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Covered Bond & SSA View

NORD/LB Floor Research

31 January 2024 ♦ 04/2024
Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Primary market: brief pause for breath unable to halt the wave of new issues
Rather than running out of steam in the final trading week of January, the wave of new issues on the covered bond market continues in full swing. The primary market briefly paused for breath last Thursday, when the ECB held its regular meeting in Frankfurt. The implications of the interest rate decision are summarised in detail as part of our Fixed Income Special. The primary market does not seem to have been unduly vexed by the ECB's expected decision, with Jyske Realkredit (cf. Issuer View) approaching investors with a deal on Friday last week. The issuer was able to place a bond with a volume of EUR 750m. During the marketing phase, the spread narrowed by seven basis points to ms +41bp. The mandates for HYPO NOE Landesbank (cf. Issuer View) and Arkea Home Loans were also forthcoming on Friday. A first primary market deal in 2024 from Australia, which was placed on Monday, also deserves a mention. National Australia Bank issued a covered bond with a volume of EUR 1.25bn on the market at a final spread of ms +58bp. The order book for this 7y deal was well-filled, reaching a total of EUR 4.0bn overall. The previous deal from the jurisdiction of Australia dates back to September 2023. At EUR 4.9bn, Argenta Spaarbank's deal (cf. Issuer View) generated an even stronger order book than National Australia Bank. The issuer approached investors with its 10y deal on Tuesday. Ultimately, Argenta Spaarbank raised EUR 750m at a spread of ms +58bp. On the same day, another German Pfandbrief issuer, namely Landesbank Hessen-Thüringen (cf. Issuer View), made an appearance on the market too. The 10y public sector Pfandbrief worth EUR 1.25bn was placed with investors at a spread of ms +33bp. This present edition of our Covered Bond & SSA View contains a focus article offering an overview of the deals placed on the Pfandbrief market so far this year. In total, the volume of new deals placed over the past five trading days stands at EUR 7.0bn, spread across eight deals from seven different jurisdictions. The sum of all order books amounted to EUR 22.9bn, which in our opinion reflects significant demand for primary market goods. Although it might seem almost "scary" that the primary market has remained so active for such an extended period of time, the current dynamics are to be welcomed from both an issuer and investor perspective. However, the Canadians have been conspicuous by their absence for a while now – perhaps the party is not quite over just yet!

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Argenta Spaarbank	BE	30.01.	BE6349638187	10.0y	0.75bn	ms +58bp	- / - / AAA	X
Helaba	DE	30.01.	XS2760109053	10.0y	1.25bn	ms +33bp	- / Aaa / -	
HYPO NOE	AT	29.01.	AT0000A3A3B3	6.0y	0.50bn	ms +51bp	- / Aa1 / -	
NAB	AU	29.01.	XS2758930569	7.0y	1.25bn	ms +58bp	AAA / Aaa / -	
Arkea Home Loans	FR	29.01.	FR001400NNC1	10.0y	1.00bn	ms +45bp	AAA / Aaa / -	
Jyske Realkredit	DK	26.01.	DK0009414336	7.2y	0.75bn	ms +41bp	- / - / AAA	
Nordea	FI	24.01.	XS2758065796	7.0y	1.00bn	ms +35bp	- / Aaa / -	
Münchener Hypo	DE	24.01.	DE000MHB38J4	10.0y	0.50bn	ms +34bp	- / Aaa / -	X

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

Secondary market: new issue premiums further constricted

Due to the spate of new issuances, freshly placed deals are also continuing to perform on the secondary market. The order books for new deals are significantly oversubscribed practically across the board, meaning that the spreads are tightening considerably as part of the marketing process. Accordingly, the trend towards lower new issue premiums seen in the previous trading week has continued. The performance of the deals seems to be based predominantly on the longer terms, where the majority of investors and issuers are concentrated. However, in our opinion, there is no sign yet of any significant convergence of the “imaginary gap” between the primary deals and the secondary market curves.

ECB defines SSM supervisory priorities for 2024-2026

Last year, the ECB published its SSM (Single Supervisory Mechanism) supervisory priorities for the period 2024-2026 in addition to its assessment of risks and vulnerabilities in the European banking system. The ECB identifies medium-term challenges particularly in relation to the volatility of some refinancing sources and the increase in banks’ refinancing costs. Both effects can be attributed to higher interest rates. Furthermore, geopolitical crises, rising inflation and higher risk premiums can also pose challenges for European banks. Alongside these challenges, topics such as climate and environmental risks as well as the digital transformation are becoming more of a priority for the supervisory authority. In this vein, the ECB has clearly defined its supervisory priorities for the years 2024-2026. The ECB sees this as strengthening the banks it is responsible for supervising in terms of their resilience against direct macrofinancial and geopolitical shocks, accelerating the elimination of deficiencies in governance and the management of climate and environmental risks, and ensuring that the digital transformation is more resilient by implementing more robust frameworks. These priorities also have implications for the covered bond market. In particular, the taxonomy capability of cover pool assets is a topic that can be easily subsumed under the issues of governance and management of climate and environmental risks.

Scope: risks on European property markets

In a recently published article, the rating experts at Scope looked at the systematic risks on the European real estate market. In this report, Scope states that the Nordic countries are particularly vulnerable to systematic risks, with Norway and Sweden standing out particularly in terms of the amount of mortgage collateral, the average debt level in relation to income and exposure to variable interest mortgage loans. The development of real estate prices also plays an important role when assessing the risk profile of the individual real estate markets. According to Scope, real estate prices should not be significantly higher than GDP growth in the long term. However, the rating experts have identified precisely this development in jurisdictions such as Austria, Norway and Luxembourg. From our point of view, despite the ongoing tense situation on European real estate markets, no acute impact on the quality of the cover pools of European covered bonds has been in evidence so far.

S&P paints a stable picture overall for the Italian and Spanish banking markets
In their recently published outlooks, the rating experts at S&P looked in detail at the risks and trends for the Italian and Spanish banking sectors. In terms of the Italian banking sector, the rating agency expects earnings to remain solid across 2024, despite the strength of economic development tailing off somewhat. In addition, the rating experts expect a moderate rise in non-performing exposures. The existing gulfs in credit quality between different banks are likely to become more apparent from 2024 onwards, due to the relative strength in liquidity profile, funding and asset quality. On balance, S&P believes that Italian banks are better prepared to cope with an economic downturn than has been the case in previous decades. Accordingly, the vast majority of Italian banks rated by S&P have been awarded a stable outlook, with a positive outlook even awarded to two banks. S&P sees the situation over on the Spanish banking market as similar, albeit one that differs from Italy in a few key aspects. As in the case of Italy, the rating experts expect the dynamics on the Spanish market to weaken over the course of 2024 and an increase in non-performing loans, especially in relation to small and medium-sized enterprises and consumer loans. The rating agency continues to expect solid earnings that could offset potential risks in Spain as well. In addition, S&P highlights the large liquidity reserve of Spanish banks, which, in combination with the deposit base, could help to compensate for a potential liquidity shortage in the Spanish banking market. S&P also outlined its expectation that some Spanish issuers would make an appearance on the capital market, primarily with the aim of reinvesting maturities. Accordingly, we were able to welcome Cajamar Caja Rural from Spain to the covered bond market this year with a benchmark bond (5.5y) worth EUR 600m. For their part, Italian banks have been surprisingly active, with three benchmarks registered from this jurisdiction so far this year. Overall, Banco BPM (6.0y), Banca Popolare di Sondrio (5.5y) and Credito Emiliano (5.3y) have successfully placed covered bonds with a total volume of EUR 1.75bn.

