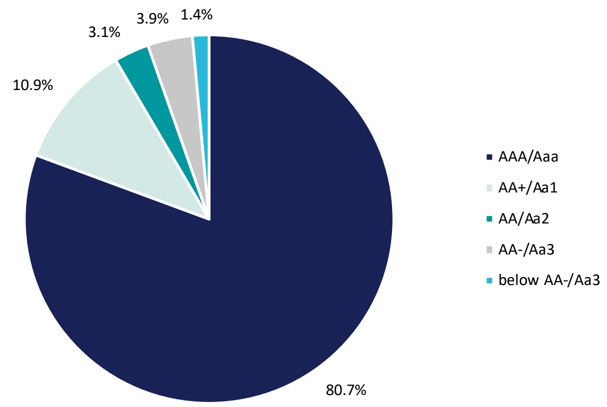

## EUR benchmark maturities by year



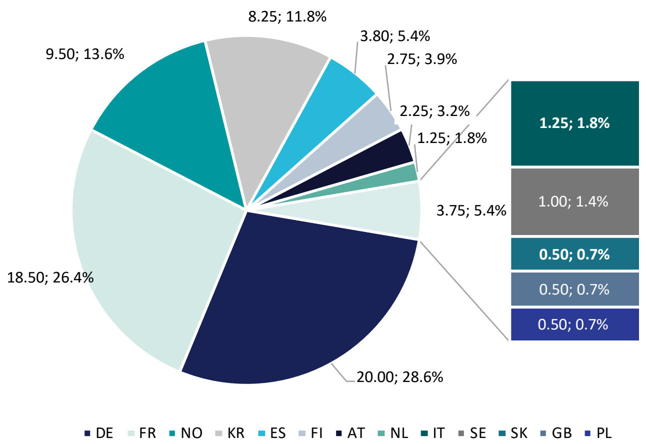

## Modified duration and time to maturity by country



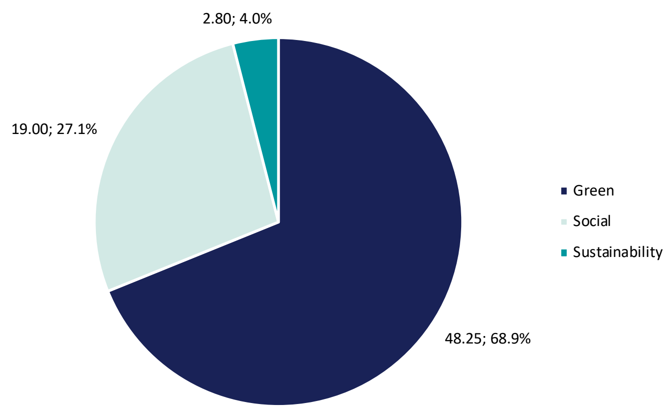

## Rating distribution (volume weighted)




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

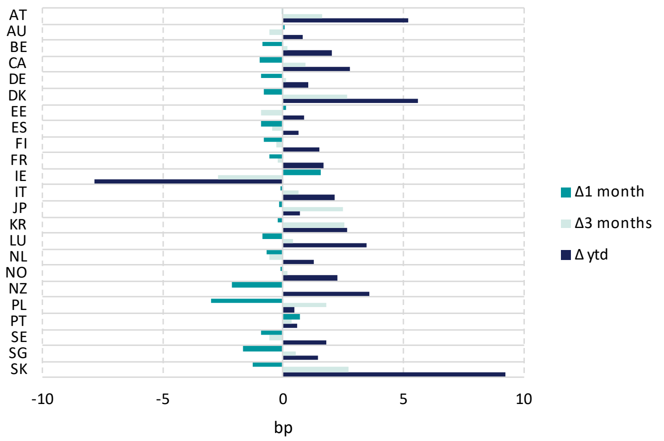



## EUR benchmark volume (ESG) by type (in EURbn)

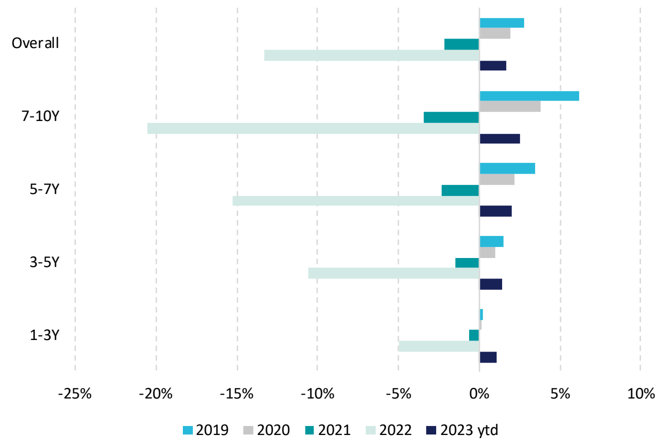



Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

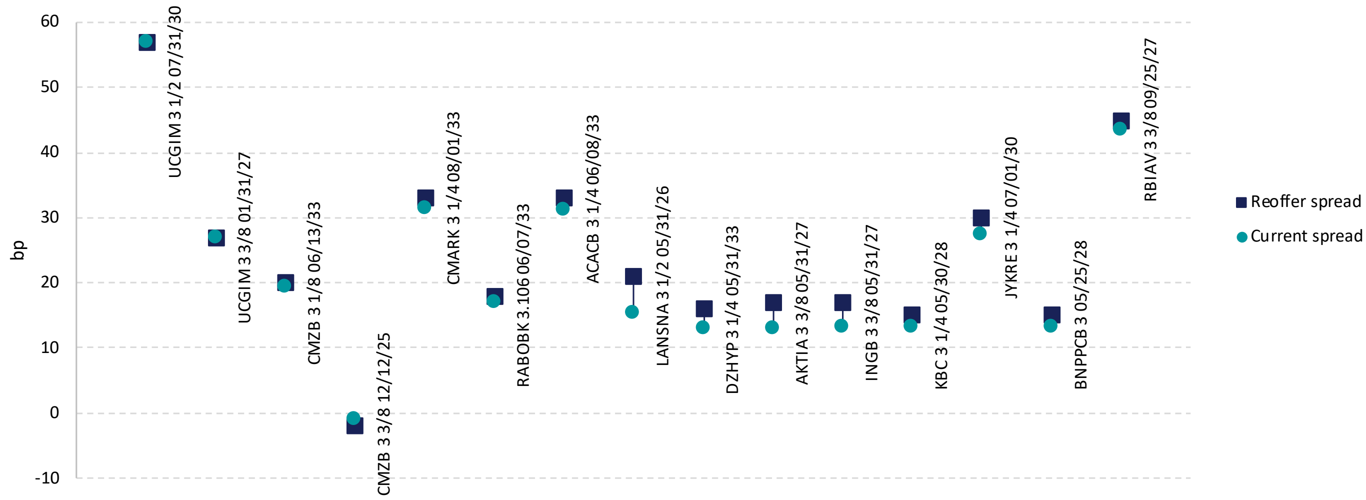
