Merry Xmas and Happy New Year!
Many thanks to our loyal readers
Our next weekly publication
will be released on **10 January 2024**

Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

NORD/LB

Agenda

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Market overview
Covered Bonds

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Primary market: pre-Christmas calm gives us the chance to look ahead to 2024

It seems as though primary market issuance activity is now done and dusted for 2023 after there was again nothing in the way of new deals to report on last week. In all likelihood, a new issue volume of EUR 187.7bn for the calendar year 2023 will therefore be recorded. Given this period of pre-Christmas calm on the primary market, we intend to use this present edition of our weekly publication to look ahead to the covered bond market in the coming year 2024 together with you today. To this end, in the paragraphs below, we have briefly summarized the outlooks presented by the three major rating agencies S&P, Fitch and Moody's, in addition to going into greater detail with regard to our assessments and expectations for the covered bond market in 2024 as part of this week's focus article. In particular, the anticipated volume of new issuances, projected net supply and spread expectations form the core elements of our outlook. On balance, we expect net new supply to rise, with a slightly lower overall new issue volume. From our perspective, the start of the new year is likely to bring with it a similarly high level of activity as in 2023. It will be interesting to see if and when issuers start to approach investors again with longer terms, or whether the deals in the EUR benchmark segment will, generally speaking, continue to be limited to terms of five years maximum. All in all, we expect 2024 to be a pretty exciting year in terms of issuance activity – albeit one that will certainly have a few surprises up its sleeve. At this point, we would just like to thank all our readers for your interest in our publications. In the coming year, we hope to again offer you useful added value in our efforts to support your daily work. Please feel free to get in touch with any suggestions, feedback or questions that you may have. As the current year comes to a close, we wish you and your families a peaceful and relaxing Christmas break, as well as a healthy and successful 2024.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

vdp reports on the publication of the Green Bond Standard…

Last week, the Association of German Pfandbrief Banks (vdp) reported on the publication of the regulation governing the Green Bond Standard (EU GBS) in the Official Journal of the European Union (EU), which will apply from 21 December 2024. With the introduction of this voluntary standard, the EU is seeking to improve the comparability of different types of sustainable bonds and strengthen the market for green bonds. Covered bonds that comply with the requirements of the Green Bond Standard are also taxonomy compliant. The use of the issue proceeds must correspond with the EU taxonomy within the flexibility framework of 15% in order to be eligible to carry the EU GBS label and receive grandfathering protection for seven years against revisions to the EU taxonomy. In addition, the EU GBS regulation introduces a registration and supervisory framework for external assessors of EU green bonds. Bonds carrying the EU GBS label can be issued from 21 December 2024 onwards.

...and welcomes two new members
Also last week, the vdp announced that the Sparkasse Rhein-Nahe and Volksbank Freiburg had successfully completed the application process to join the association. The two banks will become official members of the vdp with effect from the start of the new year. Therefore, according to information from the vdp itself, the association now comprises just under 50 banks from across the lending sector and is not exclusively limited to Germany either. Overall, the member banks account for around 96% of the current Pfandbriefe in circulation.

Moody's I: the UK banking system
The ratings experts at Moody's have provided an overview of the UK banking system as part of a recently published Sector Update. The UK banking sector primarily comprises banks and building societies. Approximately 64% of all assets are held by the five largest banks and the largest building society, meaning that, from the perspective of the Moody's experts, the UK banking system is moderately concentrated. However, the market dominance of larger banks is increasingly being challenged by fintechs, specialized lenders and ring-fenced banks, among other institutions. The rating agency notes that some ring-fenced banks are using their excess liquidity to increase market shares in areas such as mortgage lending and commercial real estate financing. While absolute lending volumes to domestic retail customers continue to rise, the value in relation to the GDP has been on the slide again since hitting a peak in 2020, but remains high compared with other developed economies. Moody's puts this development down to the high levels of household debt. In terms of their funding, British banks predominantly rely on deposits, with the largest share attributable to deposits from the domestic private sector. The deposit side is supplemented by a share of capital market-based financing instruments, including covered bonds, which has remained stable over the past five years. In the EUR benchmark segment that we cover, there are currently nine active issuers in the UK with an outstanding volume of EUR 25.4bn.

Fitch I: French mortgage regulations remain largely unchanged
The decision from the French financial supervisory authority to maintain key regulations on mortgage loans – with slight changes – will continue to support the quality of the loan portfolios and cover pools of the country's banks, according to the ratings experts at Fitch. The regulations on the debt-to-income ratio (maximum 35%), the limitation of the maximum term of loans (25 years) and the exception to the term limit for a maximum of 20% of all assets in the loan portfolio all remain in force. According to Fitch, the revisions largely relate to technical aspects exclusively. These include, among other aspects, shortening the valuation period for assets in the loan portfolio that exceed the term limit of 25 years from nine months to three months. Fitch does not expect updated lending standards in France to adversely impact the lending activities of French banks. According to Fitch, significantly longer loan terms, i.e. an increase in the maximum loan term, could have a negative impact on the structural interest rate gap of French banks and increase the asset-liability mismatch of French covered bonds. At present, the combination of a "simple" loan structure, extremely long fixed interest rates and a conservative approach to lending is assessed as credit positive by the rating experts.

Banco BPM presents new strategy for 2024–2026

As 2023 comes to a close, it is not only NORD/LB that is looking ahead to the new year in our Outlook 2024 article; Banco BPM has also presented its new strategy for the next three years. As part of this, Banco BPM will strive to continue on the growth path seen in recent years. In addition to the loan portfolio, sales and profitability should also continue to grow, while at the same time strengthening the capital ratios. In order to achieve these goals, the bank has identified seven elements that should contribute to this development. Among other aspects, these include strengthening the asset management and life insurance segments, expanding its leading role among small and medium-sized enterprises (SMEs) that support the green transition of the economy, and investments in technical innovations and cybersecurity. The bank has also drawn up plans that seek to integrate additional ESG goals into the sustainability strategy. To support these goals, Banco BPM successfully placed an inaugural green covered bond in March 2022 and, according to information from the bank itself, is the leading Italian issuer of green, social and sustainable bonds. At present, Banco BPM has an outstanding volume of EUR 4.25bn in ESG bonds. Between 2024 and 2026, the plan is for this volume to be increased to EUR 5.0bn. In general, the bank is planning to issue secured bonds with a volume of EUR 3.8bn on the market by 2026, which may or may not be allocated to the ESG segment. Overall, the bank has an outstanding volume of covered bonds in the EUR benchmark segment totalling EUR 3.5bn. For more detailed information on the bank, in particular with regard to the cover pool pertaining to its covered bond programme, please refer to the most recent edition of our Issuer Guide Covered Bonds.

Moody's II: stable outlook for covered bonds in 2024

The rating experts at Moody's also sought to provide an outlook for the covered bond market in 2024 and, in so doing, reached the conclusion that the credit quality of covered bonds will continue to be stable. Among other aspects, the experts refer in this regard to the predominantly stable credit ratings of covered bond issuers as well as the predominantly stable sovereign ratings of jurisdictions in which the issuers operate. According to Moody's, in 2024, the rise in interest rates will continue to weaken the performance of residential and commercial real estate assets included in the cover pools in many countries. However, more widespread risks arising from this development should be kept in check by low unemployment and balanced OC ratios. Given the stable rating outlook for the majority of covered bond issuers and countries in which these banks operate, the rating experts accordingly also expect the ratings of the covered bond programs to develop uniformly in 2024. Moreover, Moody's highlights the pending review of the EU Covered Bond Directive next year, which will also focus on the application of the equivalence regimes for covered bonds from third countries. Overall, the rating experts expect covered bond issuance activity to be strong in 2024, which they put down to robust maturities and the refinancing requirements with respect to expiring TLTRO transactions. Nevertheless, muted demand for mortgage loans could prove to be a curbing factor for issuance activity.

S&P: new BMK issuance volume of EUR 160bn expected for 2024

Despite a landscape influenced by a multitude of crises, the rating experts at S&P also expect a stable covered bond market in 2024. Even in a crisis scenario, the OC ratios of the covered bond programmes assessed by S&P should be sufficient to absorb potential losses. Moreover, a potential downgrade of a covered bond issuer can often be prevented by the number of unused notches of rating uplifts in the covered bond programmes. For the coming year, S&P experts anticipate a slightly lower volume of new issuances in the EUR benchmark segment than was the case in 2023, although at EUR 160bn, fresh supply in 2024 will still come close to the historical highs. S&P believes that the eurozone has now reached the peak of interest rate hikes and expects the first interest rate cuts to be implemented in the second half of 2024. While interest rate hikes have precipitated sustained corrections in the European housing market, according to S&P, there has been no deterioration in the quality of the assets in the cover pools, which have been supported by stable employment rates and high levels of savings. Despite the situation on the CRE market being more challenging, the rating experts do not expect that there will be any significant impairment in the quality of the assets in the cover pools of the covered bond programmes, even in the event that default rates for commercial real estate increase in 2024.

Fitch II: Annual covered bond outlook for 2024

In their recently published annual outlook for 2024, the experts from Fitch addressed the rating-related challenges on the covered bond market. In view of the continuing high interest rates in many jurisdictions, the rating experts focused in particular on the quality of the assets in the cover pool and asset-liability mismatches in the covered bond programmes. The issuers should be in a position to more than make up for potential deteriorations in the quality of the cover pool assets through increased profitability. Despite this, Fitch points out that the performance of commercial real estate assets in the cover pools is coming under pressure in particular. Overall, however, this exposure is limited due to the fact that, on average, commercial assets account for a share of less than 15% of the covered bond programmes rated by Fitch, with lower LTV values to boot. Despite these challenges, the Fitch rating experts adopt a neutral stance in terms of their outlook for the covered bond market. This can be attributed to the dual-recourse nature of the asset class and the strong credit profiles of the issuers.

Market overview
SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIIA // Christian Ilchmann

ECB key rate decision on 14 December 2023 – silent summit?

The next monetary policy meeting of the ECB's Governing Council once again will take place in a climate of increased geopolitical uncertainty. We have previously reported on this situation in detail in our ECB Preview. What is fascinating is the following combination of aspects: some financial market players evidently did not see the October hike in interest rates as bringing the cycle of interest rate increases to an end. Now, in early December, the majority of market participants is already in favour of a prompt cut in interest rates. With regard to the imminent interest rate decision, we assume that the ECB's Governing Council will prolong the interest rate pause. The ECB's monetary policy meetings will continue to be based on the data. While the effect of past interest rate moves is still unfolding, we are kept in suspense, awaiting the new staff projections on 14 December 2023, which will include figures for 2026 for the first time. For 2025 and 2026, we anticipate an expected harmonised index of consumer prices (HICP) in the region of 2%. However, what is far more important is whether there will still be a "3" before the decimal point in 2024. If so, this would put an immediate stop in Q1 2024 to speculation about interest rate cuts, in our opinion. In terms of a forecast, we hold fast to our opinion that a lowering of interest rates is unlikely in H1 2024. Accordingly, there actually are some advantages to the wait-and-see approach adopted by the European central bankers. However, their wait-and-see attitude certainly must not be confused with being able to sit back and relax. There will be plenty to discuss. Undoubtedly, the more hawkish European central bankers would like to see the topics of PEPP or other monetary policy instruments, such as minimum reserve requirements, given a more prominent spot on the agenda. There is also likely to be a spirited discussion about the economic situation. After all, there are many possible outcomes in view of current developments. Tomorrow, there probably will "only" be discussion, without any action being taken. Against the backdrop of a meeting-by-meeting approach, discourse is the most appropriate tool. It is likely that the ECB's decision-makers are already thinking about how the latest staff projections will be received by the market. Ultimately, this means discussing the PEPP, QT and minimum reserves as well as preparing the market for 2024, without misleading anyone.

PEPP reinvestments – on pause over Christmas

Staying with the ECB universe, we report that, similar to previous years, the Eurosystem will temporarily suspend reinvestments under the pandemic emergency purchase programme (PEPP) towards the end of this year, in expectation of considerably lower market liquidity. The last trading day before Christmas will be Tuesday, 19 December 2023. Purchases and/or reinvestments will recommence on Tuesday, 2 January 2024. While the Eurosystem's securities lending facilities will remain in operation on all business days in December, the lists of securities held under the APP and PEPP will not be updated on Tuesday, 26 December 2023 and Tuesday, 2 January 2024. In order to ensure reconciliation with the published weekly financial statements of the Eurosystem (including quarterly revaluation adjustments), the first monthly and weekly publications of the APP and PEPP data in 2024 will be on Thursday, 4 January 2024 at 15:00 CET.

European Union – global investor conference call

The European Union (ticker: EU) has extended an invitation to participate in a global investor conference call on 14 December 2023. Ahead of this, the European Commission had announced that the planned funding target for H1 2024 stands at EUR 75bn. For the second half of next year, we expect at least a further EUR 60bn to EUR 80bn, although we would not be surprised if the figure was even higher. EU bills always supplement these values and are therefore not included in the amount. Maturities in 2024 amounting to EUR 3.2bn will be extended, as usual. In 2023, much of the Macro-financial assistance (MFA) Plus package went to Ukraine. At present, a total of EUR 16.5bn (as at: 12 December 2023) is earmarked for the country. Consequently, we expect EU funding of EUR 135bn to EUR 155bn (all EUR benchmark issues and tap issues, approximately one third of which green).

EFSF and ESM – 2024 funding targets presented as well as outlook for 2025

On 12 December 2023, the European Stability Mechanism (ticker: ESM) and European Financial Stability Facility (ticker: EFSF) sent out their latest Investor Newsletter and announced the funding targets for 2024. The EFSF plans new bond issues worth EUR 20bn in the coming year and the ESM new bond issues worth EUR 6bn. For 2025, slightly higher funding is estimated, with EUR 21.5bn at the EFSF and EUR 7bn at the ESM respectively. Further information is also provided in our SSA outlook for 2024 below.

KfW innovation for the 2024 funding year

Last week, Kreditanstalt für Wiederaufbau (ticker: KFW) presented its new KfW Green Bond Framework during a global investor conference call. It has been adapted in line with current developments and the expectations of international investors. In addition to the existing project categories of renewable energy, energy efficiency/green buildings and sustainable transport, the new framework will be expanded from 1 January 2024 to include the aspects of biodiversity, climate action and international financing. Furthermore, KfW is preparing its first fund tokenisation based on blockchain technology. In the following, the various new categories are described in detail. Biodiversity: in addition to climate change, the loss of biological diversity is one of the most acute threats that urgently needs to be counteracted, according to the bank. KfW was among the most committed financiers in the area of biodiversity in 2022. With its Green Bonds – Made by KfW, investors now have the option of contributing to biodiversity, via reforestation projects, for example. Climate action for companies: investing by companies to reduce greenhouse gas emissions is key for the transition to a net zero world. KfW finances green technology in the real economy, which makes a significant contribution to climate protection in accordance with the EU taxonomy. This includes, for example, investment in low-carbon production methods and plant that makes available electricity and heat from renewable sources. For the first time, KfW international financing based on financial cooperation as well as project and export finance can also be assigned to Green Bonds – Made by KfW. With these measures, KfW is responding to its investors' wish for diversification. The new KfW Green Bond Framework is aligned with the current Green Bond Principles (ICMA), and Morningstar Sustainalytics has issued a second party opinion in this respect. KfW expects to raise funds in the international capital markets totalling EUR 90bn to EUR 95bn in 2024. Of this amount, around EUR 10bn to EUR 13bn is to be raised on the basis of green bonds.

NRW.BANK.ifo business climate – further stabilisation of NRW's economy in November

The economy of North Rhine-Westphalia (ticker: NRW) has continued to stabilise, albeit at a weak level. This was reflected in the latest NRW.BANK.ifo business climate for November 2023, presented by NRW.BANK (ticker: NRWBK) and the ifo Institute. In addition to noticeably higher expectations, the companies surveyed also assessed the current business situation as slightly better than before. In November 2023, the business climate was markedly up by 3.4 points to -7.4 balance points. Businesses were more optimistic in November when it came to business expectations, in particular, which rose by 5.7 points to -14.0 balance points. This was the third consecutive increase recorded in the business climate, following a period during which this economic indicator for North Rhine-Westphalia's economy had been trending downwards for months. Eckhard Forst, Chairman of the Management Board at NRW.BANK, said: "Currently, North Rhine-Westphalia's economy is not yet close to an upturn. […] However, falling inflation and the easing in energy prices are borne out by the survey findings, with companies more optimistic about the future again." The picture varied between the sectors of the economy. While sentiment in construction engineering plummeted to a twenty-year low and retailers were very pessimistic about future business prospects, a solid boost in sentiment was recorded for the chemical industry – which plays an important role throughout the Bundesland – and metal production. Both sectors are generally considered to be energy-intensive and benefited from the recent decreases in energy prices.