Fitch: check-up on Italian covered bond programmes
In a recent peer review, Fitch provides an overview of rating-sensitive developments in relation to the eight Italian mortgage-backed covered bond programmes that form part of its coverage. In this report, one of the conclusions reached by the rating agency is that the available excess spread of the programmes is dwindling. This development is mainly due to the asset-liability mismatch in the cover pools of the covered bond programmes, which is also reflected in a higher breakeven OC. However, the decline in the excess spread currently has no impact on the rating of the covered bond programmes rated by Fitch. According to the rating experts, excess spread dynamics should start to tail off with the onset of stabilising interest rates and the repricing of cover pool values reaching its conclusion. In total, Fitch rates eight Italian covered bond programmes which, with the exception of Banca Monte dei Paschi di Siena (rating: AA-), have a rating of AA.

EBF: Green Asset Ratio

In a recent statement, the European Banking Federation (EBF) cast a critical eye over the Green Asset Ratio (GAR) as a key indicator for measuring sustainable activities in the financial sector. This metric is intended to enable the private sector to better assess a company's environmental costs and the benefits of a sustainable investment. The EBF criticises the fact that the GAR does not holistically integrate all of the sustainable efforts of a bank. The EBA also states in its latest report on green loans and mortgages that the technical screening criteria of the EU taxonomy exclude a large number of activities that contribute to an economic transition. According to the EBF, due to the lack of coverage, structure, documentation requirements and limited usability, the GAR is not a suitable indicator for assessing a bank's progress in complying with its sustainability obligations. For example, from the EBF's perspective, financing the renovation of a building with a low energy efficiency class will not be taken into account in the GAR as long as the renovated building does not meet a high energy efficiency standard. These problems apply not only to banks as institutions, but also to certain financial products such as covered bonds. At present, we are not aware of any covered bond programme that meets all of the requirements of the EU taxonomy in full. As such, this is a pretty controversial topic within the industry. In particular, discussions are focused on the comprehensive documentation requirements of the EU taxonomy. We are looking forward to discussing this and other topics with you as part of our NORD/LB Regulatory Update 2024. If you are still yet to receive an invitation to this event, which is scheduled to take place on 29 February 2024, please get in touch via event-markets@nordlb.de. We look forward to you joining us!

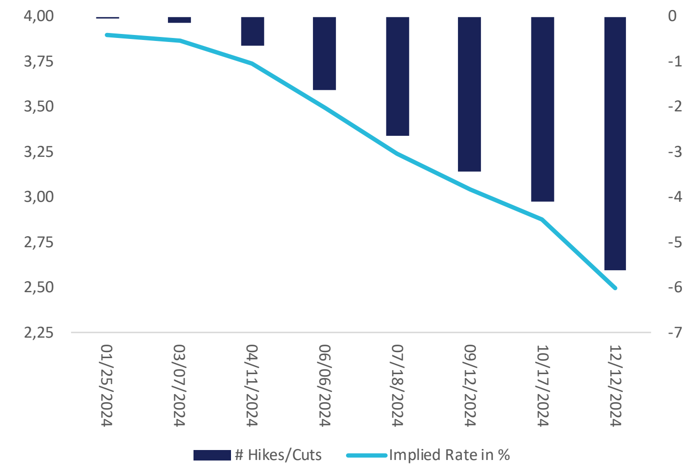
Market overview SSA/Public Issuers

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

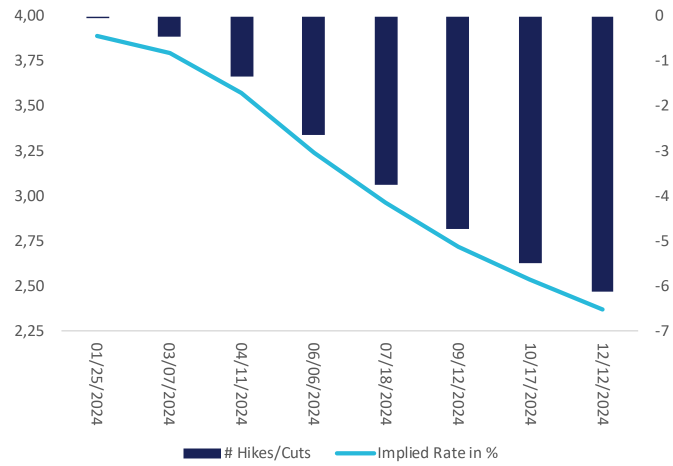
ECB key rate decision: interest rate pause expected until at least June

As expected, the decision-makers at the European Central Bank did not make any adjustments to the three key interest rates last Thursday. Accordingly, the interest rate for the main refinancing operations was left unchanged at 4.50%, while the interest rates for the marginal lending facility (4.75%) and the deposit facility (4.00%) also remained untouched. The corresponding press release reiterates that, in the Council's opinion, the key interest rates are at a level at which a return to the mandated medium-term inflation target is achievable (at least in theory), provided that the level is maintained long enough. The statement already refers to the meeting-by-meeting approach, which is led by the available data, with regard to the question of the appropriate length of time to remain at this restrictive level. The meeting was characterised by critical questions and the classification of market expectations. In our ECB Special last week, we dubbed it "Council versus market". This describes the fact that the market has so far anticipated one or even several early (or perhaps even premature) interest rate cuts, while the ECB Governing Council – and we too – would like to pause interest rates until at least June.