### Spread development by country



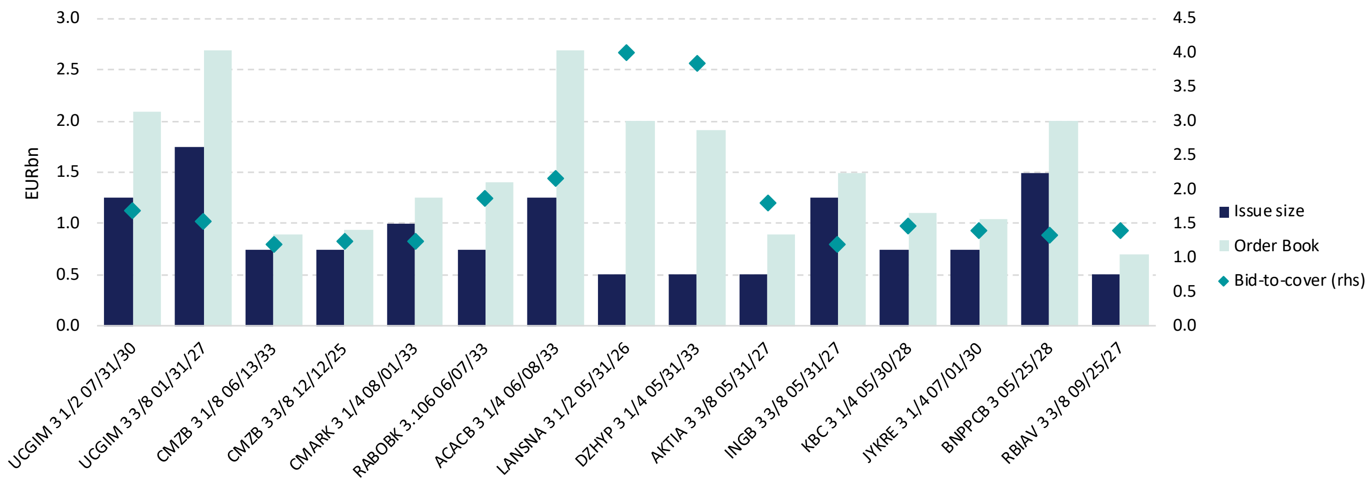

### Covered bond performance (Total return)




### Spread development (last 15 issues)



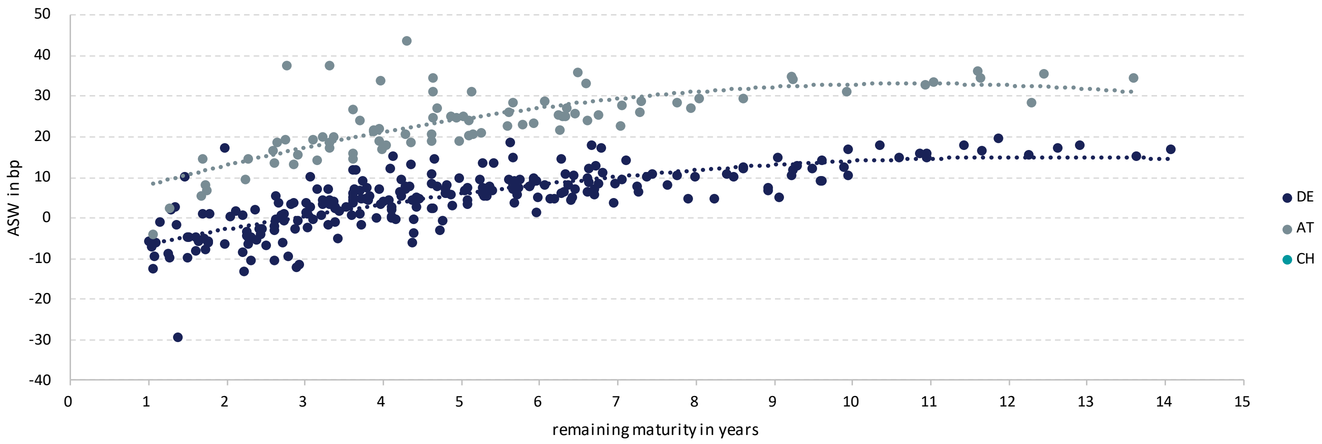

### Order books (last 15 issues)



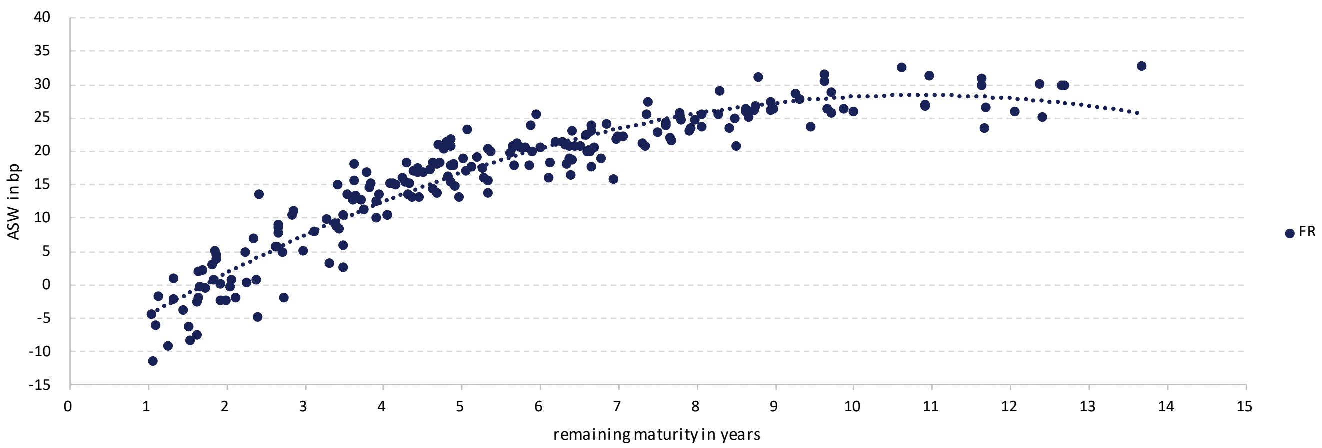

Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

**Spread overview[1]**

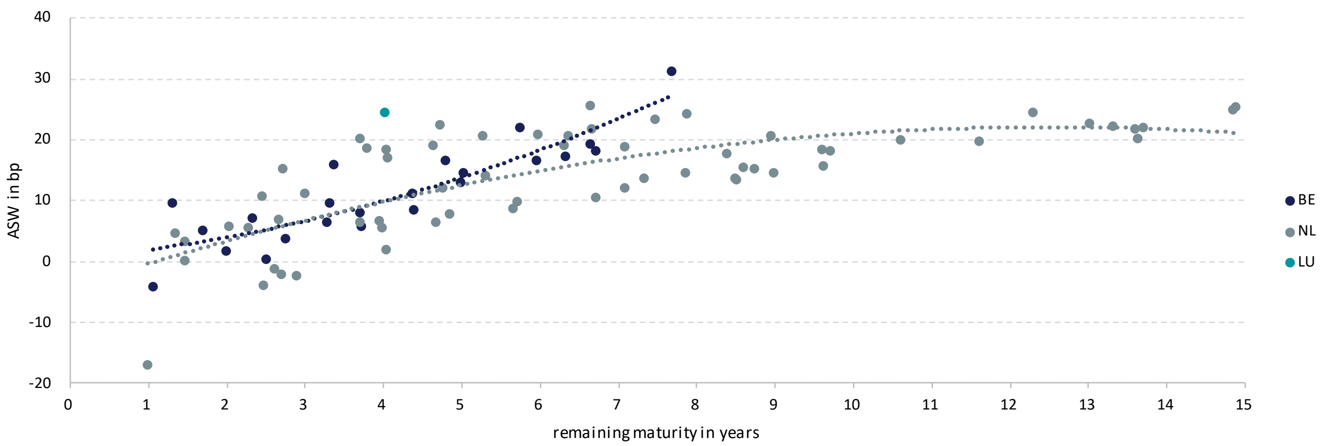
**DACH**




**France**

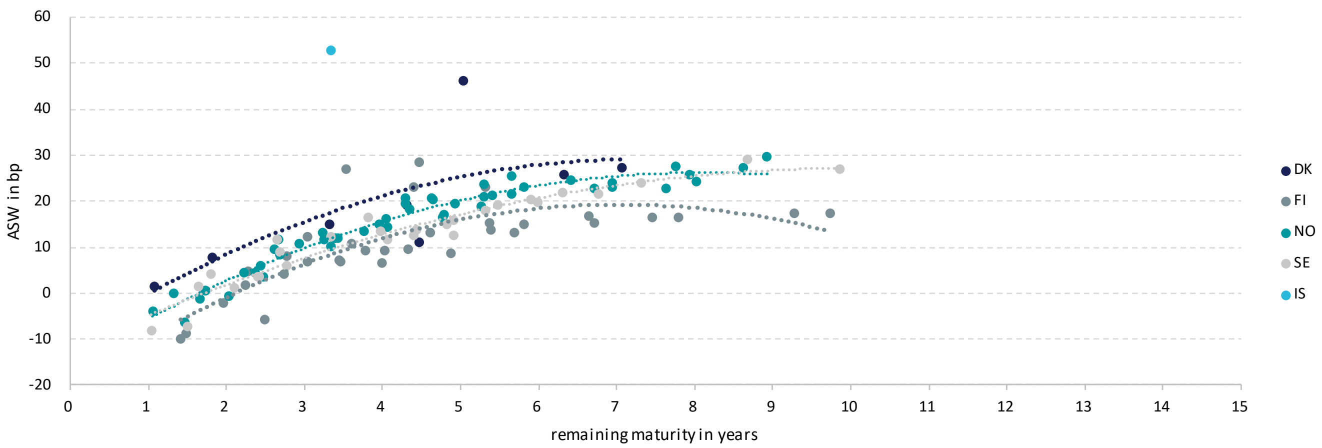



**Benelux**

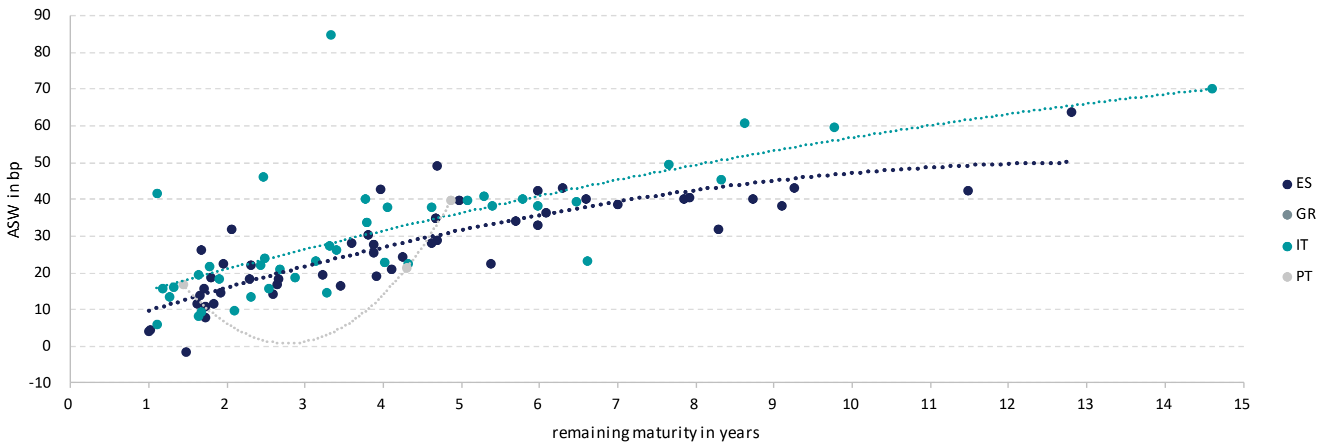



Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