COP28 – development banks join forces to combat climate change

On the margins of the climate conference in Dubai, multilateral development banks (MDBs) and among them the Council of Europe Development Bank (ticker: CEB) published a joint statement, defining specific and urgent measures in relation to taking climate action. These include increasing financial resources, enhanced impact measurement of climate-related measures, strengthening cooperation at country level as well as improving private sector commitment. The statement reads as follows: "The window of opportunity to secure a liveable and sustainable future for all is rapidly closing. Recognising the interlinkages between the triple planetary crises of climate, nature and pollution, achieving the Sustainable Development Goals, the goals of the Paris Agreement and the Kunming-Montreal Global Biodiversity Framework (GBF) requires all of us to step up our efforts with urgency and scale." Furthermore, the MDBs reaffirmed their commitment to socially inclusive, gender responsive and nature positive climate and development action by leveraging different mandates, unique country and client networks, operating models, geographies and expertise. MDBs have already delivered major progress and outcomes to date. In 2022, MDBs achieved record levels of climate finance and private finance mobilisation. MDBs jointly committed the equivalent of around EUR 63bn of climate finance for low and middle-income economies, 18% more than in 2021.

Primary market

Calm as a millpond – we anticipate no further mandates this year. A number of issuers will be announcing their funding plans for 2024 in the coming days and weeks, and others have already done so. For now, we wish all our readers a Merry Christmas.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
-	-	-	-	-	-	-	-	-

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

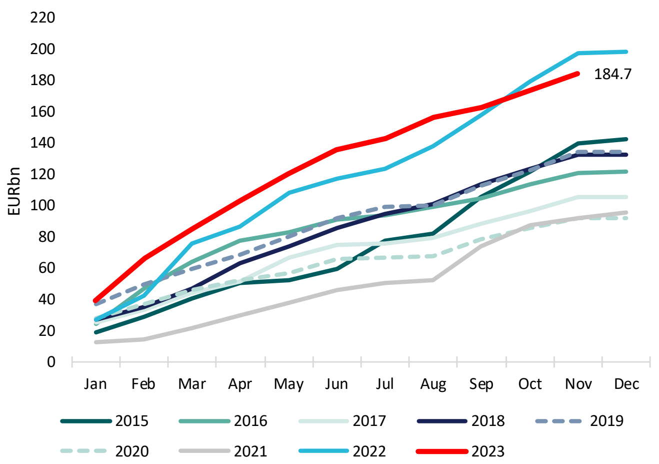
Covered Bonds
Our view of the covered bond market heading into 2024

Authors: Dr Frederik Kunze // Lukas Kühne

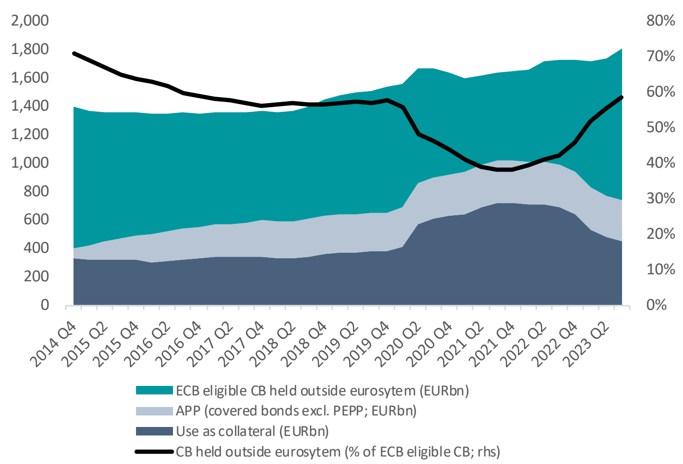
The covered bond market in 2024 – not a mirror image of 2023!

The 2023 covered bond year is drawing to a close. The primary market seems to have started its winter break already and it is now comparatively certain that the issuance volume in the EUR benchmark segment was somewhat more restrained in the current year than in 2022. We have taken the imminent turn of the year as an opportunity to put our expectations for 2024 down on paper and are already certain today that the new year will by no means be a mirror image of 2023. Nevertheless, the now familiar factors will still be with us over the next twelve months and will continue to influence the covered bond market. However, this not only applies to the ECB's monetary policy course, in particular. Ultimately, we are still far from being able to announce the end of the monetary policy distortions. Rather, we are still on the long trek towards a new equilibrium on the submarkets of relevance for the covered bond segment. Among others, we think here of the real estate sector, which is undergoing a sustained price correction that is not only triggered and fuelled by the new interest rate environment. In 2023, the key word "heterogeneity" crossed our minds more frequently. The expression is applicable both to the description of the spread landscape in individual jurisdictions and the comparison of the different covered bond countries in this respect. That is not really surprising. Without the compression of spreads caused by ultra-loose monetary policy, the different characteristics of markets, issuers and cover pools play a considerably more significant role. Spreads in the covered bond market differ in line with the maxim "equals should be treated equally and unequals unequally." We will present our expectations for 2024 below.

EUR BMK: issuance trend

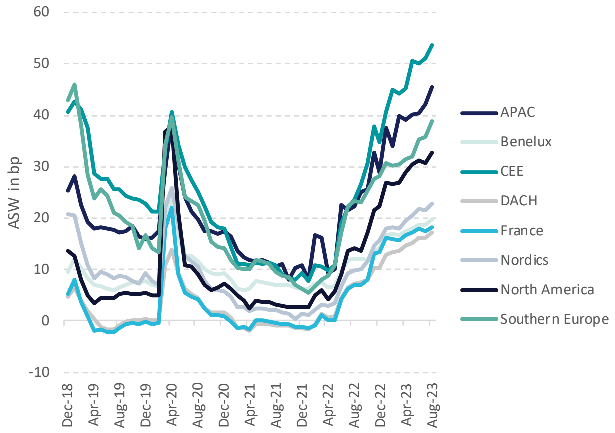


ECB influence on the covered bond market

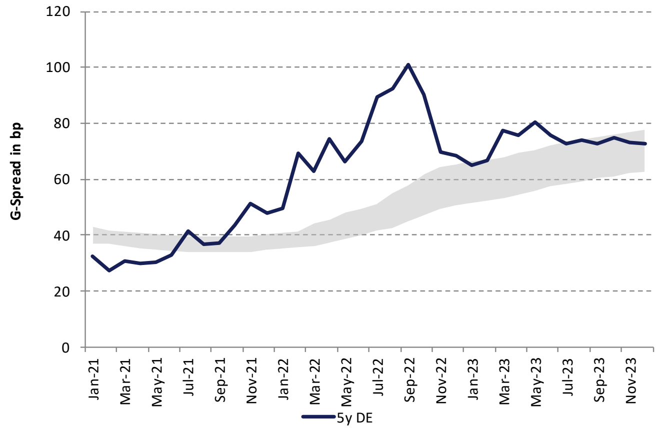


Source: Market data, NORD/LB Floor Research

EUR BMK: spread trend (5y, generic)



EUR BMK DE: relative value sovereign vs. covered (generic and long-term average)

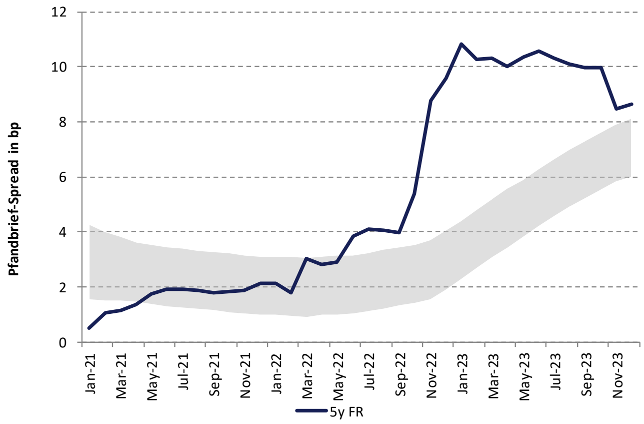


Source: Market data, NORD/LB Floor Research

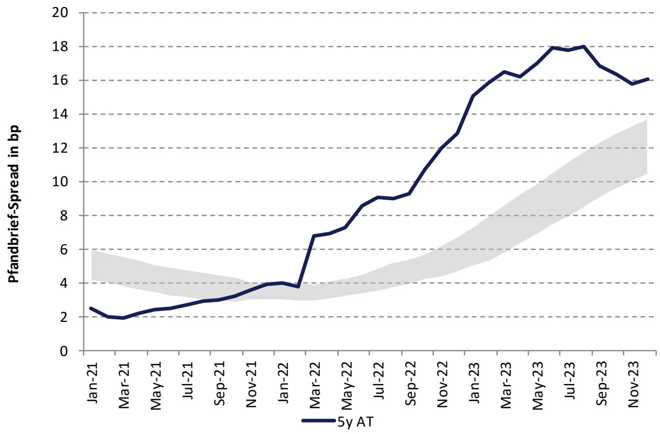
The EUR benchmark segment in the old year: a brave new spread world?

Each forecast needs a starting point. In this respect, we must grapple briefly with developments in 2023 for this outlook. There is also no doubt that a change in current conditions also affects the behaviour of issuers and investors. The last twelve months were ultimately dominated by a process of repricing on global covered bond markets, which has seemed almost continuous. While spreads in the EUR benchmark widened by and large, there were also differences between the individual jurisdictions. In particular, the relative stability of Pfandbriefe compared with other covered bonds was, in this context, quite striking. This can be explained not least by the quantitative weight of the investor base in Germany coupled with the usual “home bias” in the covered bond segment. This new spread world is the starting point on which we (must) draw up our forecasts. And we are already clear that the path to finding a new balance will not amount to an extrapolation of the trend.

EUR BMK FR: relative value Pfandbriefe (generic and long-term average)



EUR BMK AT: relative value Pfandbriefe (generic and long-term average)



Source: Market data, NORD/LB Floor Research

Primary market in 2024: renewed growth albeit somewhat more restrained
Before we look at the anticipated changes in spreads, we would like to start by presenting our expectations for net new supply – certainly the most important parameter for technical market analysis. We expect the EUR benchmark segment to continue growing in 2024. Accordingly, maturities of EUR 111.4bn will be offset by newly placed deals amounting to EUR 168.8bn. This would result in net new supply of EUR 57.3bn, which is somewhat lower than in the previous year (net supply 2023: EUR 69.2bn). The "growth candidates" in 2024 are France (net supply: EUR 12.3bn), Germany (EUR 7.8bn), Austria (EUR 7.3bn) and Canada (EUR 5.0bn). Given issuers anticipated focus on their domestic market (GBP), we also expect negative net new supply (EUR -2.0bn) from the United Kingdom.

NORD/LB forecast for 2024: issues and maturities by jurisdiction

Jurisdiction	Issues 2023 as at 12 December 2023 (EURbn)	Outstanding volume as at 12 December 2023 (EURbn)	Maturities 2024 (EURbn)	Issues 2024e (EURbn)	Net supply 2024e (EURbn)
AT	12.80	55.35	2.25	9.50	7.25
AU	6.25	36.05	5.50	5.75	0.25
BE	7.00	21.50	1.00	2.75	1.75
CA	17.00	83.95	12.50	17.50	5.00
CH	0.00	0.75	0.00	1.00	1.00
CZ	1.00	2.00	0.00	2.00	2.00
DE	35.75	198.22	18.18	26.00	7.83
DK	1.25	5.50	0.50	1.00	0.50
EE	0.00	1.00	0.00	1.00	1.00
ES	8.25	70.25	6.25	8.00	1.75
FI	9.00	38.75	3.00	5.00	2.00
FR	40.65	251.92	23.75	36.00	12.25
GB	3.50	24.36	8.50	6.50	-2.00
GR	0.00	0.00	0.00	0.00	0.00
HU	0.00	0.00	0.00	0.50	0.50
IE	0.00	0.75	0.00	0.00	0.00
IS	0.00	0.50	0.00	1.00	1.00
IT	8.75	48.16	8.00	11.00	3.00
JP	1.75	5.60	0.00	1.75	1.75
KR	2.60	9.40	0.50	2.50	2.00
LU	0.00	1.00	0.50	0.00	-0.50
NL	11.25	75.60	5.00	6.00	1.00
NO	4.00	46.75	4.00	7.00	3.00
NZ	2.00	10.45	2.50	3.75	1.25
PL	0.00	1.50	1.00	1.00	0.00
PT	2.10	5.35	2.00	2.00	0.00
SE	6.75	32.08	4.75	6.25	1.50
SG	0.00	7.00	1.25	2.50	1.25
SK	3.00	8.00	0.50	1.50	1.00
Total	**184.65**	**1041.72**	**111.43**	**168.75**	**57.33**

Source: Market data, Bloomberg, NORD/LB Floor Research

Supply in 2024: basic considerations on the projected framework parameters…

We must also make a whole series of assumptions for our current forecast. This applies to both the actual funding requirement and the funding mix. As yet, we do not expect any sustained collapse in credit volumes. Certainly, there will be some issuers in the majority of the covered bond jurisdictions whose new property financing business will suffer from the turnaround in interest rates and a general lack of demand in 2024 as well. For example, we expect a recovery in new lending in Germany and in Austria. However, should there be a sustained collapse here – caused for instance by increased uncertainty regarding the state of the economy and consequently the outlook for the employment market, only maturing covered bonds would be due for refinancing and we would have to revise our forecast significantly downwards. For the jurisdictions outside the eurozone – in particular, Canada, APAC and the Nordics plus the UK – the choice of issuance currency increases the forecasting risk. In our baseline scenario, the euro remains the focus currency. For the majority of issuers, "foreign currencies" (from the perspective of the EUR benchmark segment) would be seen rather as an opportunistic addition. The exceptions here are certainly likely to be Denmark and the UK, as well as Norway and Sweden.

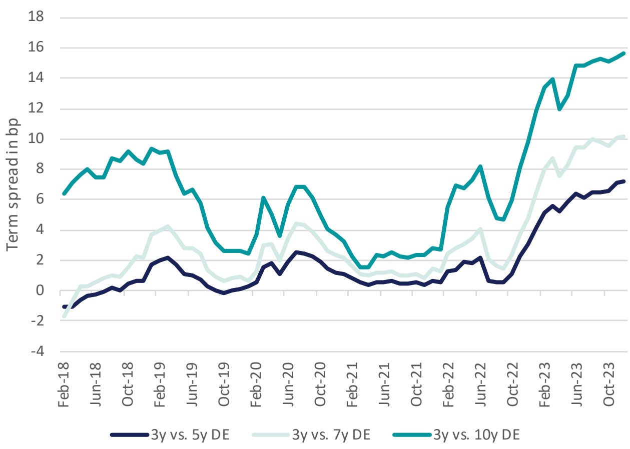
…indicate a wide spectrum of forecasting risks

There are also significant forecasting risks in terms of the composition of funding according to funding instruments, which can differ considerably from jurisdiction to jurisdiction. We are already seeing this to some extent – among other aspects, with regard to changes in financial institutions' deposits. While competition is responsible for deposits melting away in some EU jurisdictions, banks in Australia and New Zealand may be seen as oversupplied in this respect. As 2023 has made us well aware, the seniors' segment may not be disregarded either. For highly rated institutes, in particular, unsecured funding definitely offers opportunities. In contrast, we view any renaissance of central bank funding as a "tail event". While LTRO funds (which are also secured by retained covered bonds) might, due to the short maturity of these transactions, become more important for some issuers, we do not believe they offer a "genuine" funding alternative. Overall, the maturing TLTRO III tender is likely to encourage an influx into the covered bond market.

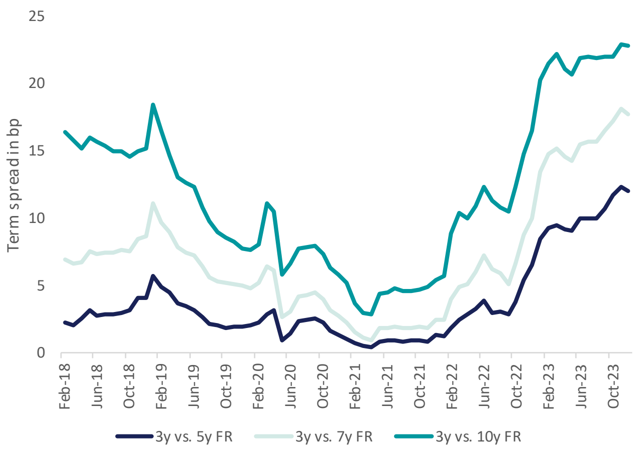
The dominance of short maturities and…

One of the central questions for 2024 will be when and to what extent issuers will venture back into longer maturities. At the beginning of the turnaround in interest rates, it was certainly investors first and foremost that shaped issuance patterns, as they wanted shorter-dated bonds. But it would be too one-sided a view to seek the cause of the preponderance of short maturities only on the demand side. The relative price for longer maturities – measured by the term spread (see the following diagrams) – is simply (still) too high for many issuers. For instance, the term premium for three-year compared with ten-year French covered bonds is far above the historic average. We have already discussed the cause of the high term spread on numerous occasions and our view is unchanged, namely the main cause is the course of the swap curve. The negative trend in the curve makes longer maturities more expensive without the higher spread reflecting a higher credit risk.

EUR BMK DE: term premium



EUR BMK FR: term premium



Source: Market data, NORD/LB Floor Research

…the question is: when will long maturities return?