Implied interest rate probabilities on 25 January 2024



Implied interest rate probabilities on 12 January 2024



Source: Bloomberg, NORD/LB Floor Research

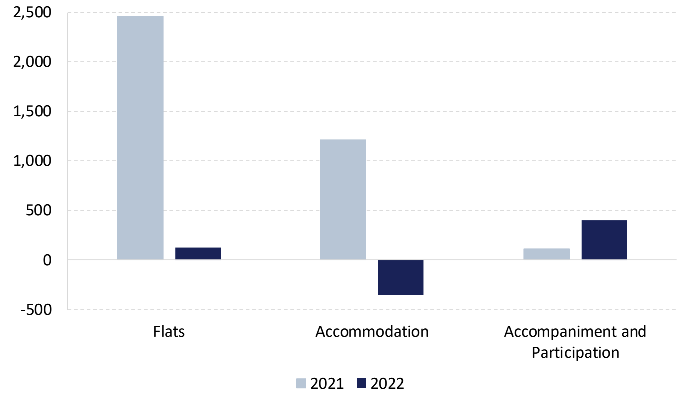
Comments on the ECB

The last Council meeting was another day of reflection and taking a deep breath on the interest rate side. Nevertheless, we are sticking to our forecast that there will be an interest rate cut in June at the earliest and that the monetary policy music is still likely to be played mainly in the second half of the year. We do not expect interest rates to be cut at every meeting from June to December. The roadmap for the gradual reduction of the PEPP from the second half of the year is clear, and the new *staff projections* in March and June are also looming large on the horizon. We doubt whether the inflation path outlined by the ECB to date will materialise in this way. Essentially, the trend is correct.

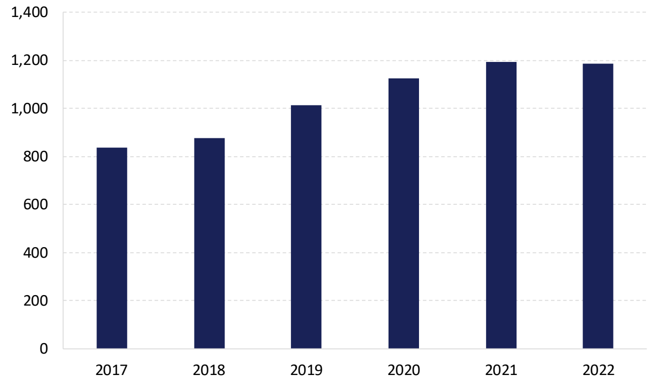
Fördern & Wohnen AöR – the Hamburg-based social enterprise

Fördern & Wohnen (F&W) based in Hamburg is a public law institution (AöR) tasked with offering housing, accommodation and social services for people in need of assistance. The history of F&W dates back to the 17th century, when the care of the poor and homeless became the city's responsibility. Accordingly, a port of call was created for many people, which provided board and lodging as well as the opportunity to earn money. F&W was established in its current form in 2007. Currently, the tasks of F&W are divided into three segments: Accommodation (I), Support & Participation (II) and Housing & Rentals (III). The Accommodation segment focuses on providing accommodation for refugees and homeless persons, among others. Support & Participation provides assistance to people with disabilities, as well as those suffering from mental illness and addiction, with the aim of facilitating their participation in society. F&W's construction projects fall under the Housing segment. Apartments are mainly let to those in urgent need of housing, i.e., people without their own place to live. In 2022, 1,186 apartments were available for this purpose. F&W focuses on the construction of socially mixed neighbourhoods. Currently, its largest project of this kind is the Hafenpark in the Veddel district of Hamburg, where it is aiming to construct 350 flats for a variety of target groups by 2027. To finance the services it provides, F&W uses social security authorities' fees, cost rates and reimbursement of expenses as well as rental income. However, it usually raises loans for investment in flats and residential construction projects. In 2022, the outstanding bank loans amounted to around EUR 239m. F&W operates in the legal form of public law institution (Anstalt des öffentlichen Rechts - AöR); it benefits from guarantor liability and institutional liability mechanisms from the Free and Hanseatic City of Hamburg as its sole owner. Besides the assets of F&W, the city therefore guarantees all its current and future liabilities. F&W is not rated, although we do regularly analyse its guarantor Hamburg (AAA / - / -), for example as part of our Issuer Guide – German Laender 2023. In 2022, F&W generated net profit for the year of around EUR 171,000 (2021: EUR 3.4m). The net profit for the year has fallen significantly year on year due to a non-recurring income effect in the Housing segment and reimbursements relating to other periods in the Accommodation segment in 2021. Since F&W is also responsible for the initial reception of asylum seekers, its accommodation capacities had to be expanded following the outbreak of the war in Ukraine and this continues to pose major challenges.

Net profit for the year by segment



Number of flats let



Source: Issuer, NORD/LB Floor Research

Primary market

With a total of seven new issues amounting to EUR 8bn in total from a wide range of jurisdictions, as can be seen in the table below, the market was again well supplied with new bonds in the last trading week. They were joined by the first sub-benchmark in the new year and a tap. We commented on four mandates in the last issue: marketing of the bonds started immediately last Wednesday. Among the German Laender, Bremen (ticker: BREMEN) issued an eight-year bond with a volume of EUR 750m at ms +13bp in line with its guidance. It was followed by the Canadian province of Ontario (ticker: ONT) with a bond worth EUR 1.25bn (10y). Having issued a guidance of ms +45bp in advance, the bond was finally priced one basis point tighter at ms +44bp. The order book reached EUR 2.9bn, resulting in a bid-to-cover ratio of 2.3x. The Danish municipal financier KommuneKredit (ticker: KOMMUN) appeared on the primary market with its first transaction this year: EUR 500m changed hands for a maturity of short 15 years at ms +45bp (guidance: ms +47bp area). The French issuer Île-de-France (ticker: IDF) provided new investment opportunities in the ESG segment by choosing a sustainable format. The maturity is ten years and the target volume of EUR 800m was raised at OAT +36bp, which equates to around ms +46bp. The order book ultimately totalled EUR 2.5bn. Yesterday (Tuesday), the EIB ventured onto the market for the second time this year with another EARN transaction: the volume of EUR 3bn (WNG) and the maturity of 15 years had been announced beforehand. The final pricing came in at ms +38bp (guidance: ms +40bp area). NRW.BANK (ticker: NRWBK) meanwhile raised EUR 1bn (5y) in new funding. The marketing phase started with initial guidance of ms +11bp area. Following a revision of the guidance to ms +10bp area, the bond was ultimately priced at ms +8bp. The Belgian region of Wallonia (ticker: WALLOO; cf. Issuer View) used the opportunity to utilise the EUR market for a social dual tranche consisting of a benchmark and a tap. The lead role was taken by the new social bond worth EUR 700m with a long six-year maturity. In the end, the order book was sufficiently oversubscribed at EUR 2.5bn, meaning that the spread tightened by three basis points compared with the guidance of OLO +48bp. WALLOO 3.5% 03/15/2043 was also increased by EUR 800m at OLO +43bp (guidance: OLO +45bp area). The order book finally came to EUR 2.8bn. The year's first sub-benchmark was provided by Ville de Paris (ticker: VDP). With a long maturity of 20 years, the bond's volume was set in advance at EUR 400m (WNG). It was finally priced at OAT +30bp, which equates to around ms +79bp (guidance: OAT +33bp area; order book: EUR 3bn). Looking ahead to the coming week: the next EU bond auction will take place on Monday. We shall comment on the results in the next issue. SACHAN (30y) and LANDER (7y, EUR 1bn WNG) also issued mandates.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
WALLOO	BE	30.01.	BE0390103662	6.8y	0.70bn	ms +44bp	- / A3a / -	X
NRWBK	DE	30.01.	DE000NWB9122	5.0y	1.00bn	ms +8bp	AAA / Aa1 / AA	-
EIB	SNAT	30.01.	EU000A3LT492	15.0y	3.00bn	ms +38bp	AAA / Aaa / AAA	-
IDF	FR	24.01.	FR001400NHX9	10.3y	0.80bn	ms +46bp	AA- / Aa2 / -	X
KOMMUN	Nordics	24.01.	XS2757516005	14.8y	0.50bn	ms +45bp	- / Aaa / AAA	-
ONT	CA	24.01.	XS2757519017	10.0y	1.25bn	ms +44bp	AA- / Aa3 / A+	-
BREMEN	DE	24.01.	DE000A30V372	8.0y	0.75bn	ms +13bp	AAA / - / -	-