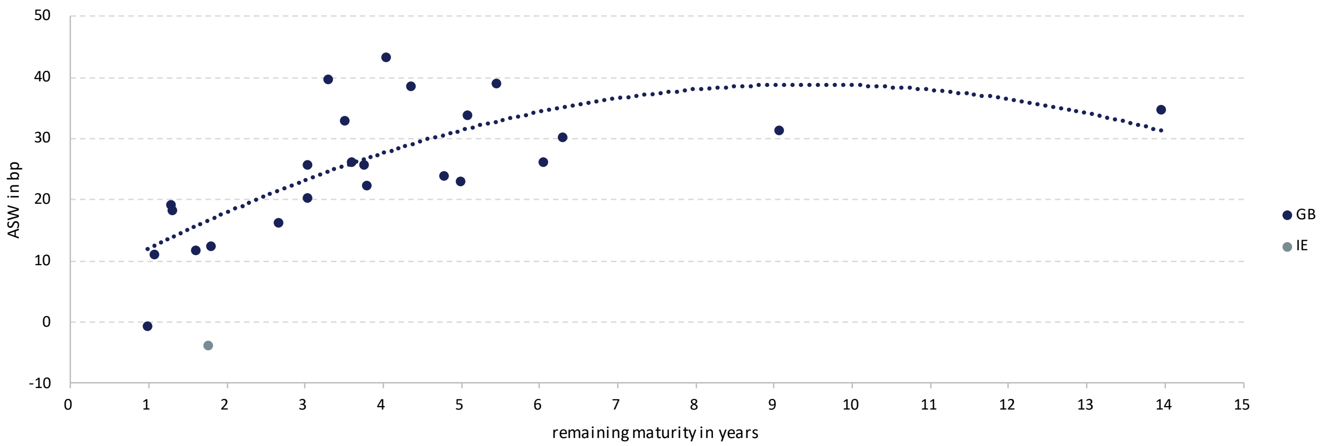
Nordics




Southern Europe

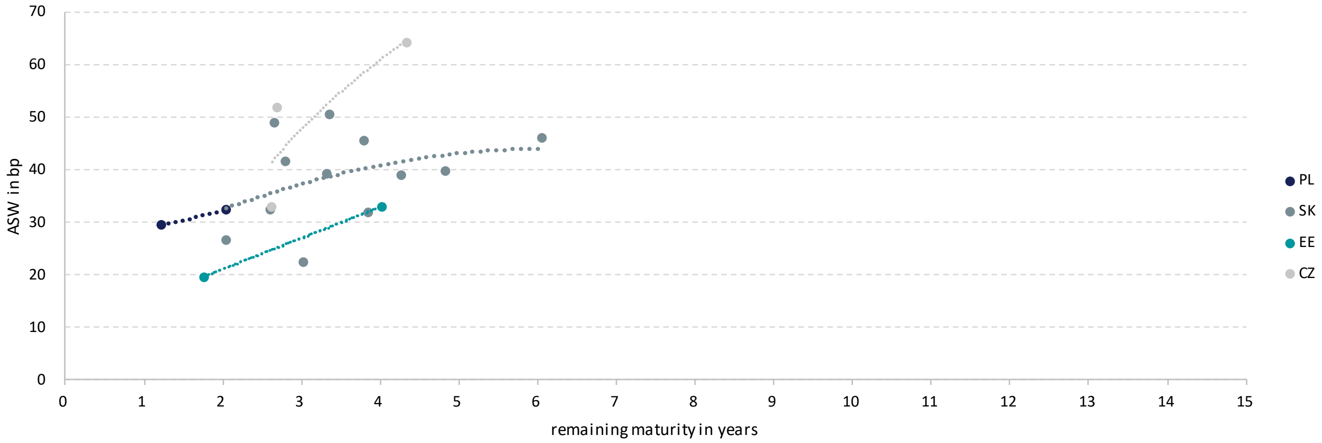



UK/IE

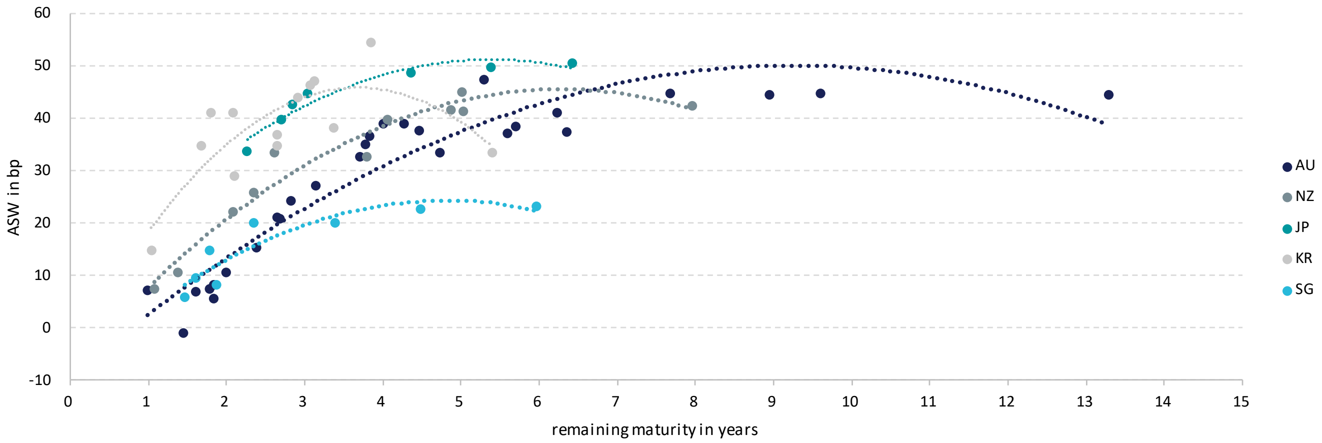



Source: market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

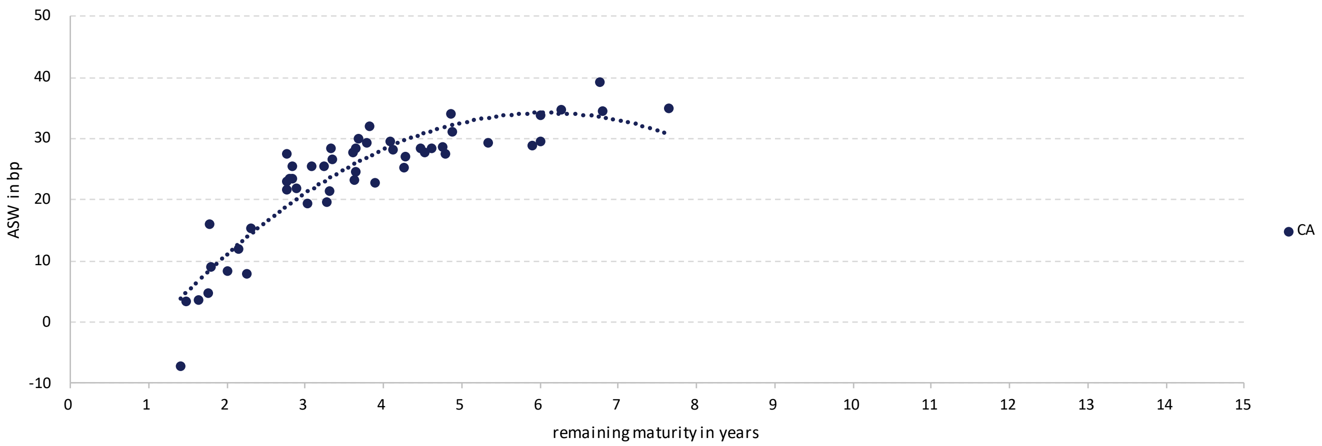
**CEE**




**APAC**



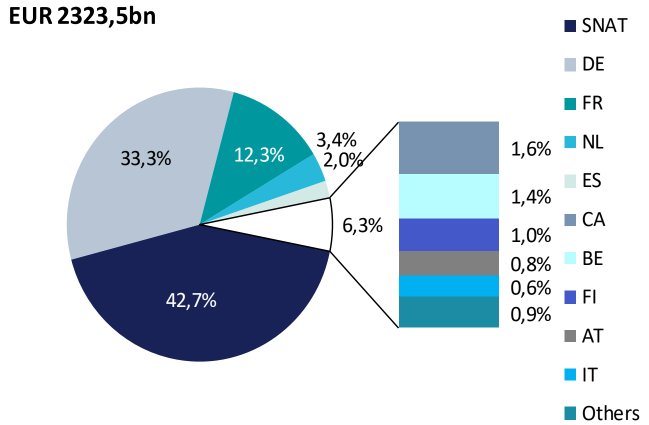

**North America**




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

# Charts & Figures
# SSA/Public Issuers

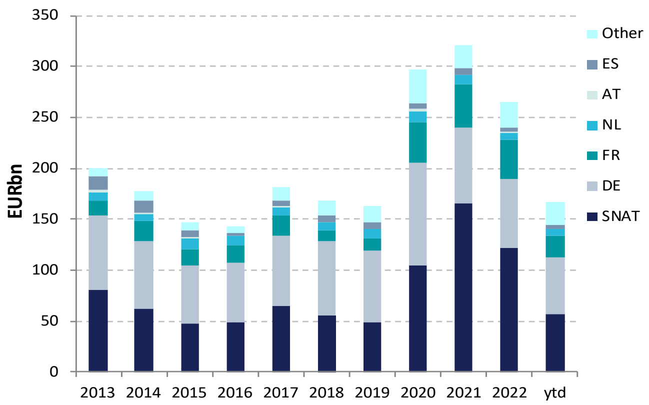
### Outstanding volume (bmk)



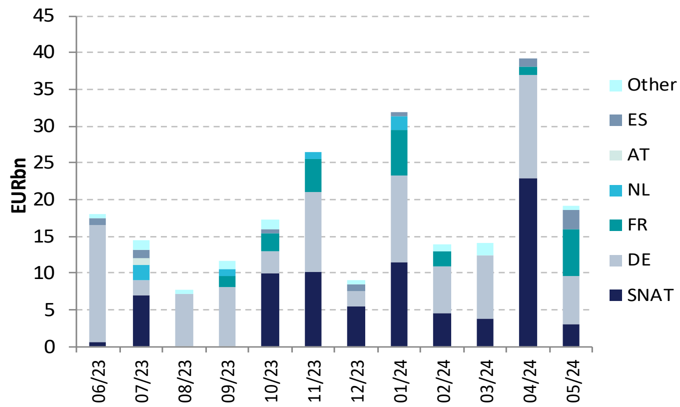