Increasing pressure on the part of issuers, in the context of a looming asset-liability mismatch, leads us to expect the placement of longer maturities on the market as early as the beginning of 2024. Nevertheless, some banks may hold back a while and wait for the swap curve to turn. However, a development of this kind would be more expected for the second half of 2024. It seems more than plausible, however, that some banks will commit to the ten-year maturity range in January. This will also be the result of intensive discussions with the demand side. Accordingly, duration is more popular once more, as is apparent from the secondary market. There are also perceptible signs of saturation among the shorter maturities.

NORD/LB view on the spread trend

We believe the phase of general repricing is well advanced. Nevertheless, substantial issuance activities at the beginning of the year should favour a further widening of the curves. This is backed up not least by the fact that the primary market must start the new year in 2024 without the "support" of the ECB. Investors are likely to be prepared to provide new liquidity but are generally more selective, which should also make higher new issuance premiums "necessary". Credit quality will not deteriorate significantly in 2024. Nevertheless, the selectivity of the demand side is also determined by "headlines". Here, we would talk more of impetus driven by sentiment. Ultimately, those issues where the issuer or the pool is more significantly involved in commercial real estate are likely to have somewhat more difficulty on the primary and secondary market. In terms of maturities, we have so far not seen enough from the 7+ year maturity segment to be able to say whether repricing is finished here. With regard to the relative changes in spreads, we still see somewhat more "underperformance" from Pfandbriefe, as they are still too expensive for international investors, in particular. In our opinion, the investor base in the DACH region should also turn increasingly to other jurisdictions, although this must by no means be understood as a farewell to their home bias. Ultimately, we see spreads in mid-2024 at a somewhat higher level than today but expect the majority of the increase to occur in Q1 2024. We believe there is the potential for spreads to narrow modestly over the course of the second half.

NORD/LB Spread Forecast

Current levels					as of 30/06/2024(e)					Expected spread change				
in bp	3y	5y	7y	10y	*in bp*	3y	5y	7y	10y	*in bp*	3y	5y	7y	10y
AT	28.9	35.0	39.1	42.9	AT	36.0	41.0	47.0	53.0	AT	7.1	6.0	7.9	10.1
AU	32.6	47.5	52.0	52.5	AU	36.7	49.2	55.6	59.3	AU	4.1	1.8	3.6	6.9
BE	20.1	30.3	37.8	45.0	BE	26.1	34.7	43.6	52.9	BE	6.0	4.3	5.7	8.0
CA	29.3	41.1	47.0	49.0	CA	33.9	43.8	51.4	56.3	CA	4.6	2.7	4.4	7.4
CZ	57.5	68.8			CZ	65.0	75.0			CZ	7.5	6.2		
DE	11.7	19.0	21.9	27.4	DE	19.0	25.0	30.0	38.0	DE	7.3	6.0	8.1	10.6
DK	37.2	36.6	34.3		DK	44.0	43.0	42.0		DK	6.8	6.4	7.7	
EE	36.5	41.7			EE	44.0	48.0			EE	7.5	6.3		
ES_Single	28.0	42.2	47.4	52.6	ES_Single	35.0	48.0	60.0	71.0	ES_Single	7.0	5.8	12.6	18.4
FI	18.8	31.0	33.8	33.1	FI	25.0	35.2	39.0	42.0	FI	6.2	4.2	5.2	8.9
FR	15.5	27.6	33.2	38.3	FR	22.2	32.3	39.7	47.3	FR	6.7	4.7	6.4	9.0
GB	31.9	37.7	38.1	42.0	GB	39.0	44.0	46.0	53.0	GB	7.1	6.3	7.9	11.0
IE	6.9				IE	14.0				IE	7.1			
IS	42.2	41.0	55.3	59.4	IS	49.0	47.0	63.0	70.0	IS	6.8	6.0	7.7	10.6
IT	41.0	55.3	59.4	68.6	IT	48.0	61.0	73.0	90.0	IT	7.0	5.7	13.6	21.4
JP	56.3	64.4	66.3		JP	64.0	70.0	74.0		JP	7.7	5.6	7.7	
KR	46.9	53.8			KR	54.0	60.0			KR	7.1	6.2		
LU	32.9	32.9			LU	40.0	39.0			LU	7.1	6.1		
NL	16.3	23.7	28.1	34.4	NL	24.0	30.0	33.0	43.0	NL	7.7	6.3	4.9	8.6
NO	20.9	33.0	38.1	40.4	NO	26.7	36.9	42.0	47.0	NO	5.9	3.9	3.9	6.6
NZ	38.3	54.6	54.6	48.8	NZ	46.0	61.0	63.0	59.0	NZ	7.7	6.4	8.4	10.2
PL	35.7				PL	43.0				PL	7.3			
PT	40.2	41.4			PT	47.0	47.0			PT	6.8	5.6		
SE	18.1	32.5	40.7	44.1	SE	24.4	36.5	46.0	52.2	SE	6.3	4.0	5.3	8.1
SG	26.7	43.8	48.6		SG	31.7	46.1	52.7		SG	5.0	2.3	4.1	

Source: Bloomberg, NORD/LB Floor Research

Forecasting risk in relation to the spread trend for 2024

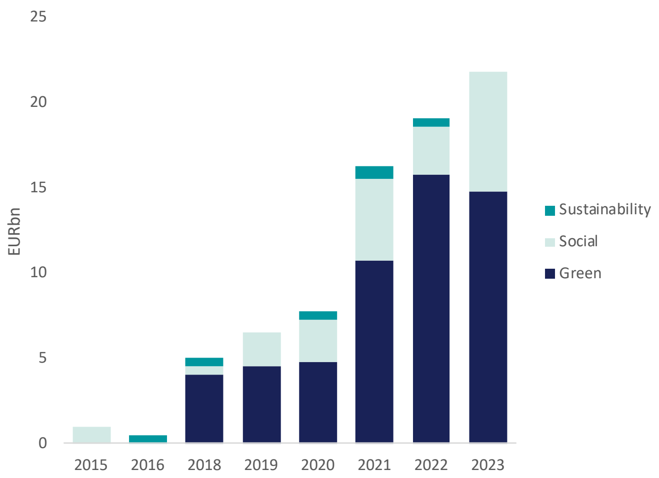
Based on the factors determining changes in spreads – i.e. market technicals, fundamental data and general sentiment on the market – extensive risk factors can be derived from our spread forecast. We have already discussed the supply side and now intend to look at the fundamental perspective. With regard to issuers' credit quality, the question of profitability as well as capitalisation and liquidity, in particular, arises. As part of our forecasting, we certainly assume a slightly gloomier profit outlook, for example. Pressure on capital ratios in isolated cases cannot be ruled out if a moderate deterioration in loan portfolios is to be expected in a weaker economic climate. This development has been priced in and is, in our opinion, not to be equated with a genuine deterioration in the credit quality of issuers, for which spreads in the covered bond market would be of "fundamental" relevance. For example, a weaker real estate sector has also been taken into consideration in our base scenario without any sustained weakening of the credit quality of the cover pools or the relevant programmes. However, should the fall in prices continue in conjunction with defaults or refinancing difficulties on the part of borrowers, this would be a genuine weakening in credit quality and would lead to specific increases in spreads.

ESG will remain a topic of relevance in 2024 too...

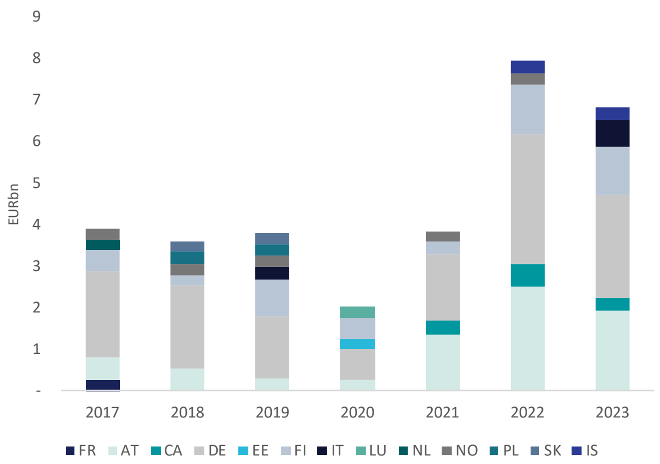
The submarket for sustainable issues will continue to occupy a niche market in the covered bond segment over the next twelve months. Looking back, we could at least record a new "record value" (EUR 21.9bn) in the EUR benchmark segment in 2023. The total outstanding volume is spread across 14 jurisdictions, with green covered bonds (total: EUR 55.0bn) retaining their dominant position. Nevertheless, in terms of primary market issues, the submarket of social bonds did surprisingly well in 2023. Social benchmarks now account for EUR 21.3bn in total.

…however, in future, it will not necessarily be any easier for green bonds in particular
We expect a dynamic ESG market in 2024 too with issues of around EUR 21-23bn (cf. NORD/LB Covered Bond & SSA View of 29 November). However, the submarket of green covered bonds is exposed to increasing challenges. These include both more exacting requirements on reporting and disclosures, as well as the basic availability of green assets.

EUR BMK: ESG issues



EUR SBMK: issues



Source: Market data, NORD/LB Floor Research

EUR sub-benchmark segment will also remain relevant in 2024
We have repeatedly drawn attention to the EUR sub-benchmark segment as a noteworthy submarket. Its smaller sized bonds also allow covered bond issuers with lower funding requirements or smaller cover pools to regularly access the market. For some investors, the less liquid bonds (following the regulatory interpretation of the LCR Regulation) seem an attractive investment opportunity because they offer a spread premium. Following a strong year in 2022 and an only slightly weaker year in 2023, we expect brisk activity on the primary market for EUR sub-benchmarks over the next twelve months. This is due not least to strong momentum from the dominant jurisdictions of Austria and Germany, whereby the previously discussed forecasting risks must also be taken into account for the sub-benchmark segment.

Conclusion
As usual, the 2024 covered bond year will get off to a busy start in the new year. Substantial issues will meet somewhat livelier demand. We see clear indications of spreads widening further, but expect them to narrow slightly in the second half of the year at the latest. Issuers will also focus more on longer maturities – those bold enough will do so as early as January or February. However, we shall not see greater impetus here until the second half. Net new supply will also be respectable in 2024. Fundamentally, both issuers and cover pools should prove to be resilient.

SSA/Public Issuers
SSA outlook 2024: ECB, NGEU and the debt brake in Germany

Authors: Dr Norman Rudschuck, CIIA // Christian Ilchmann // Lukas-Finn Frese

Public issuers caught between inflation, dreams of interest rate cuts and a frosty economy

We already published our outlook for tomorrow's ECB meeting, the last of the year, in last week’s edition of our Fixes Income Special. In this, we assumed that the ECB would leave all three relevant key rates unchanged. Some financial market participants had clearly not quite finished with the interest rate hike cycle in October. Now, however, at the beginning of December, a majority of market participants are already in favour of an interest rate cut in the near future. There are plenty of other topics up for discussion: more hawkish central bankers would certainly like to see the PEPP or other monetary policy instruments such as minimum reserve requirements placed more prominently on the agenda. This week, it is more likely to “only” be a discussion rather than any action. The ECB will continue to be active on the SSA secondary market in 2024. We continue to view reinvestments within the Pandemic Emergency Purchase Programme (PEPP) as the “first line of defence”, albeit with decreasing volumes. On the part of institutional investors, we expect a more selective choice of projects in future; dry powder in the form of liquidity no longer appears to be available in virtually unlimited quantities.

ECB: interest rates set to be scaled back?

In 2024, the SSA segment is likely to be mainly influenced by economic developments. The decisive factors will be, firstly, that there is no threat of a severe recession in Europe, and secondly, that the economy is not expected to be developing “too well”. On the monetary policy front, things are likely to be rather quiet. We may not be far away from the ECB announcing its intention to curb monthly reinvestments, but will tomorrow’s meeting already offer a sign of interest rate cuts in the coming year? This is rather unlikely. Against this backdrop, the potential for falling yields in the coming year is likely to be slim. However, volatility could decrease noticeably as there is a broad consensus that monetary policy is restrictive enough and that central banks will remain in standby mode for the time being and closely monitor developments on the capital markets and in the economy. Bond yields will also begin to fall with the start of the key rate cuts that we expect in the second half of 2024. This effect will be more pronounced at the short end of the yield curve than at the long end. We expect that the currently prevailing inversity will then ebb away. It is also conceivable that spreads could widen over the course of the year due to sentiment-driven situations if there is a renewed threat of geopolitical trouble or, for example, politicians in Italy once again make incomprehensible decisions or the Transmission Protection Instrument (TPI) has to be used after all, contrary to expectations. In the following, we shall outline our predictions for 2024 in a structured fashion. Naturally, unforeseeable events cannot be ruled out, as 2023 also turned out differently than we expected at the beginning of the year. Clearly excessive and initially stubborn inflation, which surprisingly fell sharply towards the end of the year, as well as the Hamas attack on Israel in October, the like of which was, in all likelihood, not so clearly on anyone’s agenda, were genuine “gamechangers” in their own way.

(Net) Supply must be viewed in an even more differentiated manner than in the past

Most issuers have now completed their refinancing for the current year or have the finishing line in sight in terms of their funding. Since the beginning of the year, there have been a total of 171 EUR benchmark issues (of the SSAs we analysed) with a volume of around EUR 248bn. After, for example, around EUR 190bn in 2017 or EUR 166bn in 2019, this is a very high figure, albeit lower than in the three years of the pandemic (2020: EUR 303bn; 2021: EUR 325bn; 2022: EUR 270bn). Still, the German Laender also managed without additional credit authorisations in 2023. In addition, the first habituation effects set in, although it was not only the ECB that operated with and handled huge amounts of money; the European Union, as a relatively new "mega issuer", has also acted decisively to date and still has a lot to get done before 2026. This will furthermore have a significant impact on the funding volume in 2024 (and beyond). Therefore, in the coming year, we expect – subject to a certain degree of uncertainty – EUR benchmark issues of around EUR 275bn. This figure will again exceed the pre-crisis volume and therefore stabilise at a high level, although the drivers are different every year.

Focus: German Laender

After a disproportionately high supply came up against huge demand at times in 2022, the situation increasingly normalised in 2023. BAYERN, HAMBRG and MECVOR, for example, did not issue a single benchmark bond, which also fits in with their low credit authorisations. Spreads and maturities will remain the hot topic in 2024. The days when virtually every deal came to the primary market as a "sure-fire success" seem to be over for the time being. Estimates of the total volume are also more difficult than ever, as it is still unclear how the debt brake will be handled at federal level, particularly following the recent ruling by the Federal Constitutional Court and what impact this will have on Laender finances.

Credit authorisations of German Laender: 2023 vs. 2024e (EURbn)

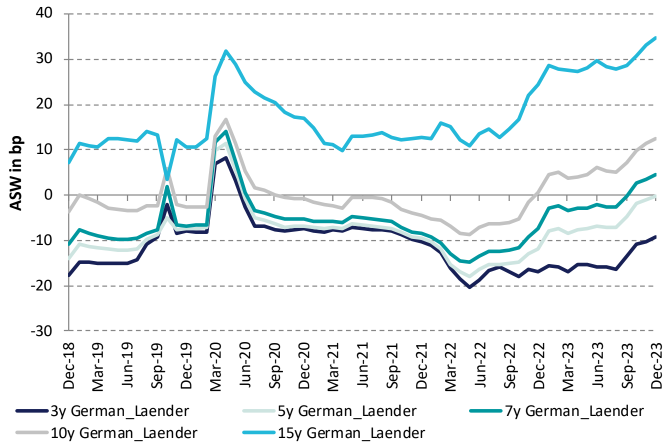
	2023	**2024e**
Baden-Wuerttemberg	29.79	33
Bavaria	3.83	3
Berlin	5.49	5
Brandenburg	4.04	2
Bremen	1.80	3
Hamburg	2.80	2
Hesse	4.95	8
Mecklenburg-Western Pomerania	1.32	2
Lower Saxony	7.25	9
North Rhine-Westphalia	16.70	14
Rhineland-Palatinate	4.04	6
Saarland	1.70	1
Saxony	0.28	1
Saxony-Anhalt	1.91	3
Schleswig-Holstein	4.91	5
Thuringia	0.87	1
Summe	**91.68**	**98**

e = estimate
Source: Bloomberg, NORD/LB Floor Research

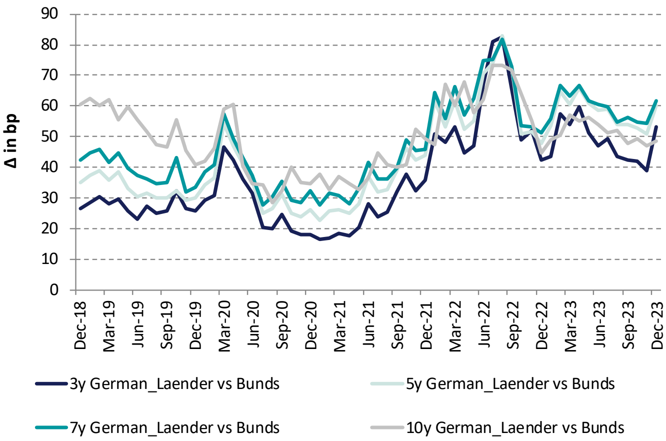
German Laender: higher funding expected in 2024

In the area of regional bonds, the bonds of German Laender still represent by far the most important sub-sovereign market - in 2020 in particular, but also in 2021, the 16 Laender again increased their lead over the rest and therefore their importance too. Before that, however, a decline in funding volumes had been observed for years. For 2024, we anticipate a gross volume of new bonds totalling EUR 60-70bn (assumption: EUR 65bn), assuming that the debt brake is suspended nationwide. This is offset by maturities totalling just under EUR 48bn, resulting in a net supply of around EUR 17bn. In both cases, it is not just EUR benchmark bonds, but also foreign currencies and SSD deals. However, with this forecast everything hinges on the structuring and (non-)suspension of the debt brake - and its possible reform, provided there is the political will to do so. If we may say so, sensible investments and sustainable solutions for a forward-looking future would currently be a good thing for Germany, both economically and politically. Regardless of the volume, the relevance of German Laender bonds in this key segment will not be diminished. Depending on the severity of the winter, we may start the new year with an economic downturn. In addition, in light of the debt brake that has been in force at federal state level since 2020, the budgetary discipline of the Laender is already much more pronounced than in the past. In the year when the debt brake was activated, even the greatest pessimists would probably not have imagined that it would remain suspended for 2020 and in some cases until 2023 due to the pandemic and its aftermath. This was planned in advance by law, although it was hoped that the clause would rarely or never have to be used. The slightly increased (theoretical) credit authorisations we expect for 2024 versus 2023, together with increasing geopolitical uncertainty factors, should, in our view, mean that the spread movements in this segment, which once were determined by the ECB, will now tend to be driven by fundamental aspects once again. As of 13 December 2023, 590 different German bonds had been purchased by the ECB or the relevant central banks since 2015 under the PSPP and PEPP.