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

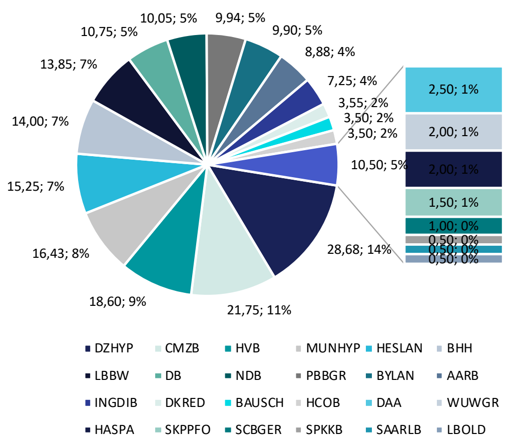
Covered Bonds
The Pfandbrief market at the start of 2024: caution thrown to the wind!

Authors: Dr Frederik Kunze // Lukas Kühne

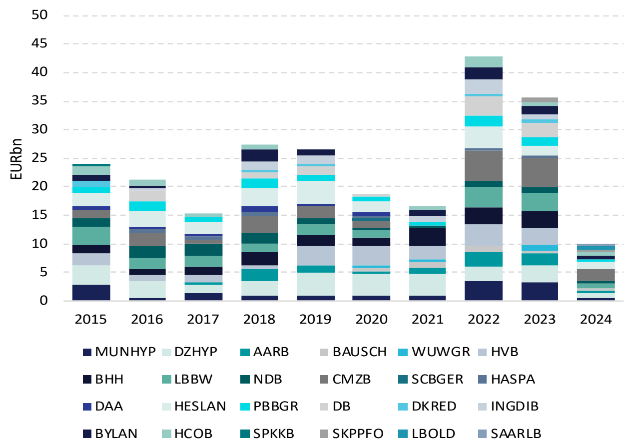
The Pfandbrief market at the start of 2024

As expected, the primary market got off to an extremely lively start in 2024. In the EUR benchmark segment, we have welcomed 47 new bonds from 11 jurisdictions to the market to date, totalling a volume of EUR 39.6bn overall. At this point, we should point out that in the next issue of our Covered Bond & SSA View we intend to briefly look back at the issuing month of January. In today's covered bond focus article, however, our sole focus is on the Pfandbrief sub-segment. In our opinion, there have been some remarkable developments here, which we would like to take as an opportunity to review the first trading weeks of the year. In fact, it is not the primary market activity that invites us to talk of a special market. This year, 15 deals have been placed, totalling EUR 10.00bn, with combined order books of EUR 24.5bn. Compared with the previous year (17 deals; issuance volume: EUR 10.75bn; combined books: EUR 27.42bn), these figures do not really stand out. Nevertheless, we can look back on two successful debuts. Saar LB opened up the long end of the Pfandbrief segment with its first appearance, while OLB (cf. Issuer View) made a successful first foray into the EUR benchmark segment, as expected. And Hamburg Commercial Bank (HCOB; cf. Issuer View) breathed new life into the market for ship Pfandbriefe, with the bond looking back on a final order book of EUR 4.0bn and an oversubscription ratio of 8.0x. These structural developments unequivocally underline the importance of the Pfandbrief market for old and new investors. Spread developments and investor composition also constitute additional special features of the market at the start of 2024, which we shall now briefly examine in this article.

Covered bonds DE: EUR BMK (EURbn; outstanding)

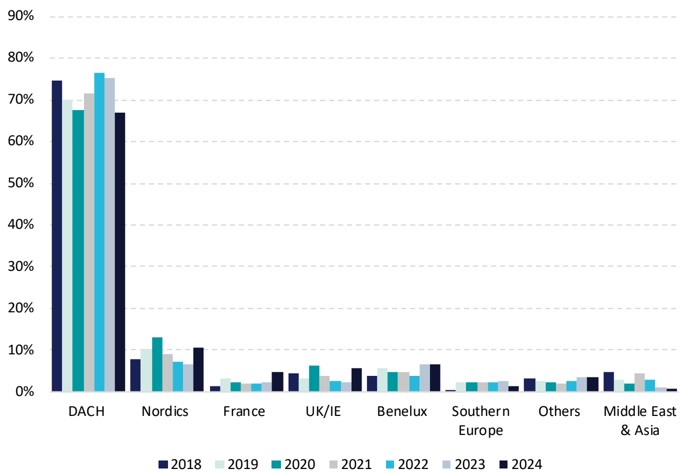


Covered bonds DE: Issuance volume (EURbn; YTD)