### Top 10 countries (bmk)

| Country | Vol. (€bn) | No. of bonds | ØVol. (€bn) | Vol. weight. ØMod. Dur. |
|---|---|---|---|---|
| SNAT | 993,3 | 226 | 4,4 | 8,2 |
| DE | 772,8 | 566 | 1,4 | 6,2 |
| FR | 285,0 | 190 | 1,5 | 6,2 |
| NL | 79,4 | 69 | 1,2 | 6,7 |
| ES | 47,4 | 64 | 0,7 | 4,7 |
| CA | 37,2 | 26 | 1,4 | 4,4 |
| BE | 31,5 | 35 | 0,9 | 11,1 |
| FI | 22,6 | 25 | 0,9 | 5,0 |
| AT | 17,8 | 21 | 0,8 | 4,5 |
| IT | 15,0 | 19 | 0,8 | 4,7 |

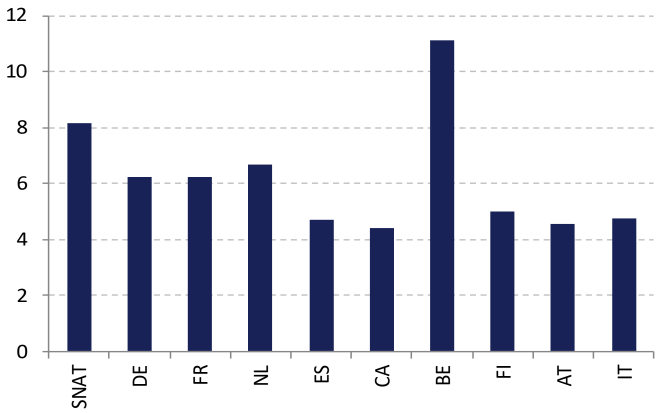
### Issue volume by year (bmk)