Spread movements of German Laender



Spreads of German Laender vs. Bunds

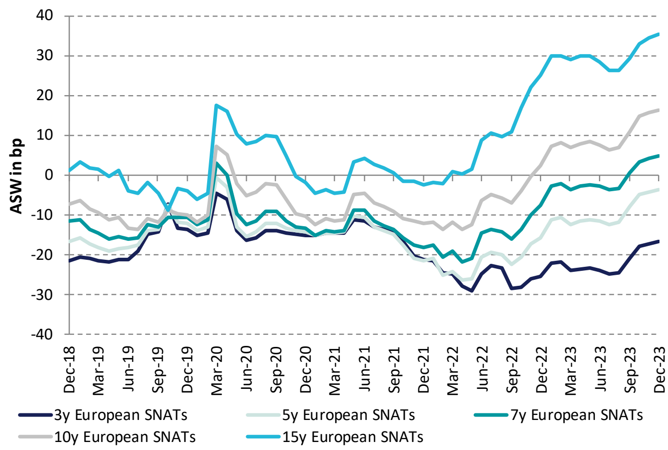


Source: Bloomberg, NORD/LB Floor Research; data as at 12 Dec. 2023 eod

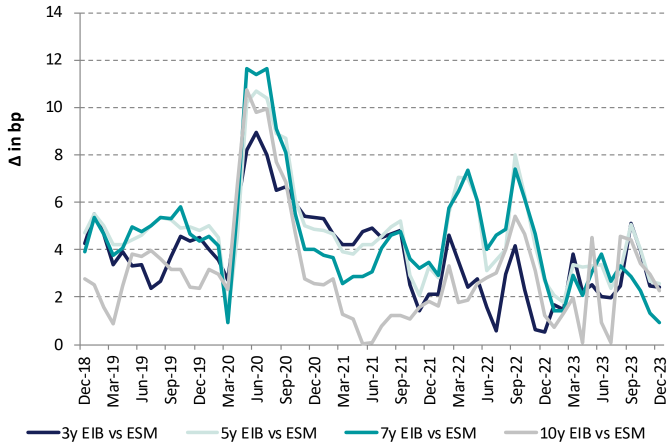
Supranationals in the grip of (geo)political decisions

The handful of E-Supras still represent an important category in the SSA universe and since 2021 are larger than all German EUR benchmark issuers combined in our definition of the market. A generally very good rating, high liquidity and regulatory advantages continue to favour bonds from supranational issuers. The Governors of the EIB, Europe's Finance Ministers, unanimously agreed in 2019 that Brexit would not affect the EIB's lending activities and business model. Subsequently, Romania and Poland contributed additional capital, meaning that the EIB has a higher capital base than before Brexit. The EIB will of course remain a regular player on the primary market in 2024. We expect it to reach a funding target of EUR 55bn, again spread over a wide range of currencies. This is offset by maturities totalling roughly EUR 60.7bn. At European level, the overall picture is dominated by a few big names: for example, the increase in EUR benchmark issues this year can be attributed in large part to the noticeably increased funding needs of the EU under its NGEU programme, specifically the Recovery and Resilience Facility (RRF). At the "halfway point" of the RRF, only around 25% of the requested funds have been paid out to the Member States. The EU has now issued an invitation to the "Global Investor Call" on 14 December. A funding target of EUR 75bn had already been announced in advance by the European Commission. EU-Bills always complement these values and are therefore not included. As part of its actual activities, the EU often had a neutral net supply until 2020. Maturities in 2024 in the amount of EUR 3.2bn will therefore, as per usual, be extended. In 2023, large parts of the Macro-Financial Assistance Plus (MFA+) programme went to Ukraine, with a current volume of EUR 16.5bn (as at: 12 December 2023) budgeted for the country. We therefore expect EUR 135-155bn in funding from the EU in 2024 as a whole (entirely EUR benchmarks or taps, in part green). For the ESM, we expect a negative net supply of just under EUR 5.0bn for next year, with EUR 6.0bn in fresh supply set to enter the market (maturities: EUR 10.8bn). This applies subject to and to the exclusion of the ECCL and other emergency aid of the ESM, which has not yet been quantified. For the EFSF, we expect the new issuance volume to increase again to EUR 20.0bn, up from EUR 18.5bn in 2023. In the past, there was always a (significant) reduction in new issues (e.g. EUR 19.5bn in 2022, following a total of EUR 28.0bn in 2018 and as much as EUR 49.0bn in 2017). This will be offset by maturities of EUR 25.1bn in 2024, corresponding to a negative net supply of EUR 5bn for the EFSF. We do not assume there will be any change of plan here either. We also expect the ESM to issue a USD bond on the market again next year. It will also be interesting to see when and how the long-running issue of transforming the ESM into a European Monetary Fund (EMF) will materialise, along the lines of, or as a local counterpart to, the IMF. Speaking of transformation and political will: In 2024, we will continue to focus on how the EIB's capital market structure, which is currently being renewed and restructured in the wake of Brexit, and the (corporate) political realignment will affect the entire ESG segment and in particular the "green bonds" asset class. In addition, the EU will issue in total around EUR 225bn in green bonds by 2026. The EU's participation in social bonds is now considered to be over within the framework of the SURE activities in 2022. The EU is dominating the green segment for EUR benchmarks in particular, with an abundance of fresh supply in the short to medium term. In this way, the EU is setting itself up as the world's largest green bond issuer.

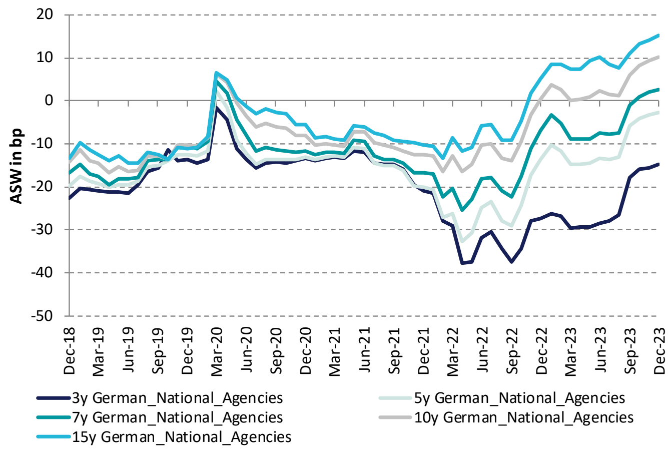
Spread movements of European supranationals



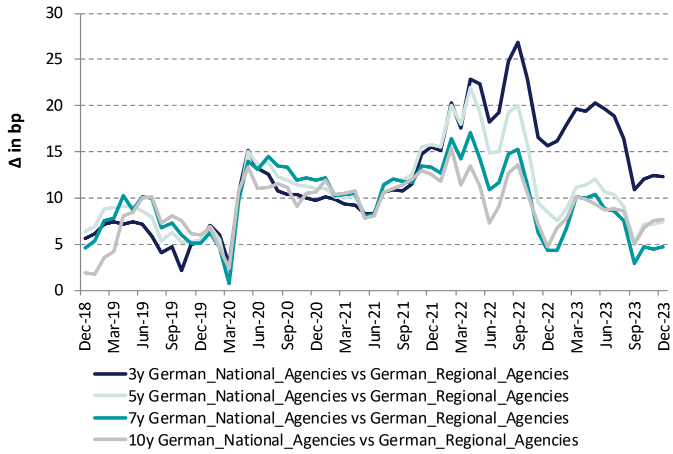
Spread differences: EIB vs. ESM



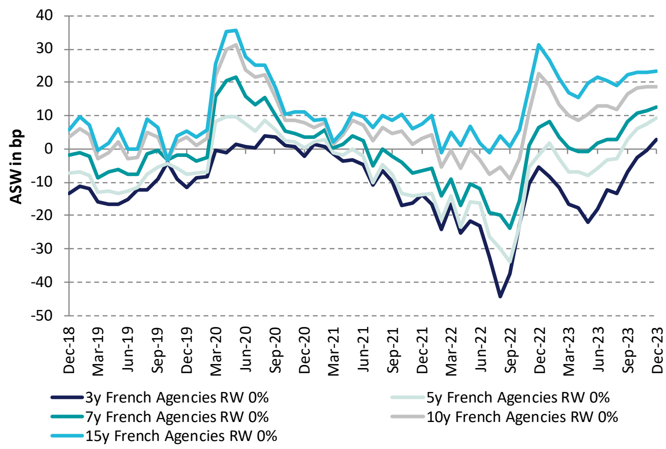
Spread movements of German national agencies



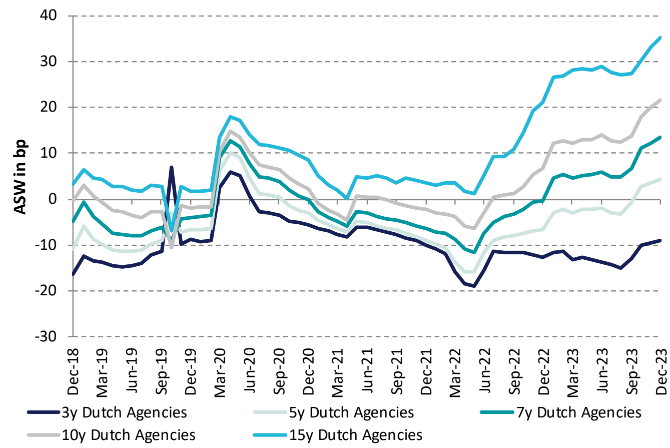
Spread differences: German agencies



Spread movements of French agencies (0%)



Spread movements of Dutch agencies



Source: Bloomberg, NORD/LB Floor Research; data as at 12 Dec. 2023 eod

German agencies with stable net supply overall

For the German agency market, we expect net supply to remain stable or even positive overall, with a slow recovery of volumes under classic promotional programmes instead of emergency aid and COVID-19 programmes. Much of this was still overshadowed by COVID-19 in 2023. The most dominant market player, KfW, announced a total funding target of EUR 90-95bn for 2024 during the Global Investor Broadcast on 7 December 2023. This contrasts with a maturity volume of EUR 80bn. With an expected value of at least EUR 92.5bn, net supply would accordingly be positive (minimum EUR +12.5bn). On the other hand, the funding of German agencies (this segment includes not only promotional banks) has in the past also been driven by winding-up vehicles such as FMSWER or ERSTAA, which naturally refinance their winding-up portfolios to an ever-lesser extent. These two issuers are not purchased by the Eurosystem under the PSPP or PEPP, and always offer a certain pick-up compared with promotional banks with a similar rating. As is already the case with the German Laender, we expect at most gradually widening spreads in the case of the well-known agencies, as they continue to be in demand by the Eurosystem within the framework of reinvestments. All in all, we assume that fundamental analysis for individual issuers will come to the fore again for the German market.

French issuers dominate heterogeneous agency market ahead of the Dutch and Nordics; forecasts barely possible for overseas regions

Let us briefly remind ourselves of the EU's funding target for 2020: EUR 800m (not a typo). Due to the pandemic, it increased back then more than fiftyfold (!) to over EUR 41bn for the total year. The same was true for UNEDIC, which started with EUR 3bn, readjusted its funding target several times during the year and ended up with around EUR 20bn. At EUR 10bn, 2021 was almost a tranquil oasis compared with the hustle and bustle on the primary market, as there was much less need for topping up. In 2022 and 2023, this figure was only EUR 1bn. We therefore also expect a funding target of EUR 1bn for the coming year. Players such as CADES (target: EUR 20bn) in this segment will, however, continue to place considerable funding volumes on the primary market and will also be active in the ESG segment. The issuer SOGRPR, which carries out its entire capital market funding via ESG bonds, should also be mentioned. We also expect further issues of around EUR 2bn in 2024. For further information, please refer to our NORD/LB Issuer Guide - French Agencies 2023. Other important issuers in the European SSA segment are Dutch promotional banks. BNG's funding for 2024, for example, is expected to return to EUR 14-16bn. Moreover, their sustainability bonds (in the form of social housing bonds) are already very well established. The same goes for the NWB: It issues EUR equivalents totalling EUR 10bn every year in several currencies. ESG criteria in the form of water bonds, affordable housing and social development goals turn up here. The target for SRI bonds is always over 25%. Both Dutch baks also diversify strongly across currencies - only the Nordics are even more so in this regard. Further insights can be found in our NORD/LB Issuer Guide - Dutch Agencies 2023 and Scandinavian Agencies (Nordics) 2022. We are planning to update the latter publication shortly. EUR benchmarks of the Canadian provinces are difficult to predict. All Canadian issuers primarily prefer the domestic currency (CAD), only turning to EUR deals opportunistically as soon as a window opens up based on cross currency swaps. We are planning an update of our publication on Canadian provinces and territories for 2024.

ESG: more than merely green – environmental, social, governance

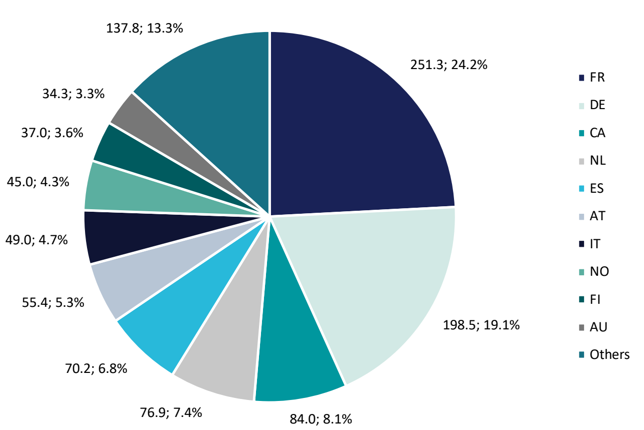
The volume of green bonds issued has increased sharply and almost exponentially since the first green bond issue by the EIB in 2007. In the meantime, however, growth after 2017 has stagnated at a very high level. As a result, the growth path initially seemed to be interrupted. Nevertheless, the milestone of over EUR 100bn in issuance volume per annum has been surpassed. The ESG segment received an additional boost from both green and social issues. The EU’s SURE programme alone consists cumulatively of almost EUR 100bn in social bonds, but expired on 31 December 2022. From 2021 to 2026, the EU will become the world's largest issuer of green bonds. The French issuers UNEDIC, CADES and SOGRPR are also represented here in large volumes. Fundamentally speaking, the focus here was not only on social housing or social inclusion; rather the COVID-19 pandemic was seized upon by scores of issuers seeking to counteract the social consequences and consequential damage. It will also be interesting to see in 2024 how the EIB’s capital market structure, which is currently being renewed and restructured, will affect the green bond segment. Ursula von der Leyen is not the only one who wants to and will make the EIB greener. The transformation process is in full swing and the path of the inventor of green bonds can still be described as pioneering. However, KfW and North Rhine-Westphalia have also been developing liquid sustainable and green curves for some time now. Added to this is the EU’s plan to issue at least EUR 225bn in the form of green bonds under its NGEU programme by 2026, of which “only” EUR 48.9bn has been raised so far.