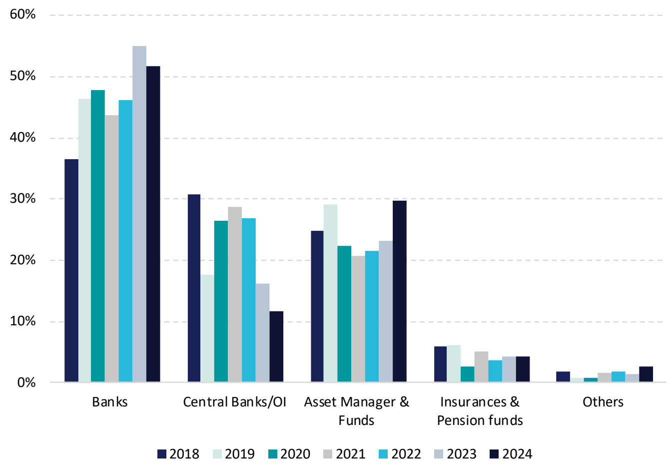


Source: Bloomberg, market data, NORD/LB Floor Research

Covered bonds DE: investor breakdown by region



Covered bonds DE: investor breakdown by type

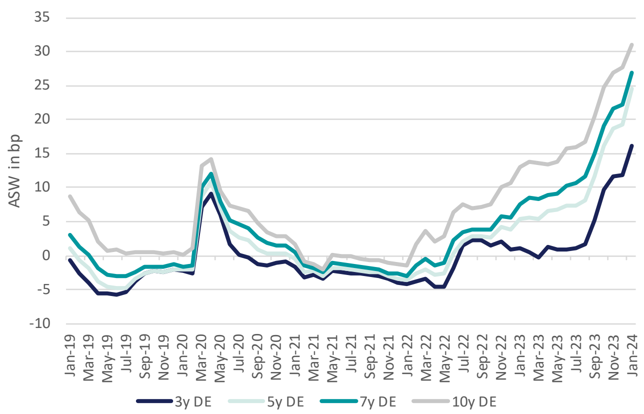


Source: Market data, NORD/LB Floor Research

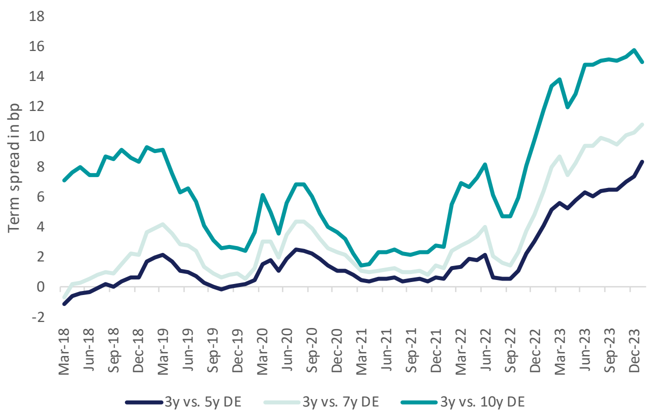
Absence of the ECB on the primary market also apparent in the case of Pfandbriefe

The ECB and the Eurosystem have been withdrawing as buyers on the primary and secondary markets for several months now. Nevertheless, only now have we been able to observe the seasonal stress test. After all, January is always the most active month in terms of "fresh supply" for the market. And the Eurosystem accordingly does not feature in the order books or allocations. In 2023, our feeling was that it was the banks in particular that closed the gap here. In the first trading weeks of the year, however, we are now seeing an increasing preponderance of "real money" investors, represented by the "asset managers & funds" category, in terms of the allocation of primary market deals in the covered bond segment. In fact, we are inclined to supplement this finding with the results of a (not 100% representative) survey published on LinkedIn. The majority of demand in the Pfandbrief segment at the start of 2024 was seen in the categories "New real money investors" (44%) and "Typical Pfandbrief investors" (41%). The spread is likely to be one of the main reasons for many investors to buy newly placed Pfandbriefe. In January, there was a noticeable continuation of the repricing that started in the final trading weeks of 2023.

Covered bonds DE: spread trend (ASW; generic)



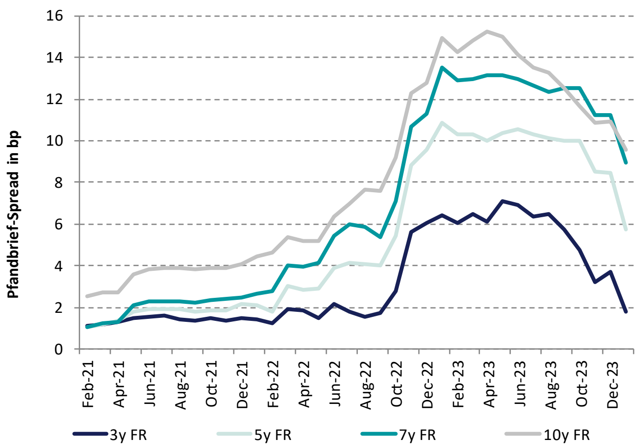
Covered bonds DE: term premiums (generic)



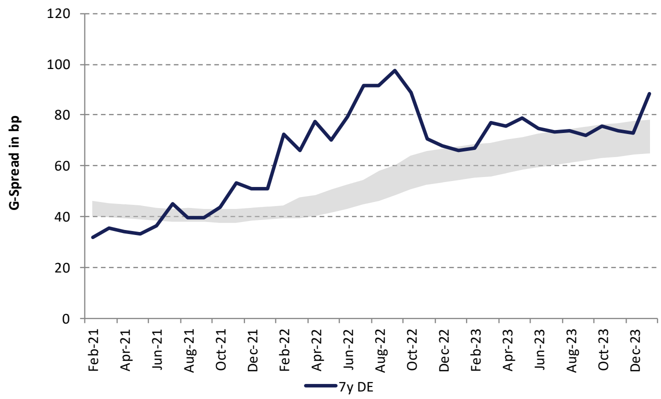
Source: Bloomberg, market data, NORD/LB Floor Research

Pfandbriefe much more attractive again from an investor perspective?
In order to categorise the spread developments in the Pfandbrief segment in relative terms, it is absolutely essential to look at the phase of repricing that has been going on now for more than a year. In retrospect, it can certainly be said that for many (international) investors, covered bonds from Germany were simply deemed too expensive. This was particularly true of covered bonds from other EMU core jurisdictions (Netherlands and France), but also - at least at times - in terms of their relative attractiveness compared to Bunds. In the covered bond universe, Pfandbriefe have benefited (in our view, anyway) for a comparatively long time from a rather rigid group of investors, who have, however, increasingly turned to other - much more favourable - sub-markets over time. The price gap measured by the “Pfandbrief spread in bp” has narrowed considerably in recent months, so we would also say that Pfandbriefe have in some way made up for their own repricing. The Pfandbrief is now also at a very advanced stage in this process, so noticeable widening - relative to other jurisdictions - is becoming less likely.