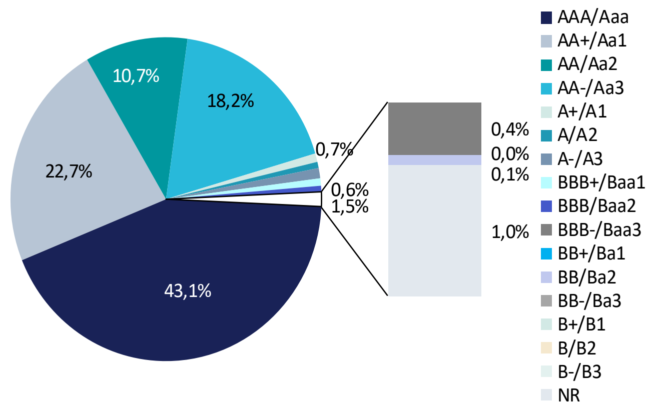

### Maturities next 12 months (bmk)




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

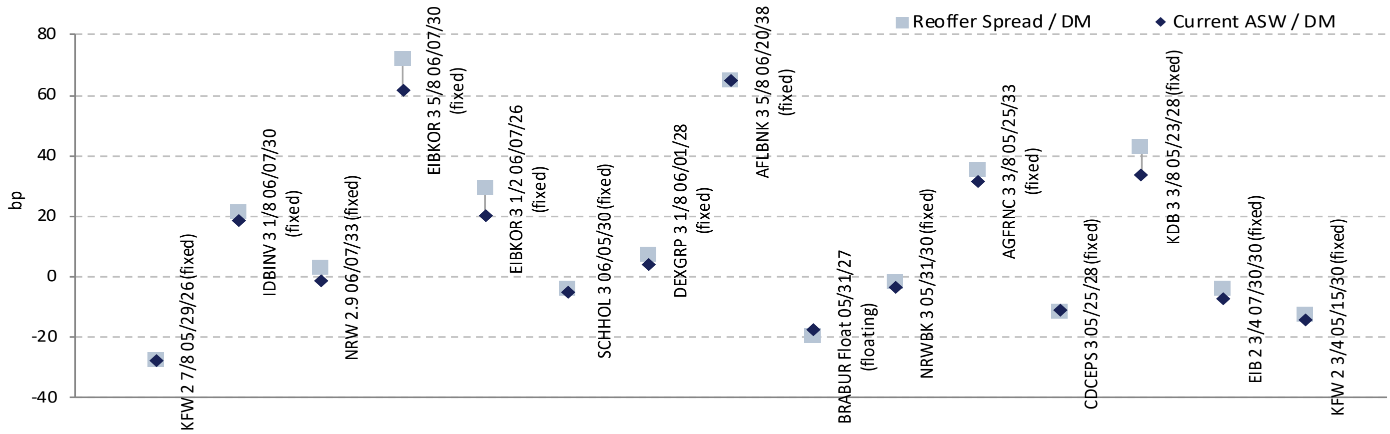



### Rating distribution (vol. weighted)

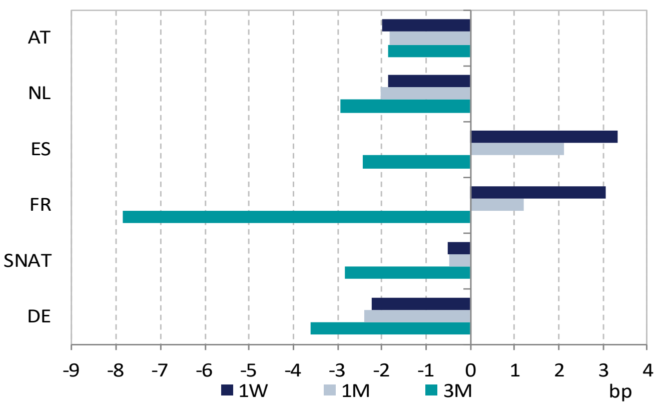



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

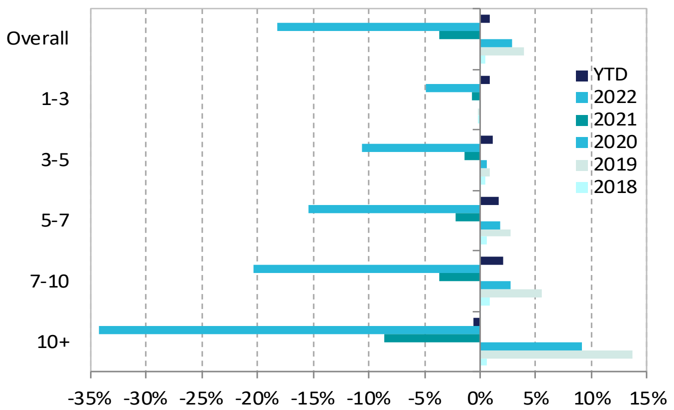
## Spread development (last 15 issues)