Conclusion and outlook

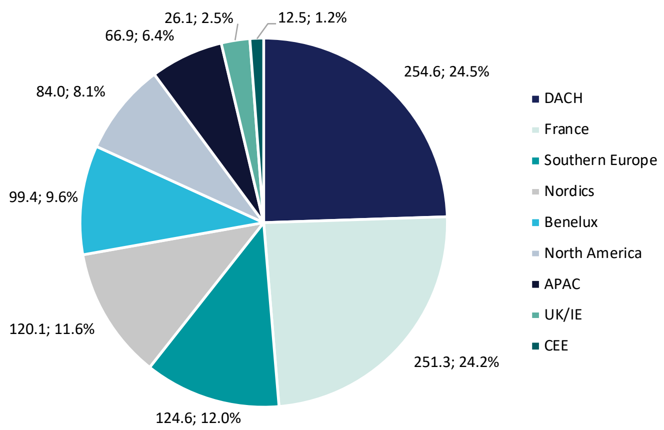
We expect the SSA segment in 2024 to continue to be dominated by current geopolitical and economic crises, potential interest rate cuts and declining reinvestments in the ECB's purchase programs. We should particularly mention the PEPP here. We do not expect any indications of adjustments to the scope and/or a possible early exit at tomorrow’s ECB press conference, but this will set the tone for monetary policy in 2024. Moreover, we do not expect any drastic movement in the spread landscape in our baseline scenario. Over the next one-and-a-half to three years, spread levels from 2013 could be a realistic target for most issuers within our coverage. We are also curious about the seasonal patterns, such as how strong January will be. The effects of the ongoing energy crisis remain difficult to predict - additional funding requirements cannot be ruled out. When it comes to Laender funding, everything hinges on the structuring and (non-)suspension of the debt brake - and its possible reform, provided there is the political will to do so. There is the potential for some surprises here too!

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



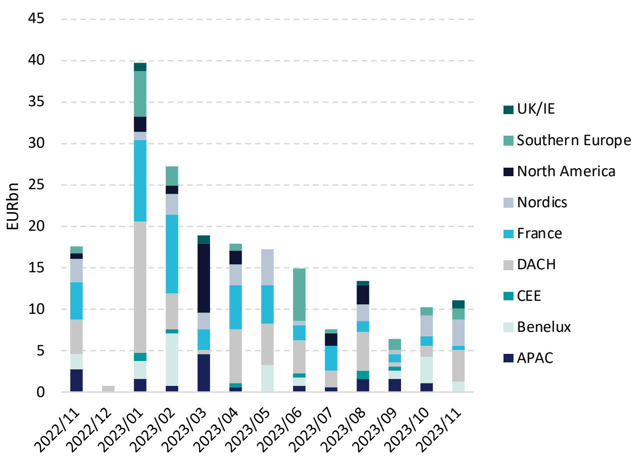
EUR benchmark volume by region (in EURbn)



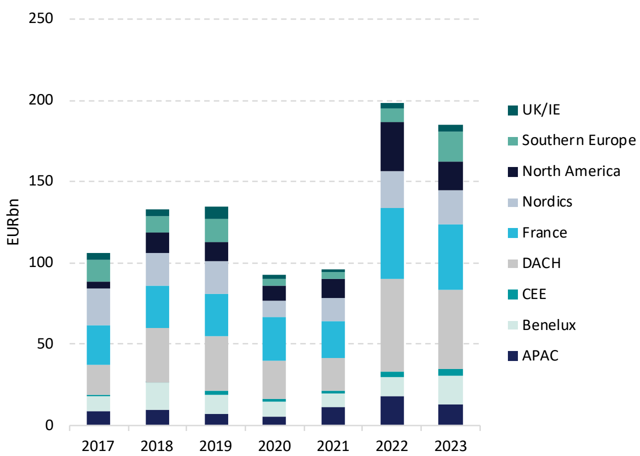
Top-10 jurisdictions

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	243	22	0.96	9.4	4.9	1.26
2	DE	198.5	281	35	0.65	7.9	4.1	1.21
3	CA	84.0	62	0	1.33	5.5	2.7	1.12
4	NL	76.9	78	3	0.92	10.5	6.2	1.16
5	ES	70.2	55	5	1.16	11.1	3.4	2.03
6	AT	55.4	94	4	0.58	8.2	4.6	1.37
7	IT	49.0	59	2	0.80	8.7	3.6	1.60
8	NO	45.0	55	12	0.82	7.3	3.7	0.78
9	FI	37.0	41	4	0.89	6.9	3.6	1.49
10	AU	34.3	33	0	1.04	7.2	3.4	1.56

EUR benchmark issue volume by month

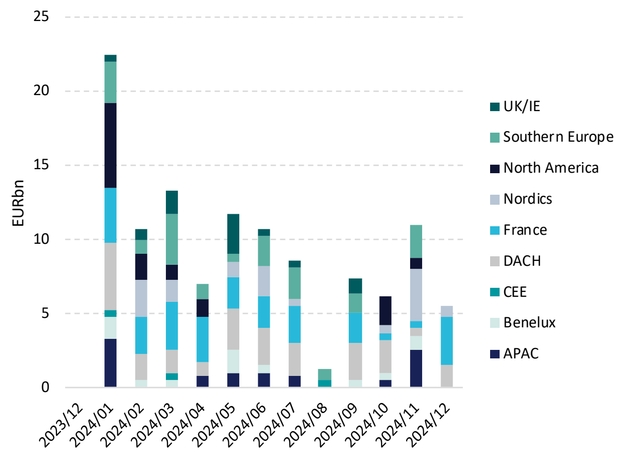


EUR benchmark issue volume by year

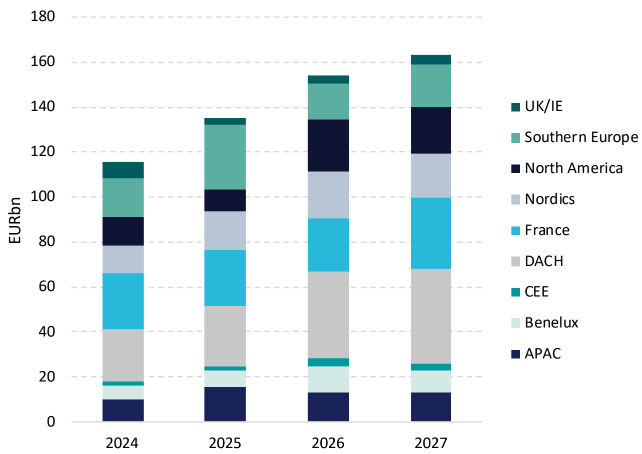


Source: market data, Bloomberg, NORD/LB Floor Research

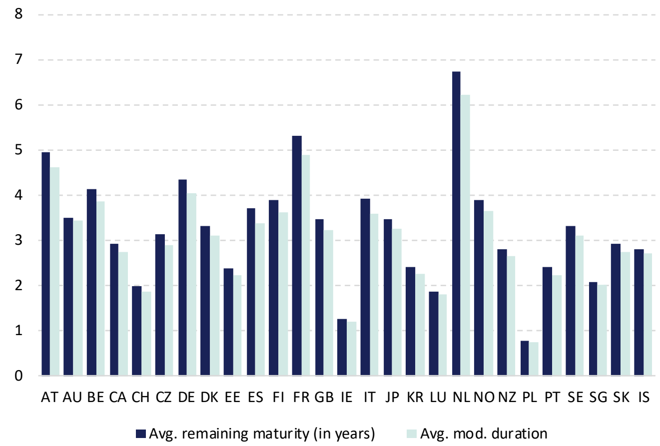
EUR benchmark maturities by month



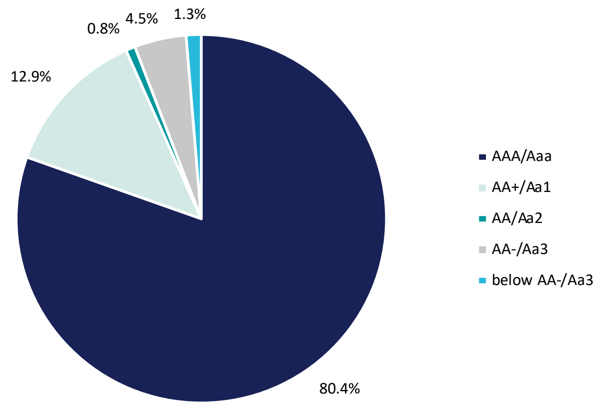
EUR benchmark maturities by year



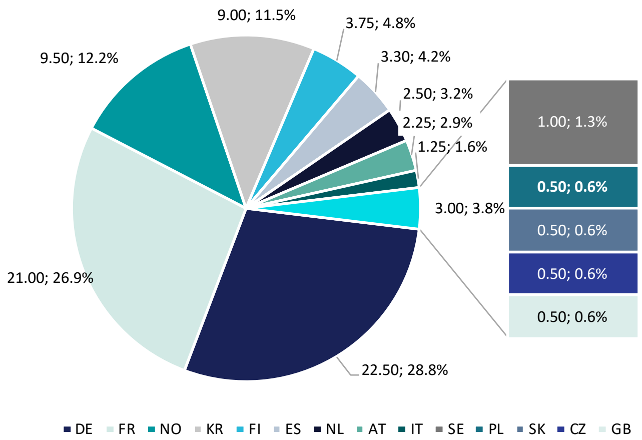
Modified duration and time to maturity by country



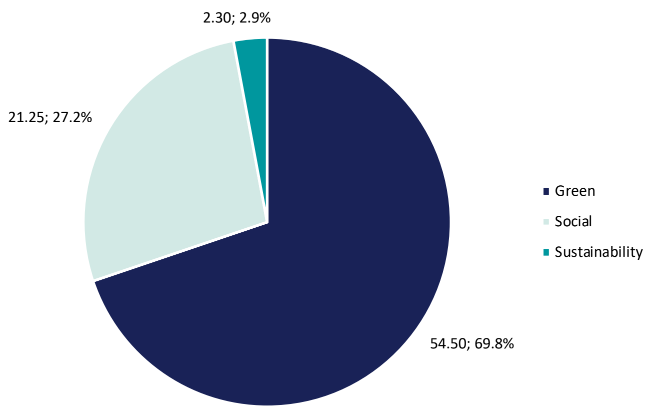
Rating distribution (volume weighted)



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

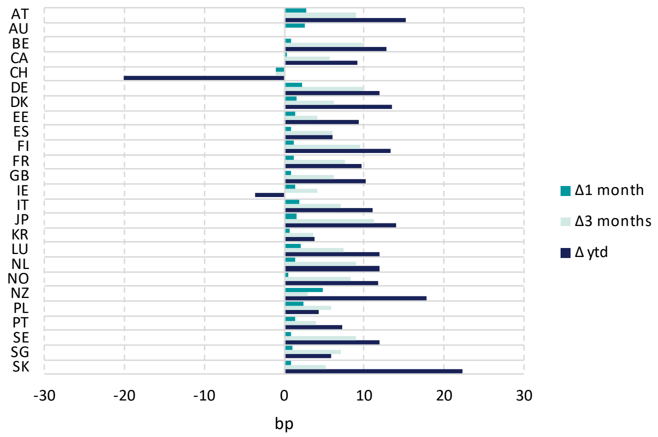


EUR benchmark volume (ESG) by type (in EURbn)

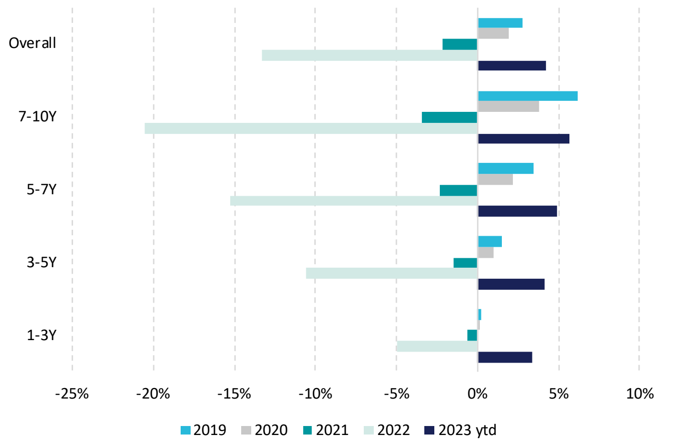


Source: market data, Bloomberg, NORD/LB Floor Research

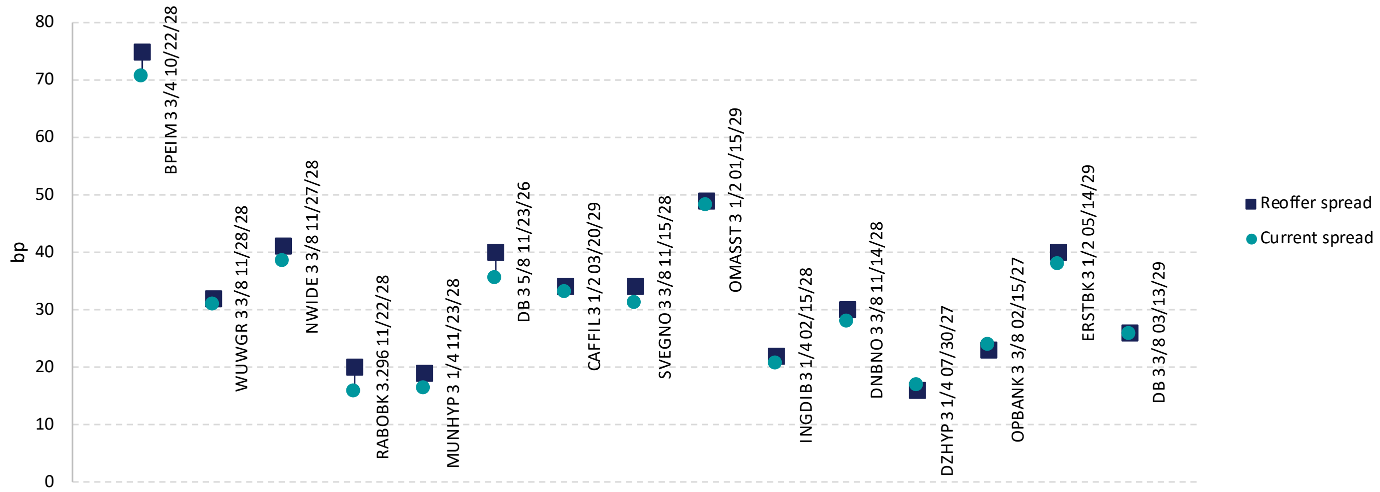
Spread development by country



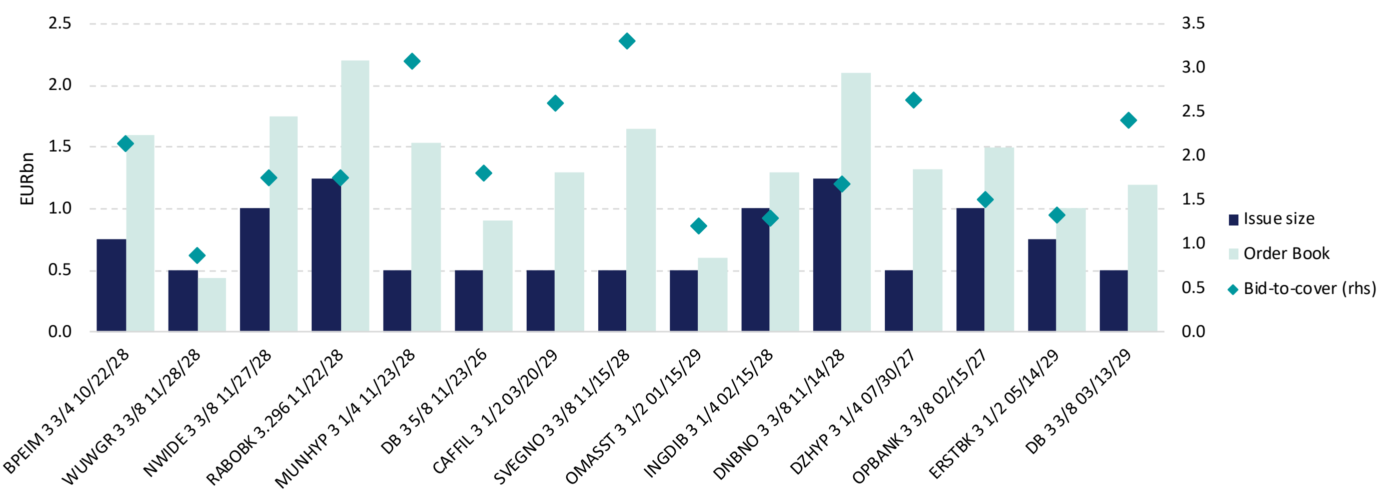
Covered bond performance (Total return)



Spread development (last 15 issues)