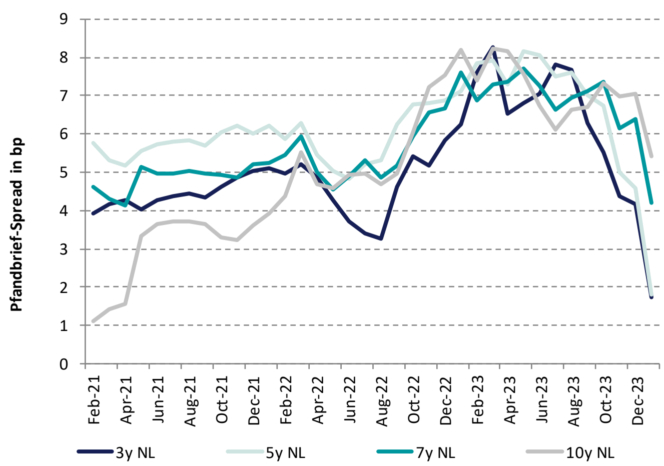
Relative value: Pfandbrief vs. Covereds FR (generic)



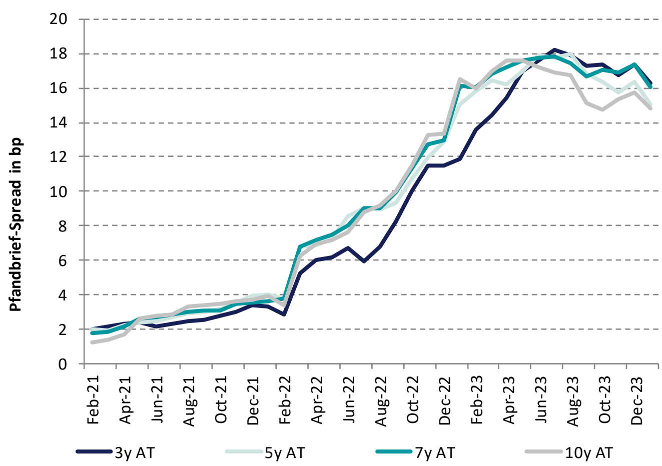
Relative value: Pfandbrief vs. Bund (generic)



Relative value: Pfandbrief vs. Covereds NL (generic)



Relative value: Pfandbrief vs. Covereds AT (generic)



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

Spread developments: Technical market data and still (slightly) driven by headlines?
How can this view be justified? After a busy trading month of January, we have already seen a significant proportion of the gross issuance volume we expect for 2024. However, this also means that some saturation effects should have set in with regard to Pfandbriefe. As the market presence of Aareal Bank (cf. Issuer View) and Deutsche Pfandbriefbank (cf. Issuer View), for example, have shown, mortgage Pfandbriefe that have a very high proportion of CRE exposure in their cover pools can also be placed on the market successfully. We should stress that the price requirements of investors are definitely higher here. We continue to see this as largely driven by headlines, as these higher "risk premiums" are not fundamentally justified to the same extent, even on the basis of the stringent requirements of the German Pfandbrief Act. Nevertheless, developments on the global CRE market will remain a factor influencing spreads for the foreseeable future.

NORD/LB forecast 2024: Issues and maturities by jurisdiction

Jurisdiction	Outstanding volume as at 30 January 2024 (EURbn)	Maturities 2024 (EURbn)	Issues 2024ytd as at 30 January 2024 (EURbn)	Issues 2024e (EURbn)	Net supply 2024e (EURbn)
AT	58,60	58,60	3,25	9,50	7,25
AU	35,55	35,55	1,25	5,75	0,25
BE	22,25	22,25	0,75	2,75	1,75
CA	81,45	81,45	0	17,50	5,00
CH	0,75	0,75	0	1,00	1,00
CZ	2,00	2,00	0	2,00	2,00
DE	**206,37**	**206,37**	**10,00**	**26,00**	**7,83**
DK	6,25	6,25	0,75	1,00	0,50
EE	1,00	1,00	0	1,00	1,00
ES	70,85	70,85	0,60	8,00	1,75
FI	39,00	39,00	2,00	5,00	2,00
FR	265,07	265,07	13,50	36,00	12,25
GB	25,36	25,36	0	6,50	-2,00
GR	0,00	0,00	0	0,00	0,00
HU	0,00	0,00	0	0,50	0,50
IE	0,75	0,75	0	0,00	0,00
IS	0,50	0,50	0	1,00	1,00
IT	52,01	52,01	3,00	11,00	3,00
JP	5,60	5,60	0	1,75	1,75
KR	10,00	10,00	0,50	2,50	2,00
LU	1,00	1,00	0	0,00	-0,50
NL	80,95	80,95	4,00	6,00	1,00
NO	45,00	45,00	0	7,00	3,00
NZ	10,45	10,45	0	3,75	1,25
PL	1,50	1,50	0	1,00	0,00
PT	5,35	5,35	0	2,00	0,00
SE	32,08	32,08	0	6,25	1,50
SG	7,00	7,00	0	2,50	1,25
SK	8,00	8,00	0	1,50	1,00
Total	**1074,67**	**111,43**	**39,60**	**168,75**	**57,33**

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

NORD/LB

Conclusion and outlook

If January 2024 can be described as a special month for the Pfandbrief segment, this is not so much to do with the issuance volume or oversubscription rates of the newly placed deals. The bid-to-cover ratios are certainly impressive and the performance on the secondary market is also more than a respectable achievement for some deals. However, we would currently tend to emphasise other factors. We are thinking here in particular of the delayed repricing compared with other jurisdictions. However, in connection with the demand side, we must also point out the shift in the demand structure. While the dominant view in 2023 was that the transition from the Eurosystem as a price-sensitive investor to the banks (and treasuries in particular) was taking place, we are now seeing increasing anecdotal evidence that "real money" investors are rediscovering the Pfandbrief. And the demand side can indeed strike gold here. Supply was increased in January with the addition of two new benchmark issuers. With the HCOB ship Pfandbrief, a very rare asset class was even offered -despite all conceivable reservations about CRE positions. The Pfandbriefe of the classic "monoliners" serve a group of investors who are guided in their investment decisions by a higher spread or a higher absolute yield. We hope that the range of ESG deals will be revived somewhat, even in the face of slower market developments. In 2024, we only welcomed two ESG Pfandbriefe to the market, meaning that market players are probably still hungry for more.

Pfandbrief deals (EUR BMK; YTD)