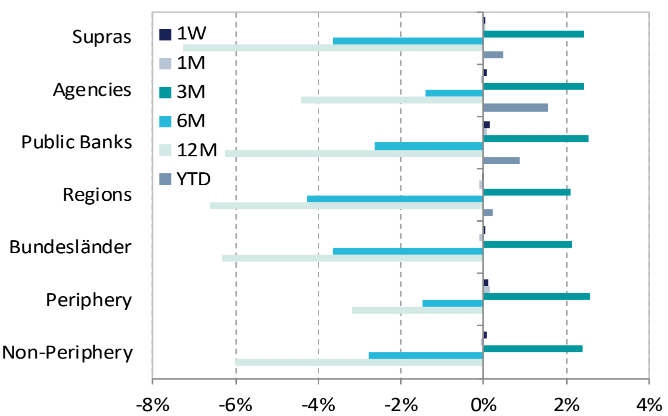

## Spread development by country



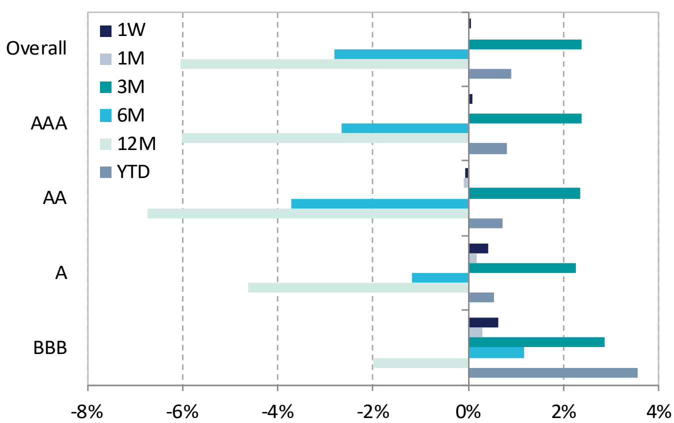

## Performance (total return)




## Performance (total return) by segments

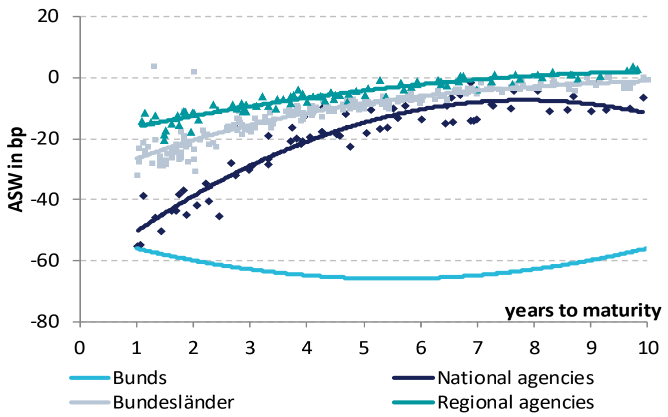



## Performance (total return) by rating

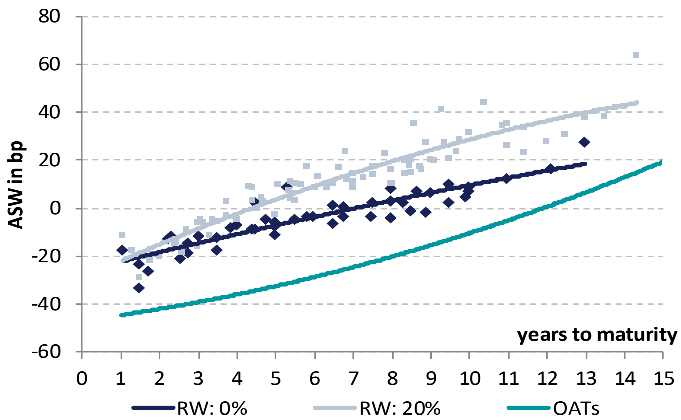



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

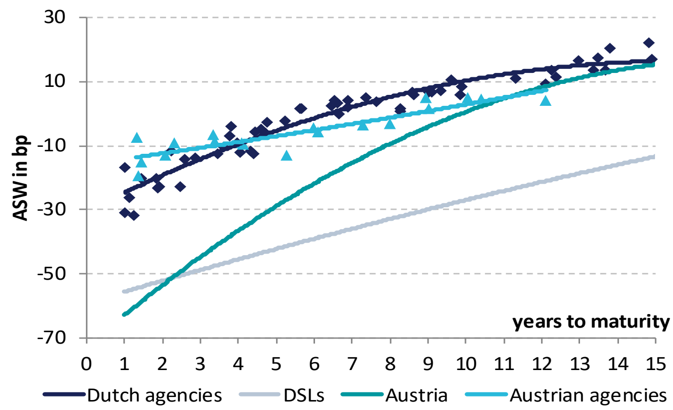
**Germany (by segments)**



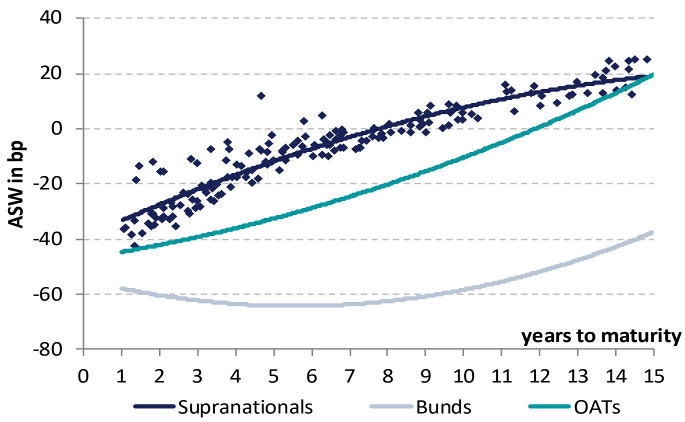

**France (by risk weight)**



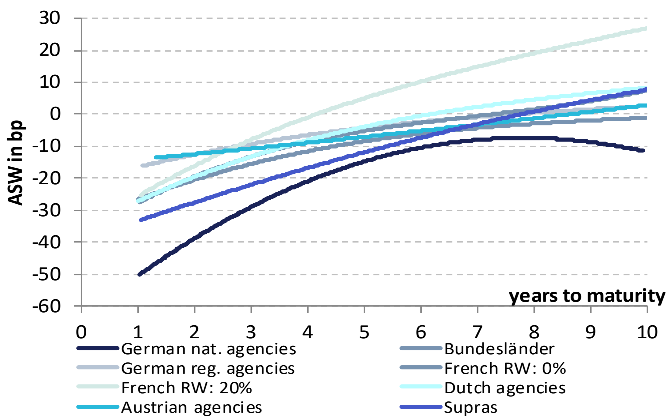

**Netherlands & Austria**



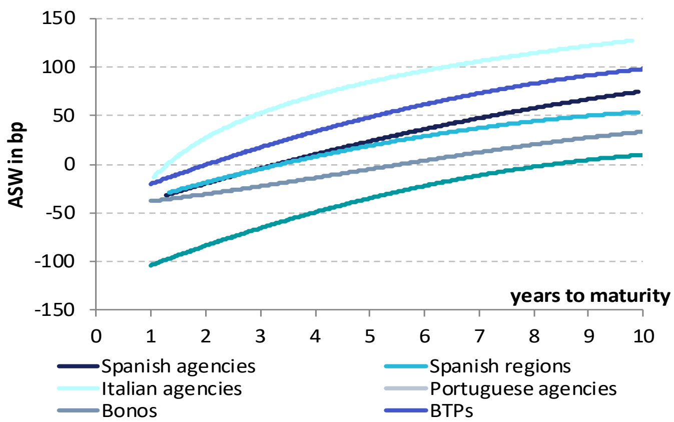

**Supranationals**




**Core**




**Periphery**



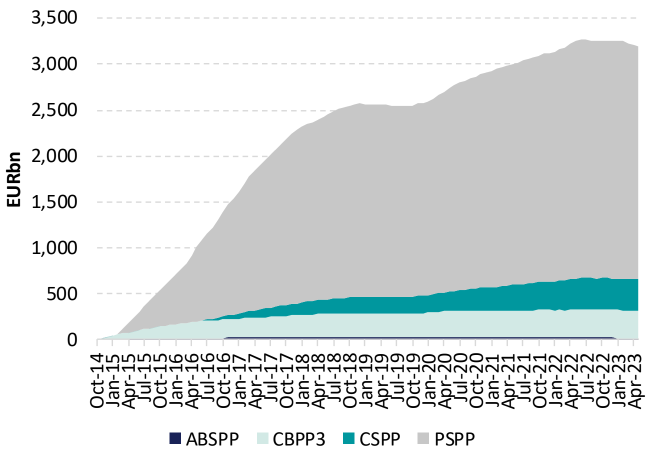

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

# ECB tracker

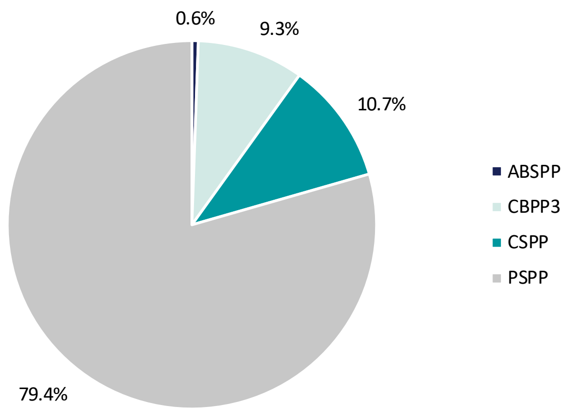
## Asset Purchase Programme (APP)

| | ABSPP | CBPP3 | CSPP | PSPP | APP |
|---|---|---|---|---|---|
| **Apr-23** | 18,462 | 298,627 | 341,574 | 2,557,798 | 3,216,461 |
| **May-23** | 17,821 | 299,134 | 341,010 | 2,543,603 | 3,201,568 |
| **Δ** | -641 | +507 | -564 | -14,195 | -14,893 |