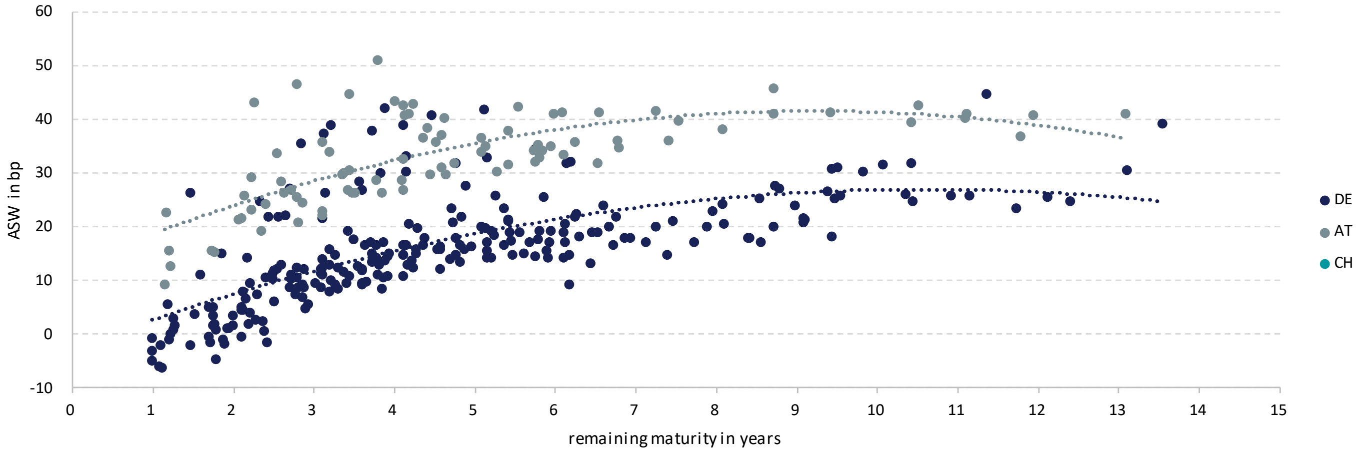
Order books (last 15 issues)



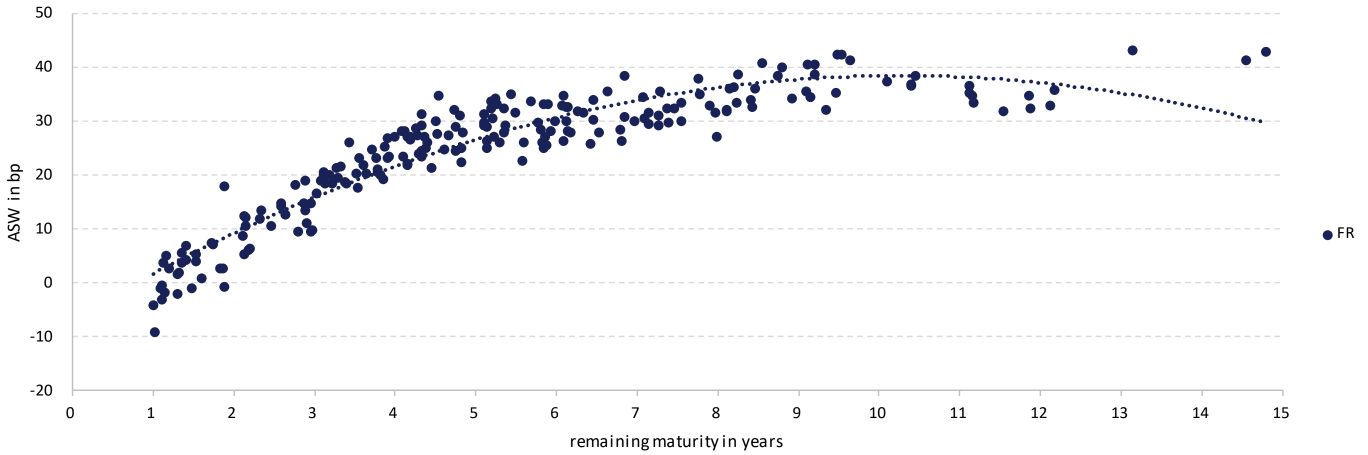
Source: market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

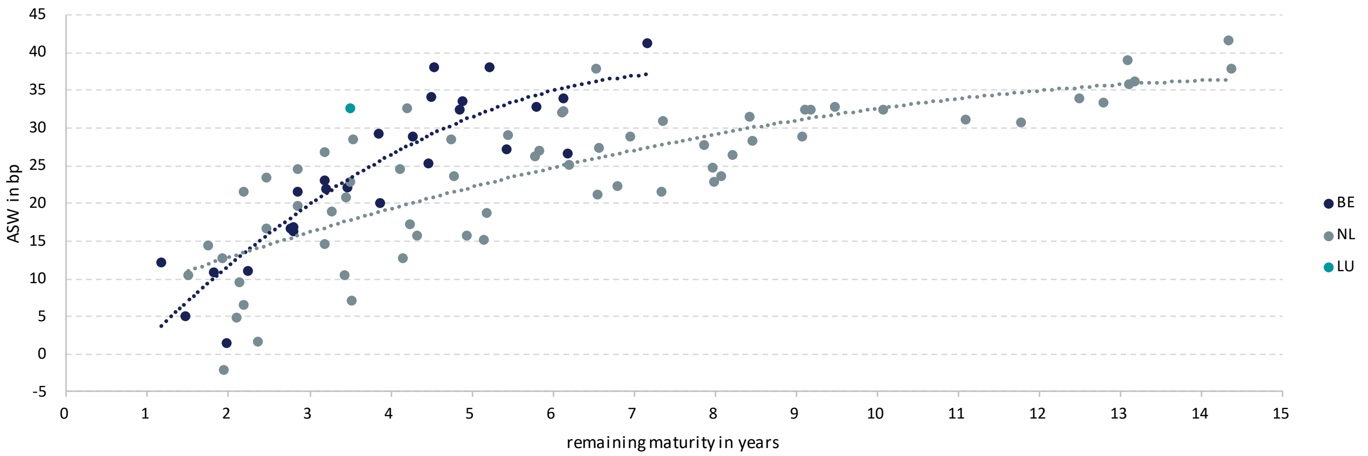
DACH



France



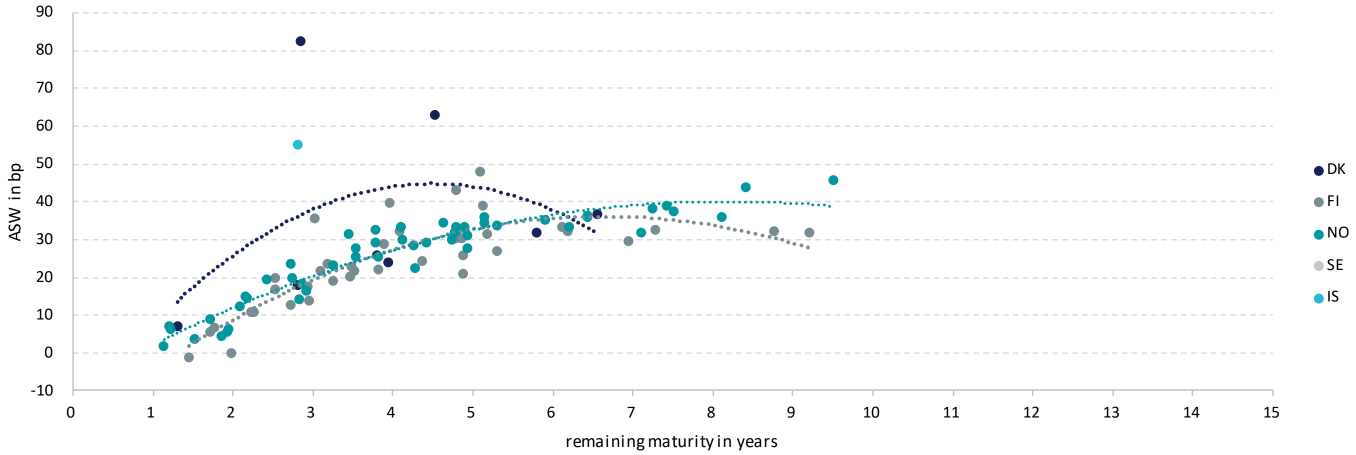
Benelux



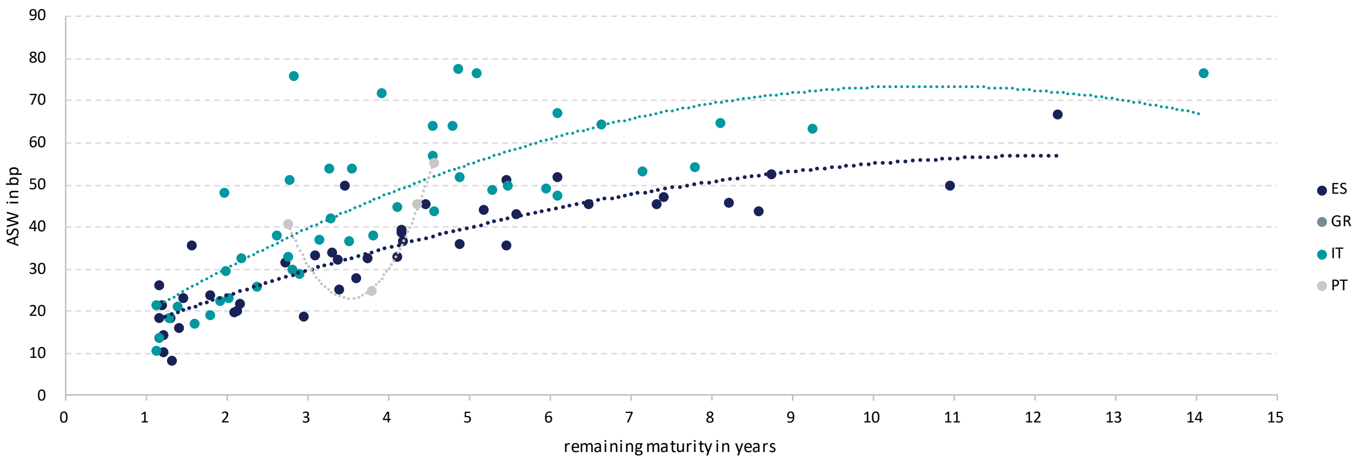
Source: market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