Issuer	Timing	Spread	Spread Δ	Maturity	Size	Orders	NIP	Type	ESG
Helaba	30.01.	ms +58bp	-7bp	10.0y	0.75bn	2.15bn	+3bp	PS	-
Münchener Hypo	24.01.	ms +34bp	-7bp	10.0y	0.50bn	3.40bn	+3bp	M	X
HCOB	23.01.	ms +73bp	-10bp	2.0y	0.50bn	4.00bn	+13bp	S	-
OLB	22.01.	ms +59bp	-6bp	8.0y	0.50bn	1.30bn	-	M	-
Spk. Pforzheim Calw	11.01.	ms +45bp	0bp	7.0y	0.50bn	0.70bn	+11bp	M	-
Landesbank Saar	10.01.	ms +46bp	-6bp	10.0y	0.50bn	1.10bn	+6bp	PS	-
PBB	09.01.	ms +58bp	-2bp	3.0y	0.50bn	1.20bn	+18bp	M	-
BS Schwäbisch Hall	09.01.	ms +33bp	-4bp	5.0y	0.50bn	2.20bn	+13bp	M	X
Bayerische Landesbank	08.01.	ms +29bp	-5bp	6.5y	0.75bn	1.59bn	+8bp	M	-
NORD/LB	04.01.	ms +38bp	-4bp	7.0y	0.50bn	0.80bn	+11bp	M	X
Aareal Bank	03.01.	ms +52bp	0bp	4.3y	0.50bn	0.50bn	+16bp	M	-
DZ HYP	03.01.	ms +33bp	-4bp	7.1y	0.75bn	1.14bn	+9bp	M	-
Commerzbank	02.01.	ms +23bp	-4bp	3.0y	1.00bn	1.69bn	+9bp	PS	-
Commerzbank	02.01.	ms +38bp	-4bp	7.0y	1.00bn	1.44bn	+9bp	M	-
LBBW	02.01.	ms +30bp	-5bp	7.2y	0.75bn	1.25bn	+8bp	M	-

Source: Bloomberg, NORD/LB Floor Research (Rating: Fitch / Moody's / S&P); Type: M = Mortgage; PS = Public Sector; S = Ship

SSA/Public Issuers
Teaser: Issuer Guide – Other European Agencies 2024

Authors: Dr Norman Rudschuck, CIIA // Christian Ilchmann // Lukas-Finn Frese // assisted by Justin Hoff

Marked differences between the agencies in other European countries

In today's teaser, we take a brief look at the other European agencies. The outstanding volume of the five issuers from five jurisdictions analysed here amounts to EUR 99.6bn, spread over 143 bonds. Cassa Depositi e Prestiti (CDP) stands out here as it relies to a large extent on deposits from private customers for its refinancing activities. A new addition to our coverage is Magyar Export-Import Bank (EXIM), which became active on the EUR primary market for the first time in November 2023. However, Infraestruturas de Portugal, which was formed in 2015 from the merger of the state-owned rail and road network operator Estradas de Portugal and Rede Ferroviária Nacional, has not yet utilised the capital market for its refinancing operations. Due to the predecessor company, Rede Ferroviária Nacional (REFER), the agency is still profiled here for reasons of continuity. Gospodarstwa Krajowego (BGK), a promotional bank with an outstanding volume totalling the equivalent of EUR 47.0bn, and the winding-up agency Dexia Crédit Local (DCL; EUR 27.8bn) are both among the leading issuers on the bond market in terms of the other European agencies.

Other European Agencies – an overview

Institution	Type	Owner(s)	Guarantee	Risk weight
Cassa Depositi e Prestiti (CDP; Italien)	Other financial institution	82.8% Italy, 15.9% various banking foundations, 1.3% CDP itself	-	50%
Infraestruturas de Portugal (IP / REFER; Portugal)	Infrastructure operator	100% Portugal	Explicit guarantee for the EMTN programme	0%/50%*
Bank Gospodarstwa Krajowego (BGK; Polen)	Promotional bank	100% Poland	Maintenance obligation, bonds within scope of EMTN may have explicit guarantee	0% (PLN-denominated bonds); 20%** (EUR-denominated bonds)
Magyar Export-Import Bank (EXIM; Ungarn)	Export bank	100% Hungary	Explicit guarantee	0% (HUF-denominated bonds); 50%** (EUR-denominated bonds)
Dexia Crédit Local (DCL)	Winding-up vehicle	52.78% Belgium, 46.81% France, 0.41% institutional investors and employees	Explicit guarantee	0%/50%*

* 0% for guaranteed bonds, 50% for bonds without a guarantee.
** Without taking into account Article 500a (1) CRR
Source: Issuers, NORD/LB Floor Research

Explicit guarantee for a majority of the agencies

Four of the five agencies analysed here have forms of explicit guarantees from their respective home countries. In the case of the BGK, it should be noted that an explicit guarantee does not exist per se but can only be issued by the state for individual bonds. The explicit guarantee is usually formulated in corresponding laws and can therefore usually only be modified by amending the law. If an agency runs into payment difficulties, this form of guarantee offers investors a direct claim against the guarantor. As such, it is the strongest form of state support. It also represents the ultimate criterion for a risk weight of 0% under CRR/ Basel III.

Dexia: Departure from the banking universe
The Dexia Group, which ran into difficulties in the wake of the financial crisis in 2008, submitted applications in July 2023 for the return of its banking licence and authorisation of securities services as well as the authorisation of the financing companies Dexia Flobail and Dexia CLF Régions Bail at the end of 2023 (cf. weekly publication from 12 July 2023). However, this step was not unexpected; on the contrary, it represents a further stage in the orderly wind-up of the institution. The existing state guarantees continue to apply irrevocably and unconditionally to all bonds issued up to 31 December 2031 with a maximum maturity of ten years from the date of issue and a maximum capital volume of EUR 72bn. This step should therefore not be taken as a cause for concern.

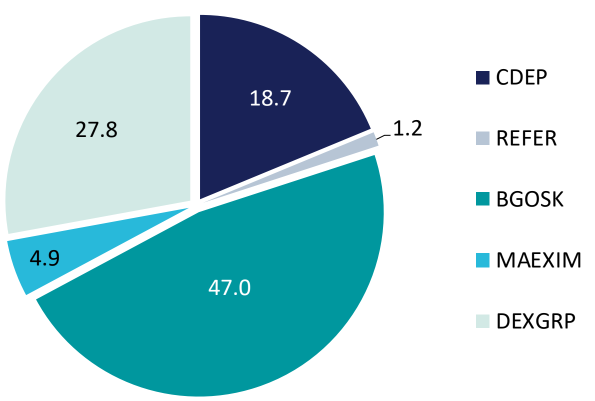
Magyar Export-Import Bank: debut on the EUR primary market
In November 2023, Magyar Export-Import Bank (ticker: MAEXIM) was active in the EUR primary market for the first time with a five-year EUR benchmark (cf. weekly publication from 15 November 2023). The bond with a volume of EUR 1bn was priced with a spread of ms +300bp area, which is remarkable for the SSA segment. The significant premium compared with core issuers, e.g. from Germany and Austria, results from the comparatively lower rating. As at the last available date of 2022, EXIM is pursuing a strategy aimed at expanding its lending activities, which will probably result in an increase in funding requirements.