### Portfolio development

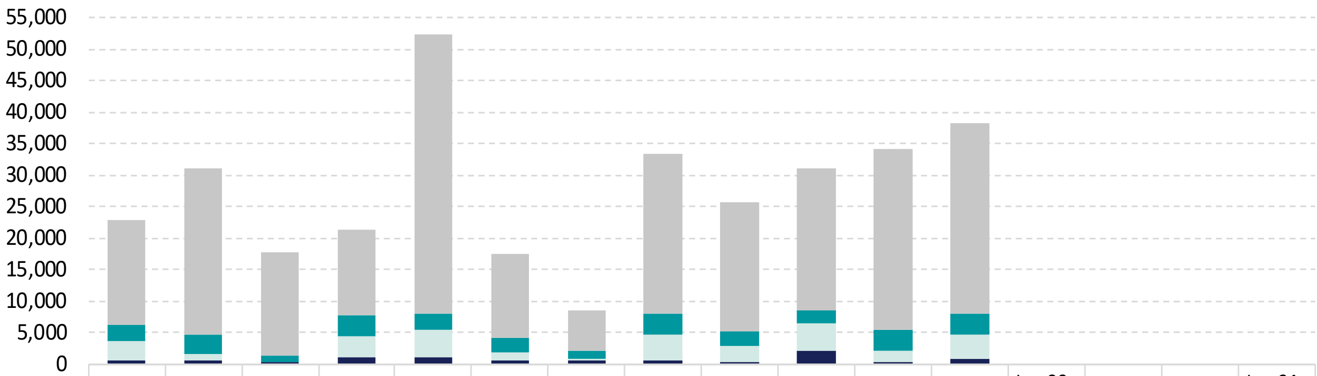



### Portfolio structure




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

### Expected monthly redemptions (in EURm)

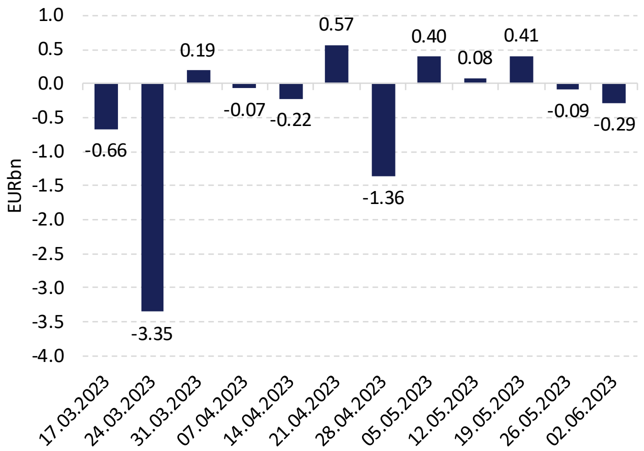



| | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 | Nov-23 | Dec-23 | Jan-24 | Feb-24 | Mar-24 | Apr-24 | May-24 | Jun-23 - May-24 | 2022 | 2023 | Jan-24 - May-24 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| APP | 22,923 | 30,975 | 17,862 | 21,258 | 52,368 | 17,531 | 8,565 | 33,485 | 25,730 | 31,020 | 34,251 | 38,270 | 334,238 | 299,142 | 331,286 | 162,756 |
| PSPP | 16,619 | 26,223 | 16,445 | 13,404 | 44,340 | 13,269 | 6,336 | 25,524 | 20,586 | 22,413 | 28,712 | 30,194 | 264,065 | 228,585 | 255,111 | 127,429 |
| CSPP | 2,557 | 3,038 | 986 | 3,377 | 2,589 | 2,393 | 1,336 | 3,363 | 2,325 | 2,188 | 3,315 | 3,457 | 30,924 | 17,670 | 30,797 | 14,648 |
| CBPP3 | 3,112 | 1,170 | 0 | 3,346 | 4,467 | 1,351 | 408 | 4,109 | 2,449 | 4,434 | 1,814 | 3,836 | 30,496 | 41,244 | 35,147 | 16,642 |
| ABSPP | 635 | 544 | 431 | 1,131 | 972 | 518 | 485 | 489 | 370 | 1,985 | 410 | 783 | 8,753 | 11,643 | 10,231 | 4,037 |

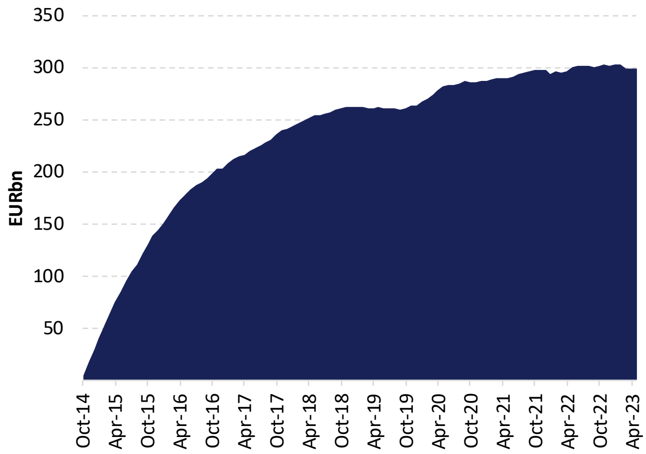
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