NORD/LB

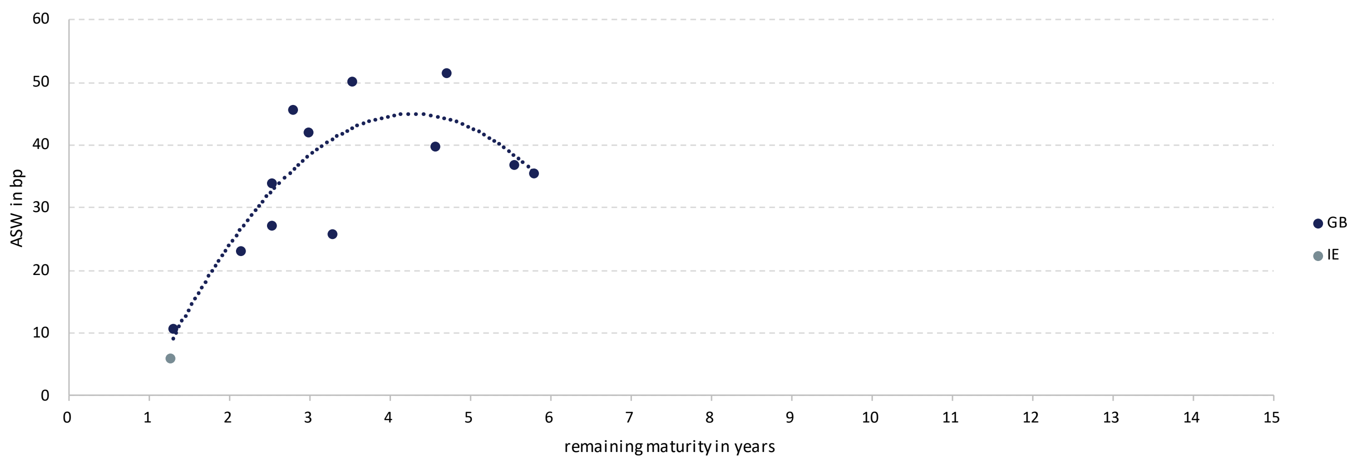
Nordics



Southern Europe

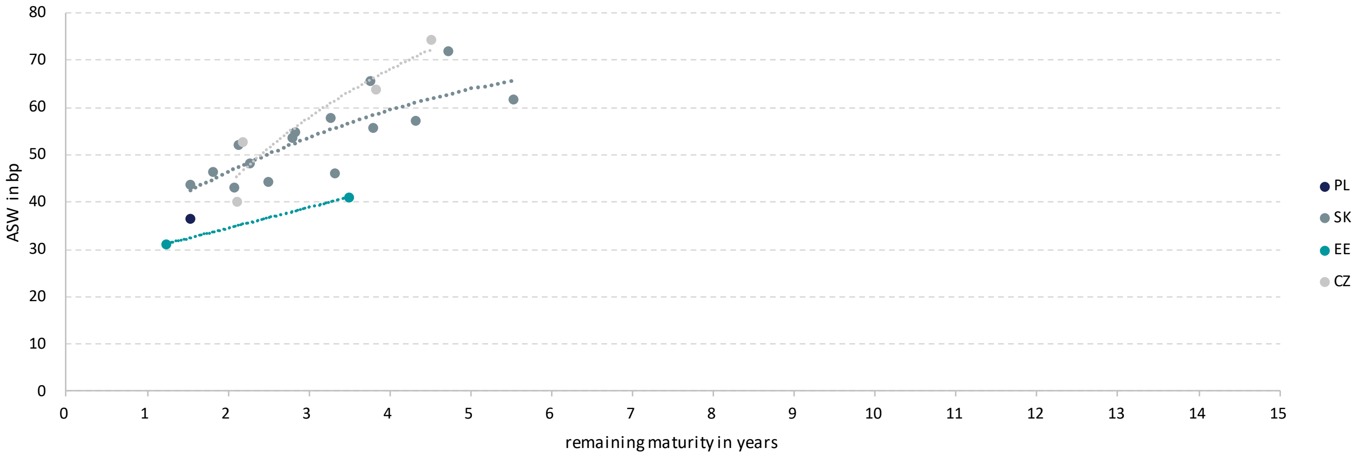


UK/IE

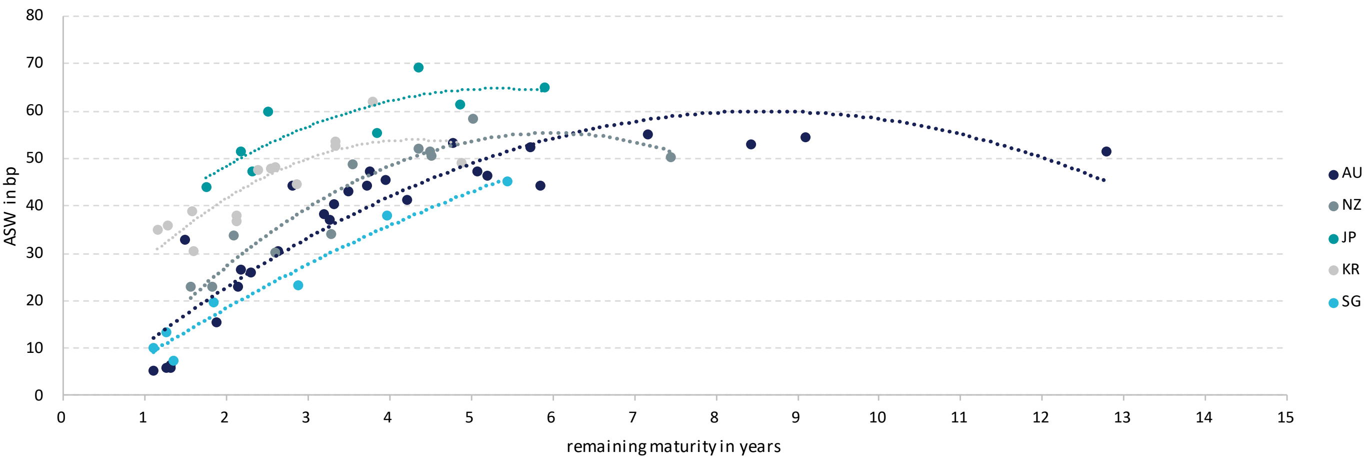


Source: market data, Bloomberg, NORD/LB Floor Research

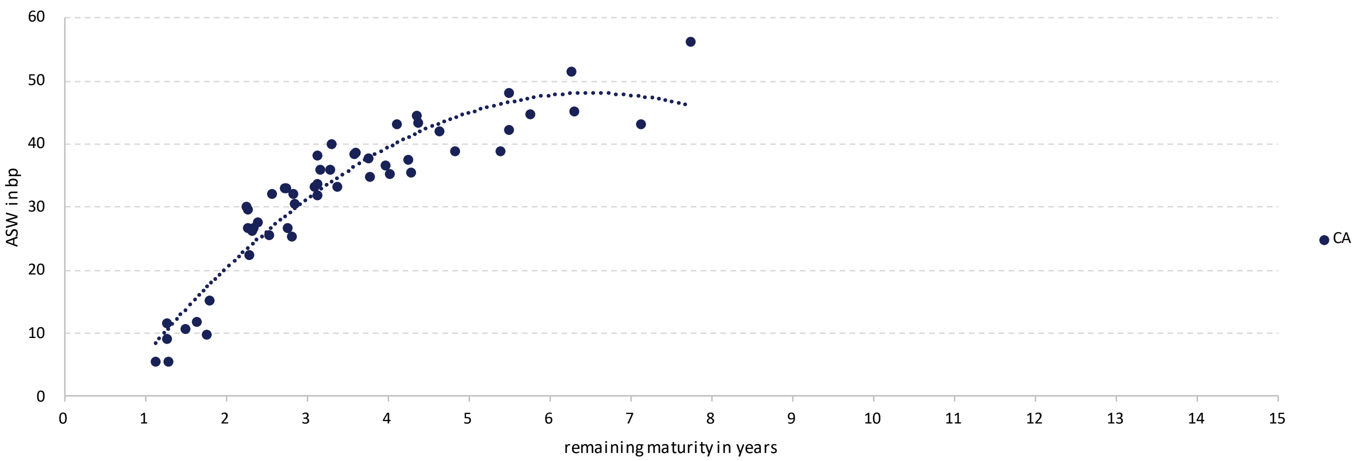
CEE



APAC



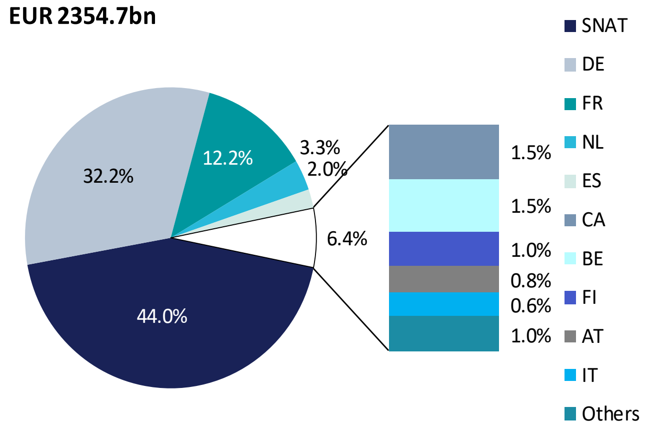
North America



Source: market data, Bloomberg, NORD/LB Floor Research

Charts & Figures
SSA/Public Issuers

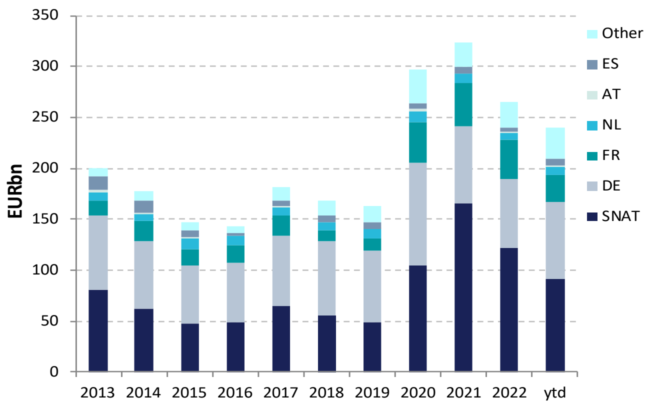
Outstanding volume (bmk)



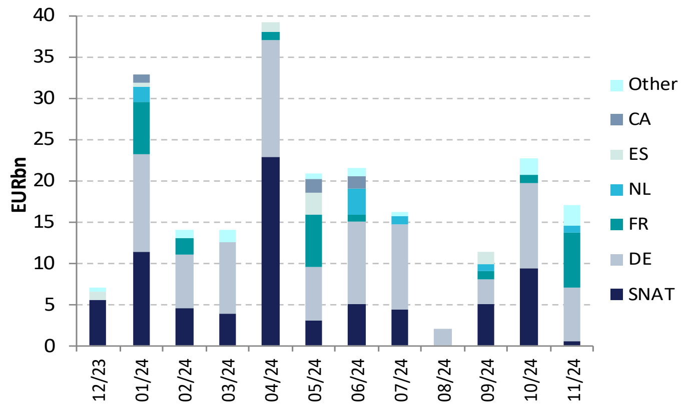
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1,035.1	229	4.5	8.0
DE	757.4	566	1.3	6.2
FR	287.4	196	1.5	6.0
NL	77.3	67	1.2	6.6
ES	48.0	65	0.7	4.6
CA	35.9	25	1.4	4.2
BE	35.2	38	0.9	10.7
FI	22.4	24	0.9	4.7
AT	17.8	22	0.8	4.5
IT	15.0	19	0.8	4.6

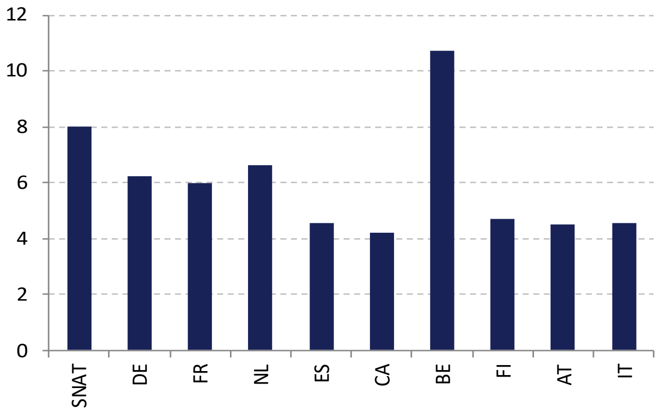
Issue volume by year (bmk)



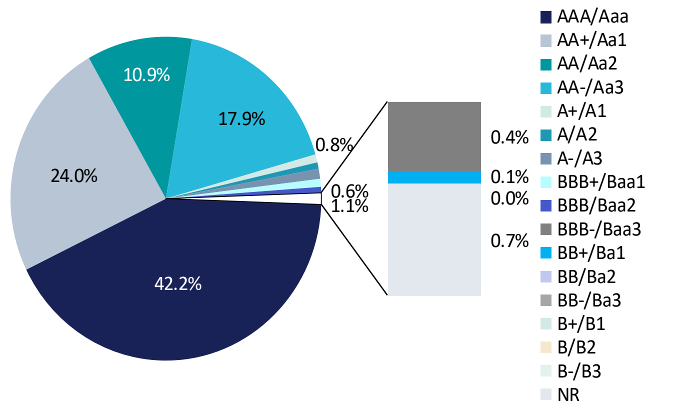
Maturities next 12 months (bmk)



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

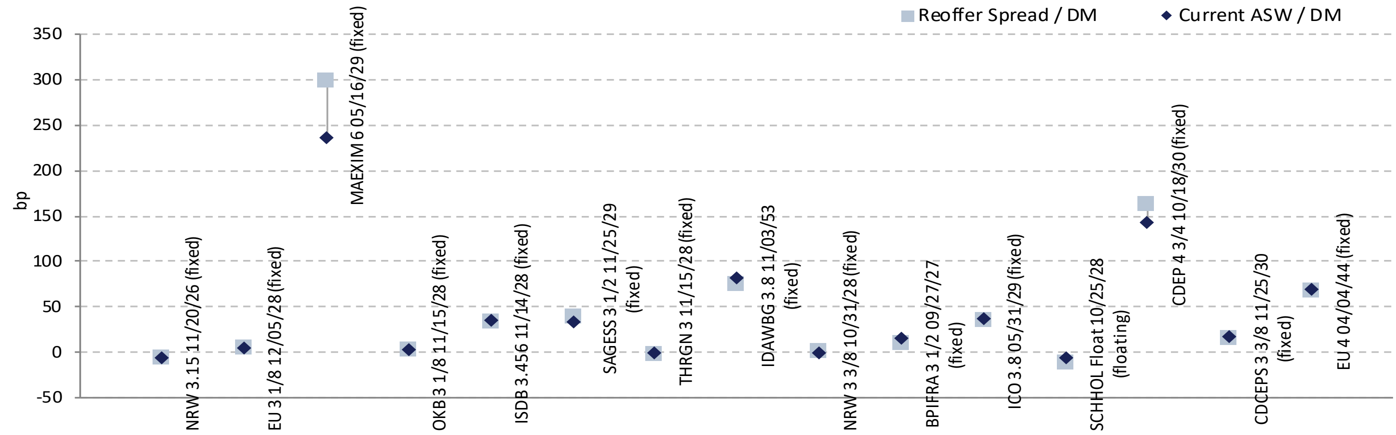


Rating distribution (vol. weighted)

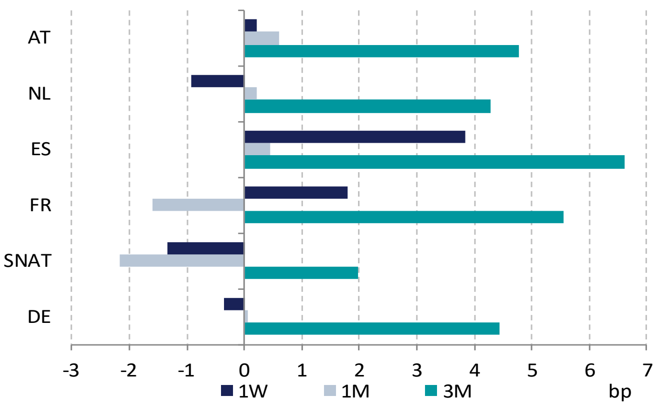


Source: Bloomberg, NORD/LB Floor Research

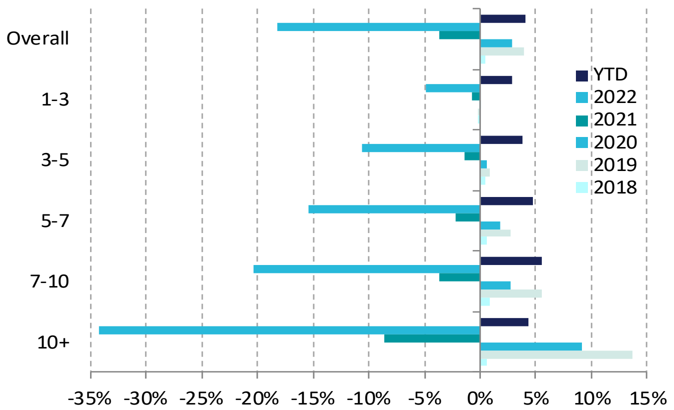
Spread development (last 15 issues)



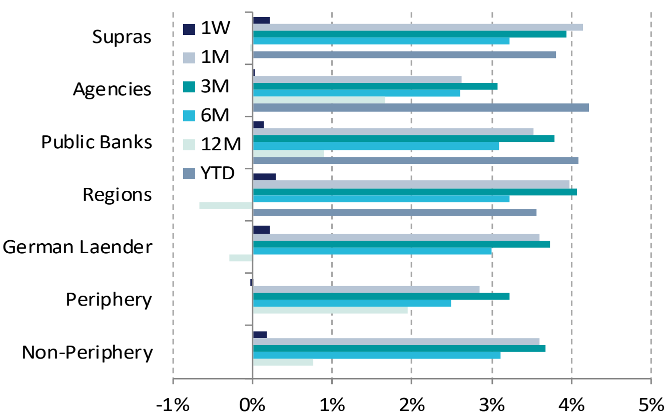
Spread development by country



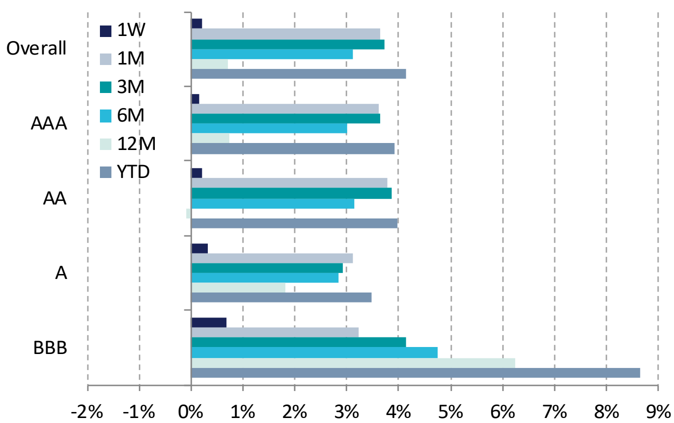
Performance (total return)



Performance (total return) by segments



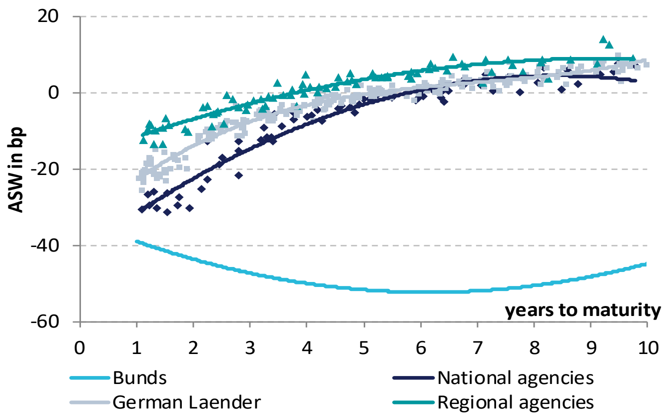
Performance (total return) by rating



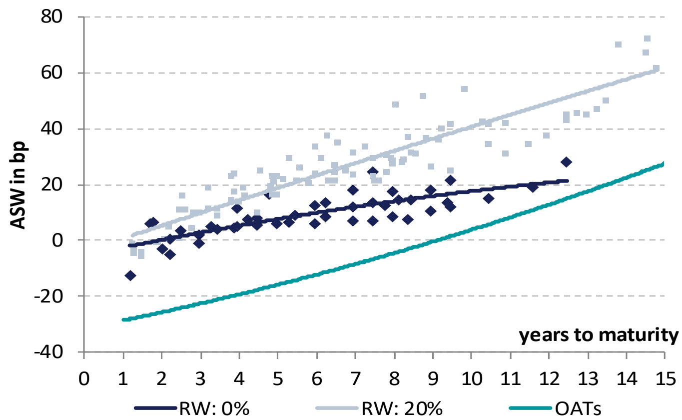
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

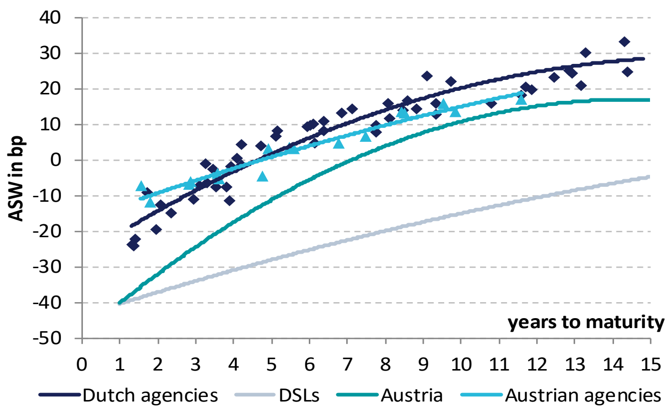
Germany (by segments)



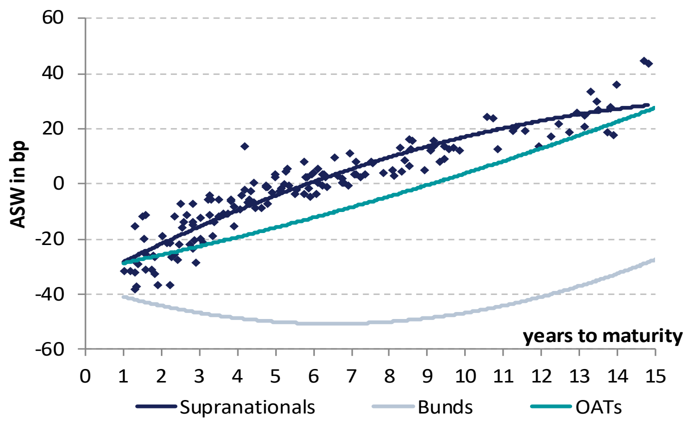
France (by risk weight)