# Covered Bond Purchase Programme 3 (CBPP3)

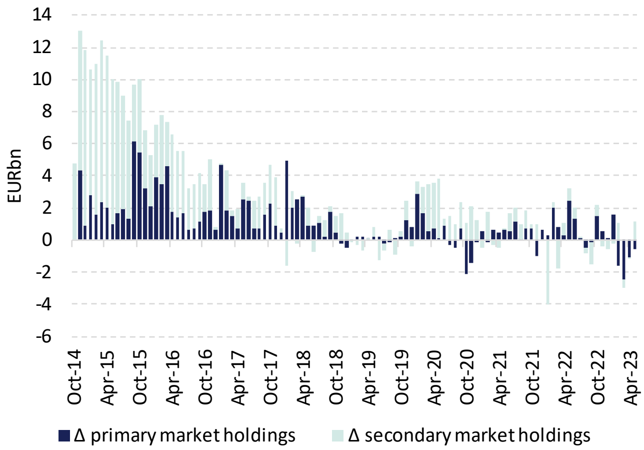
### Weekly purchases



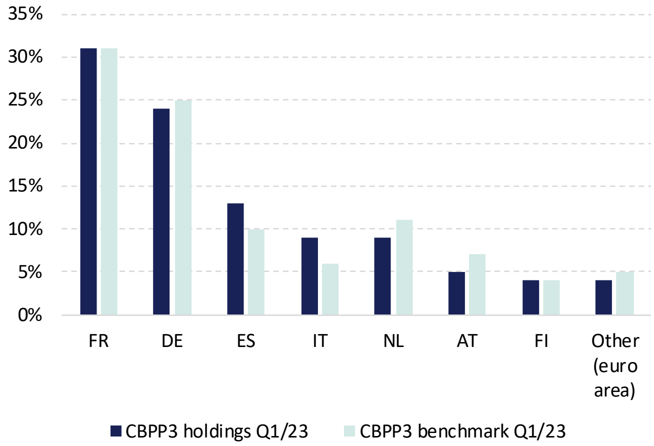

### Development of CBPP3 volume




### Change of primary and secondary market holdings

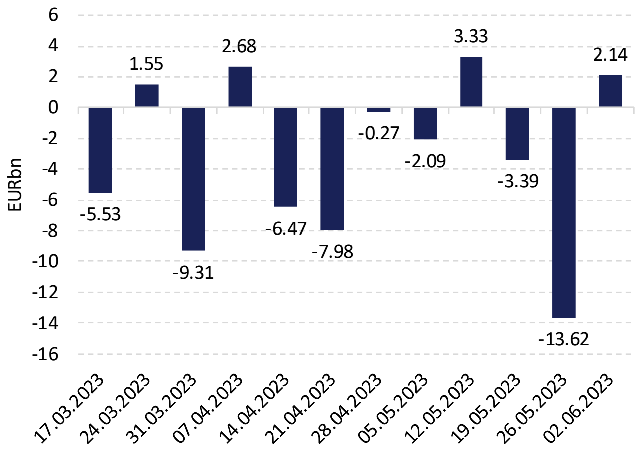



### Distribution of CBPP3 by country of risk

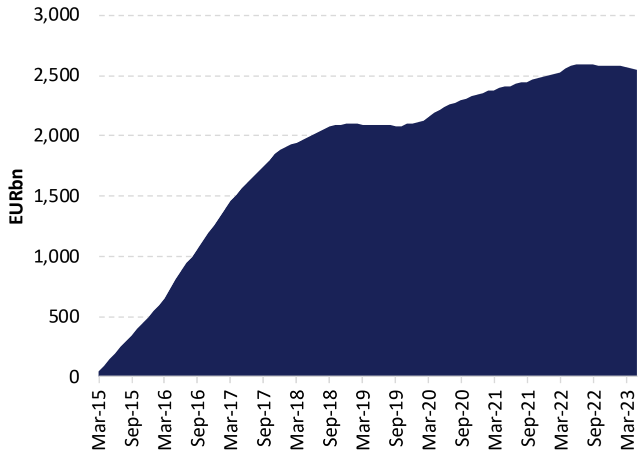



# Public Sector Purchase Programme (PSPP)

### Weekly purchases



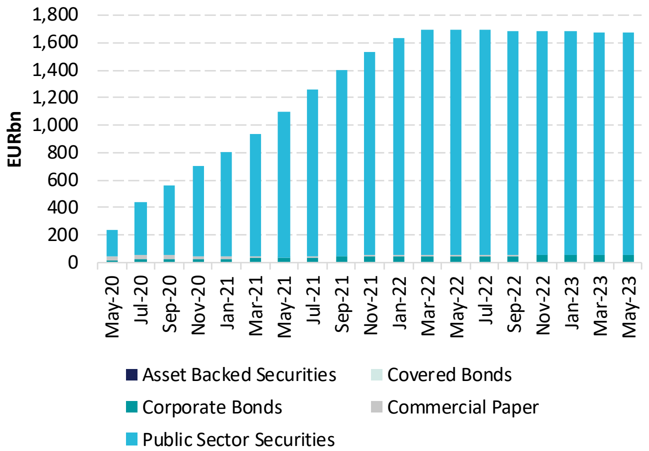

### Development of PSPP volume



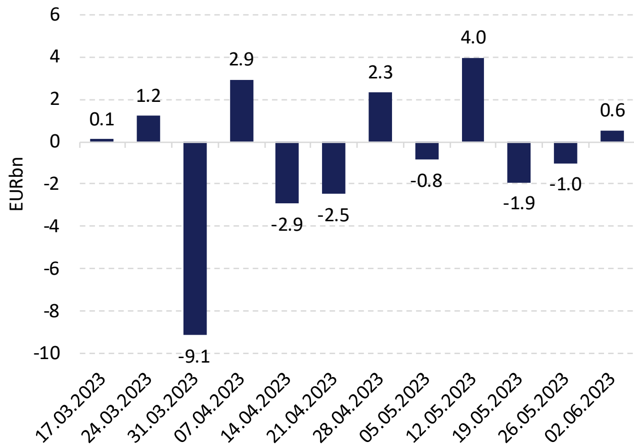

Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

## 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 | 44,688 | 1,070 | 2.6% | 2.7% | 0.1% | 7.3 | 7.8 |
| BE | 57,078 | 630 | 3.3% | 3.4% | 0.2% | 6.1 | 9.4 |
| CY | 2,543 | 0 | 0.2% | 0.2% | 0.0% | 8.0 | 8.5 |
| DE | 396,449 | 627 | 23.7% | 23.9% | 0.1% | 6.8 | 7.0 |
| EE | 256 | 0 | 0.3% | 0.0% | -0.2% | 7.0 | 7.0 |
| ES | 194,312 | 2,502 | 10.7% | 11.7% | 1.0% | 7.3 | 7.4 |
| FI | 26,195 | -64 | 1.7% | 1.6% | -0.1% | 7.6 | 7.7 |
| FR | 294,956 | -4,954 | 18.4% | 17.8% | -0.6% | 7.6 | 7.8 |
| GR | 38,150 | -34 | 2.2% | 2.3% | 0.1% | 8.4 | 9.2 |
| IE | 25,280 | -893 | 1.5% | 1.5% | 0.0% | 9.1 | 9.7 |
| IT | 292,896 | 2,069 | 15.3% | 17.6% | 2.3% | 7.1 | 6.9 |
| LT | 3,237 | 49 | 0.5% | 0.2% | -0.3% | 9.3 | 8.7 |
| LU | 1,955 | 19 | 0.3% | 0.1% | -0.2% | 5.7 | 8.6 |
| LV | 1,801 | 44 | 0.4% | 0.1% | -0.2% | 8.3 | 7.6 |
| MT | 607 | 0 | 0.1% | 0.0% | -0.1% | 10.1 | 8.5 |
| NL | 81,957 | -1,771 | 5.3% | 4.9% | -0.3% | 7.7 | 9.1 |
| PT | 33,861 | 54 | 2.1% | 2.0% | -0.1% | 7.0 | 7.5 |
| SI | 6,406 | -283 | 0.4% | 0.4% | 0.0% | 8.7 | 9.1 |
| SK | 7,918 | -192 | 1.0% | 0.5% | -0.6% | 8.2 | 8.4 |
| SNAT | 150,090 | 1,000 | 10.0% | 9.0% | -1.0% | 10.1 | 9.0 |
| **Total / Avg.** | **1,660,635** | **-127** | **100.0%** | **100.0%** | **0.0%** | **7.5** | **7.7** |

[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 |
|---|---|
| 18/2023 ♦ 24 May | ▪ Repayment structures on the covered bond market: an update<br>▪ Stability Council convenes for 27th meeting |
| 17/2023 ♦ 17 May | ▪ ESG update 2023 in the spotlight<br>▪ Development of the German property market<br>▪ Transparency requirements §28 PfandBG Q1/2023 |
| 16/2023 ♦ 10 May | ▪ The ECB and the covered bond market: influences old and new<br>▪ Update: Joint Laender (Ticker: LANDER) |
| 15/2023 ♦ 26 April | ▪ ECB preview: caught in two minds?<br>▪ EBA Risk Dashboard paints solid picture of Q4 2022 |
| 14/2023 ♦ 19 April | ▪ Lending in the Eurozone and Germany<br>▪ The French agency market – an overview |
| 13/2023 ♦ 05 April | ▪ Supply forecast requires no great adjustment<br>▪ Current risk weight of supranationals & agencies |
| 12/2023 ♦ 29 March | ▪ The Moody's covered bond universe – an overview<br>▪ NGEU: Green Bond Dashboard |
| 11/2023 ♦ 22 March | ▪ Covered Bonds: Under the spell of the banking crisis and ECB hawks?<br>▪ ESG: EUR-benchmarks 2023 in the SSA segment (ytd) |
| 10/2023 ♦ 15 March | ▪ Transparency requirements §28 PfandBG Q4/2022<br>▪ Credit authorisations of the German Laender for 2023 |
| 09/2023 ♦ 08 March | ▪ ECB preview: Soft landing lets ECB play hard ball with key rates<br>▪ Where does the Pfandbrief stand within the covered bond universe? |
| 08/2023 ♦ 01 March | ▪ The covered bond market and the ECB: a gradual farewell?<br>▪ Beyond Bundeslaender: Focus on Greater Paris (IDF and VDP) |
| 07/2023 ♦ 22 February | ▪ The Italian market for EUR benchmark covered bonds<br>▪ European supranationals – an overview |
| 06/2023 ♦ 15 February | ▪ Maturity premiums on covered bonds<br>▪ Development of the German property market<br>▪ 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<br>▪ 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<br>▪ Focus on covered bond jurisdictions: Slovakia and Czech Republic in the spotlight<br>▪ 26th meeting of the Stability Council (December 2022) |
| 03/2023 ♦ 25 January | ▪ ECB preview: all eyes and ears on the press conference<br>▪ Successful start to the year for EUR sub-benchmarks as well<br>▪ ESG covered bonds from France: La Banque Postale SFH issues inaugural social covered bond |

**NORD/LB:**
Markets Strategy & Floor Research

**NORD/LB:**
Covered Bond Research

**NORD/LB:**
SSA/Public Issuer Research

**Bloomberg:**
RESP NRDR <GO>

# Appendix
# Publication overview

**Covered Bonds:**

**Issuer Guide Covered Bonds 2022**

**Covered Bond Laws**

**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 Q1/2023** (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**

**Issuer Guide – European Supranationals 2023**

**Issuer Guide – French Agencies 2023**

**Beyond Bundeslaender: Belgium**

**Beyond Bundeslaender: Greater Paris (IDF/VDP)**

**Beyond Bundeslaender: Spanish regions**

**Fixed Income Specials:**

**ESG-Update 2023**

**ECB interest rate decision: All new in May... Or: The force of past rate hikes!**

**ECB interest rate decision: Backbone in times of turmoil?!**

**ECB interest rate decision: Roadmap to QT**

# Appendix
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norman.rudschuck@nordlb.de

## Sales

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

## Trading

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

## Origination & Syndicate

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

## Sales Wholesale Customers

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

## Treasury

| | |
|---|---|
| Collat. Management/Repos | +49 511 9818-9200 |
| Liquidity Management | +49 511 9818-9620<br>+49 511 9818-9650 |

## Relationship Management

| | |
|---|---|
| Institutionelle Kunden | rm-vs@nordlb.de |
| Öffentliche Kunden | rm-oek@nordlb.de |

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