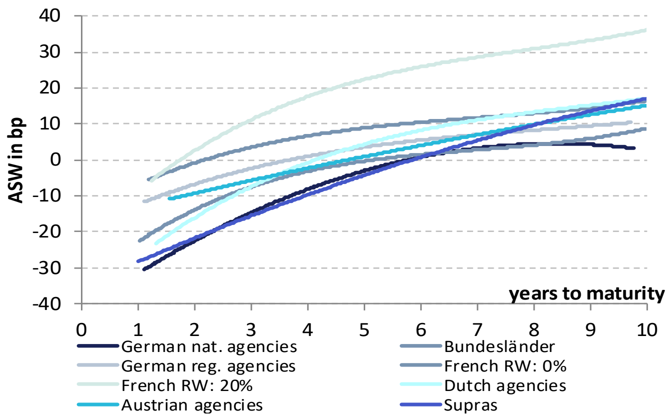
Netherlands & Austria



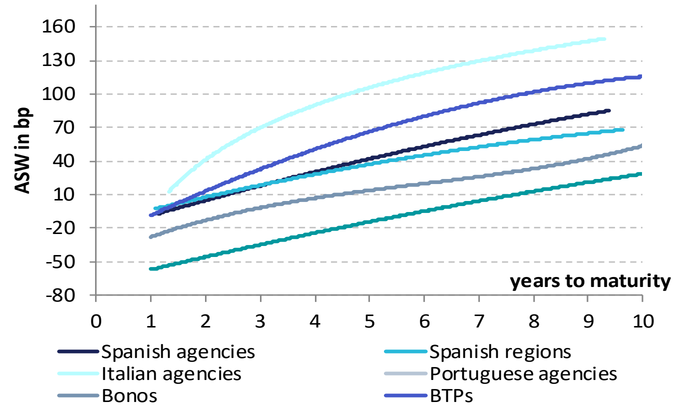
Supranationals



Core



Periphery



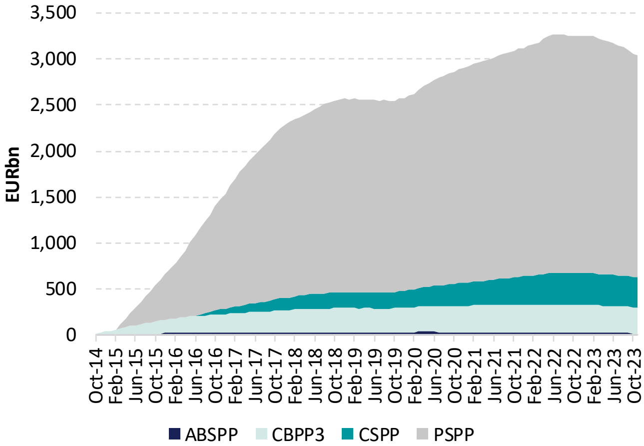
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

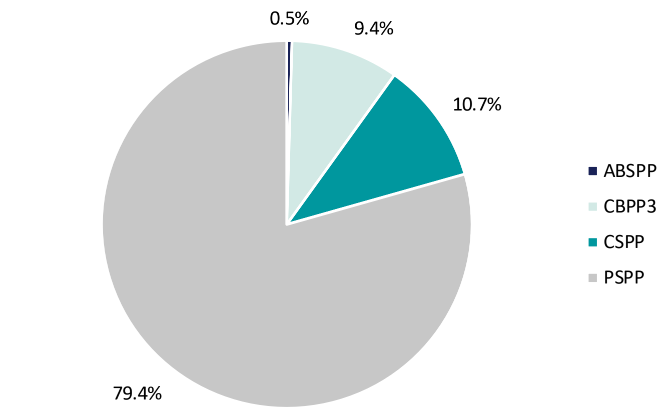
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Oct-23	14,349	287,525	328,193	2,426,355	3,056,422
Nov-23	13,842	286,174	325,481	2,412,976	3,038,473
Δ	-507	-1,351	-2,712	-13,379	-17,949

Portfolio development

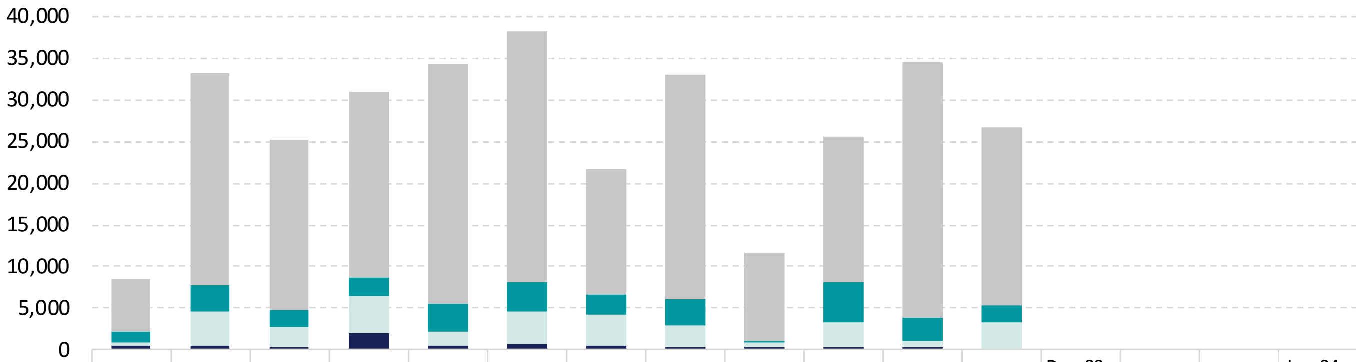


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

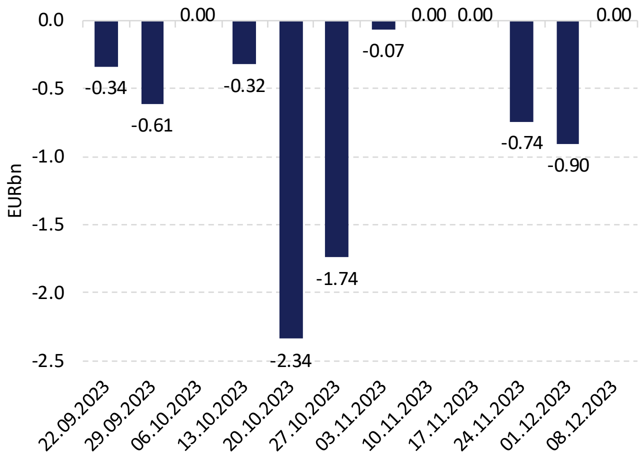


	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-23 - Nov-24	2022	2023	Jan-24 - Nov-24
APP	8,562	33,244	25,257	31,046	34,264	38,242	21,684	33,000	11,591	25,520	34,450	26,689	323,549	299,142	331,565	314,987
PSPP	6,336	25,524	20,387	22,413	28,712	30,194	14,974	26,894	10,533	17,438	30,578	21,298	255,281	228,585	255,025	248,945
CSPP	1,336	3,101	2,075	2,188	3,316	3,463	2,462	3,204	244	4,738	2,720	2,031	30,878	17,670	31,251	29,542
CBPP3	408	4,109	2,449	4,434	1,814	3,836	3,777	2,558	541	2,993	736	3,136	30,791	41,244	35,147	30,383
ABSPP	482	510	346	2,011	422	749	471	344	273	351	416	224	6,599	11,643	10,142	6,117

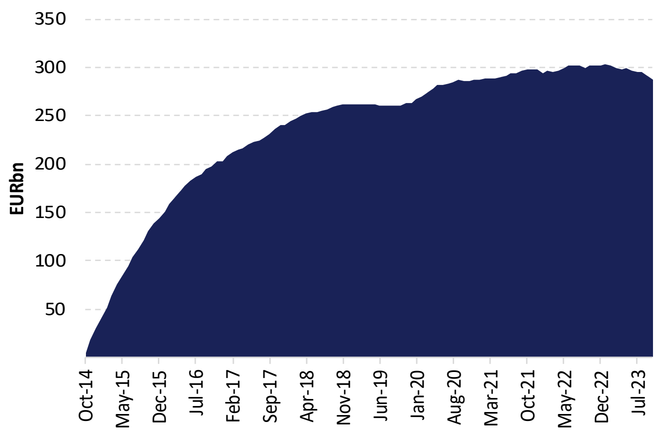
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

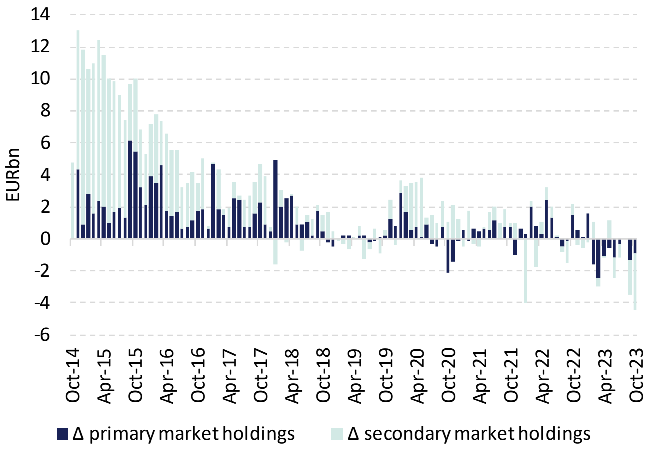
Weekly purchases



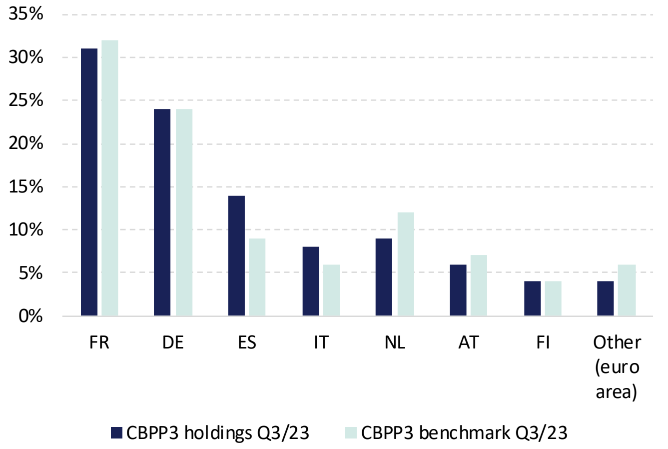
Development of CBPP3 volume



Change of primary and secondary market holdings

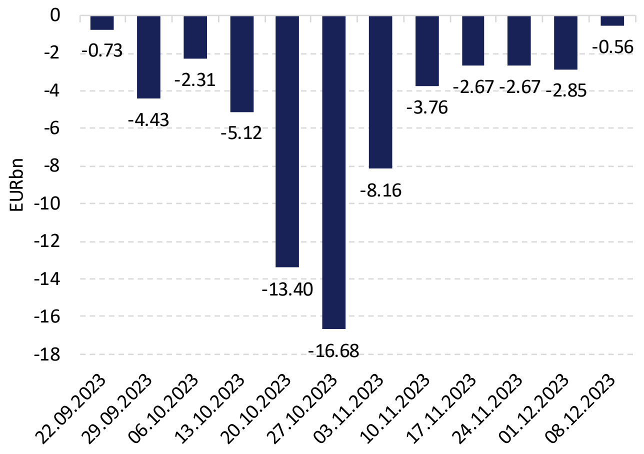


Distribution of CBPP3 by country of risk

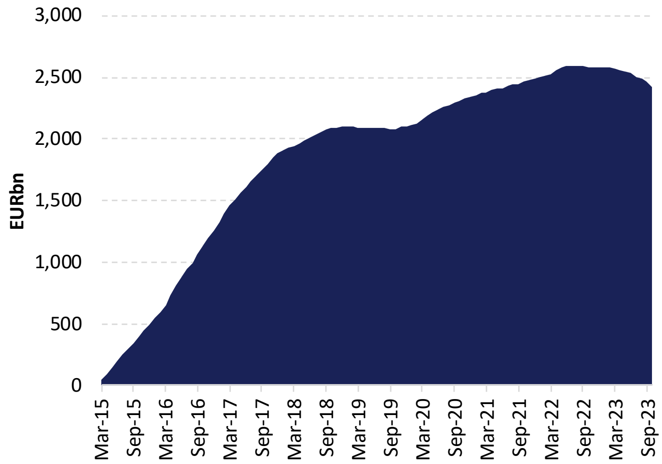


Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume

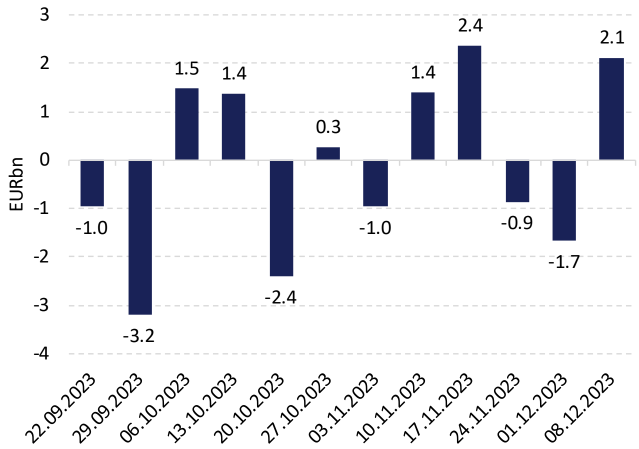


Source: ECB, Bloomberg, NORD/LB Floor Research

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	43,189	470	2.6%	2.6%	0.0%	7.2	7.8
BE	55,942	473	3.3%	3.4%	0.1%	6.0	9.4
CY	2,458	36	0.2%	0.1%	0.0%	8.2	8.2
DE	394,133	-4,271	23.7%	23.7%	0.0%	6.6	7.1
EE	256	0	0.3%	0.0%	-0.2%	6.5	6.4
ES	192,989	1,452	10.7%	11.6%	0.9%	7.2	7.4
FI	26,210	-806	1.7%	1.6%	-0.1%	7.2	7.3
FR	298,624	1,649	18.4%	18.0%	-0.4%	7.2	7.7
GR	39,232	281	2.2%	2.4%	0.1%	8.4	9.0
IE	25,708	128	1.5%	1.5%	0.0%	8.7	9.1
IT	287,549	-1,636	15.3%	17.3%	2.0%	7.1	6.9
LT	3,181	-90	0.5%	0.2%	-0.3%	9.1	8.6
LU	1,881	13	0.3%	0.1%	-0.2%	6.0	8.1
LV	1,857	19	0.4%	0.1%	-0.2%	7.7	7.2
MT	604	0	0.1%	0.0%	-0.1%	9.7	8.2
NL	84,487	911	5.3%	5.1%	-0.2%	7.3	9.2
PT	32,323	-67	2.1%	1.9%	-0.2%	7.4	7.6
SI	6,547	43	0.4%	0.4%	0.0%	8.3	8.7
SK	7,868	56	1.0%	0.5%	-0.6%	8.0	8.2
SNAT	155,091	999	10.0%	9.3%	-0.7%	9.8	8.9
Total / Avg.	**1,660,130**	**-338**	**100.0%**	**100.0%**	**0.0%**	**7.3**	**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 Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
36/2023 ♦ 06 December	▪ The covered bond universe of Moodys: an overview ▪ Teaser: Issuer Guide – Nordic Agencies 2023
35/2023 ♦ 29 November	▪ ESG covered bonds: a look at the supply side ▪ Current risk weight of supranationals & agencies
34/2023 ♦ 22 November	▪ Transparency requirements §28 PfandBG Q3/2023 ▪ Teaser: Issuer Guide – German Agencies 2023
33/2023 ♦ 15 November	▪ Development of the German property market ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
32/2023 ♦ 08 November	▪ Norway: creation of SpareBank 1 Sor-Norge ▪ ECB: PEPP versus TPI – or: (re)investing where others like to go on holiday
31/2023 ♦ 25 October	▪ Banks in Europe: the EBA Risk Dashboard in Q2 2023 ▪ Teaser: Issuer Guide – Spanish Agencies 2023
30/2023 ♦ 18 October	▪ Focus on covered bond jurisdictions: Canada in the spotlight ▪ A closer look at Newfoundland and Labrador
29/2023 ♦ 11 October	▪ A covered bond view of Belgium ▪ Funding of Canadian provinces – an overview
28/2023 ♦ 27 September	▪ The covered bond universe of Moody's: an overview ▪ Update on DEUSTD – Joint German cities (bond No. 1)
27/2023 ♦ 20 September	▪ Newcomer to the EUR benchmark segment: Bendigo and Adelaide Bank set to expand issuer base in Australia ▪ Teaser: Issuer Guide – Austrian Agencies 2023
26/2023 ♦ 13 September	▪ ECBC publishes annual statistics for 2022 ▪ Teaser: Issuer Guide – Dutch Agencies 2023
25/2023 ♦ 06 September	▪ Covered bond market on the growth path: OLB looks set to join the ranks of EUR benchmark issuers ▪ NORD/LB Issuer Guide German Laender 2023 published
24/2023 ♦ 19 July	▪ Banks in Europe: EBA Risk Dashboard in Q1 2023 ▪ ECB repo collateral rules and German Laender
23/2023 ♦ 12 July	▪ Covereds: Half-year review and outlook for the second half of 2023
22/2023 ♦ 28 June	▪ Special publication on LCR classification and risk weights: a (regulatory) overview of the EUR benchmark segment ▪ ESG bonds of German Laender – significant further development
21/2023 ♦ 21 June	▪ ESG covered bonds: a look at the supply side ▪ Increasing exposure of E-supras to Ukraine
20/2023 ♦ 14 June	▪ Moody's covered bond universe – an overview ▪ Beyond Bundeslaender: Spanish regions
19/2023 ♦ 07 June	▪ ECB Preview: ECB's 25th anniversary and is still going strong ▪ Focus on legal requirements for covered bonds

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2023

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 Q3/2023 (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2023

Issuer Guide – German Agencies 2023

Issuer Guide – European Supranationals 2023

Issuer Guide – French Agencies 2023

Issuer Guide – Dutch Agencies 2023

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2023

ECB preview: A silent, but holy summit meeting?

ECB: Now is not the time for forward guidance!

ECB preview: Wait and see without calling it a pause

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