Other European agencies – an overview (EURbn/EUR equivalent)

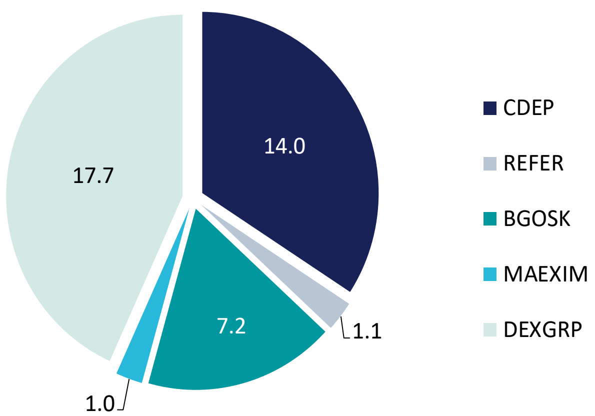
Name	Ticker	Rating* (Fitch/Moody's/S&P)	Outstanding Volume	EUR volume	Funding target 2024e	Maturities 2024e	Net Supply 2024e	Number of ESG bonds	ESG volume
CDP	CDEP	BBB/Baa3/BBB	18.7	16.8	3.5	2.0	1.5	7	4.5
REFER	REFER	-/A3/-	1.2	1.2	0.0	0.5	-0.5	0	0.0
BGK	BGOSK	A-/(P)A2/-	47.0	8.7	2.5	0.3	2.2	0	0.0
EXIM	MAEXIM	BBB/-/BBB-	4.9	1.0	2.5	1.3	1.2	0	0.0
DCL	DEXGRP	BBB+/Baa3/BBB-	27.8	18.4	8.5	8.9	-0.4	0	0.0
Total			**99.6**	**46.1**	**17.0**	**13.0**	**4.0**	**7**	**4.5**

* Rating for the guaranteed bonds. Unsecured bonds issued prior to the financial crisis also outstanding.
NB: Foreign currencies are converted into EUR at rates as at 30 January 2024.
On account of the issuer's individual funding mix, the values for "funding target" and "net supply" in particular may deviate from reality.
Source: Bloomberg, issuers, NORD/LB Floor Research

Outstanding bond volumes (EURbn)

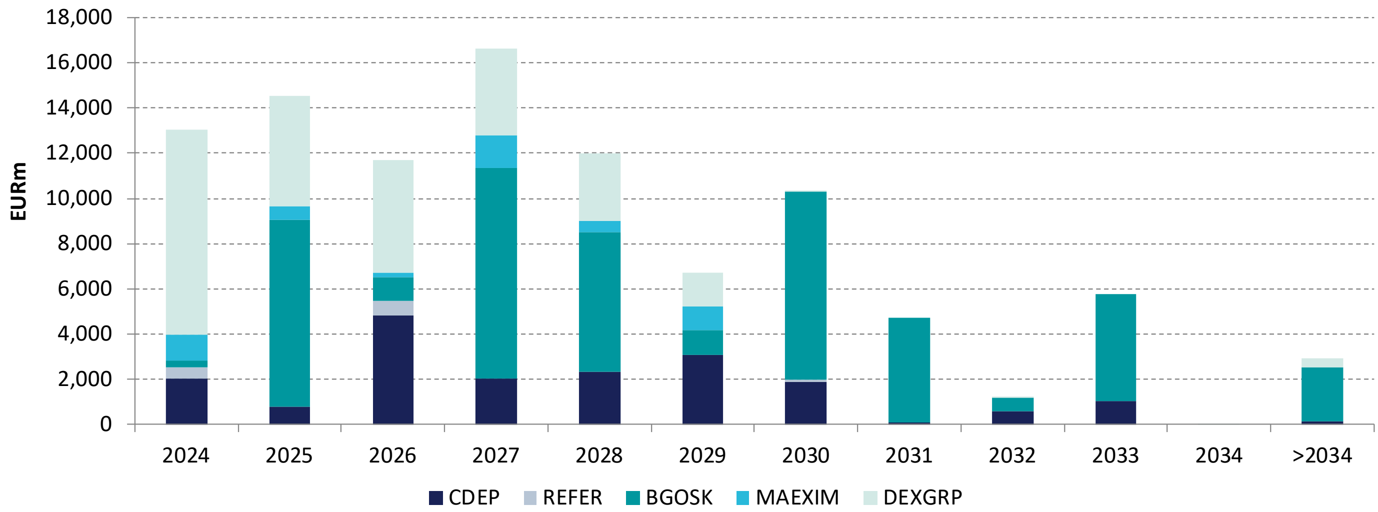


Outstanding EUR benchmarks (EURbn)

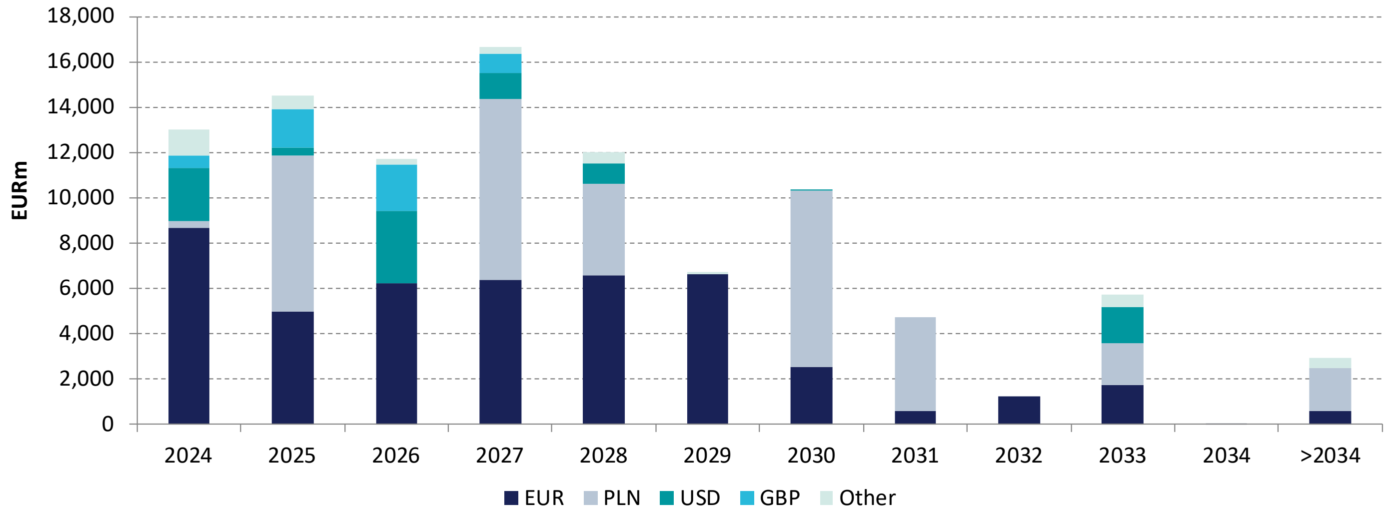


NB: Benchmarks are defined as bonds with a minimum volume of EUR 0.5bn.
Foreign currencies are converted into EUR at rates as at 30 January 2024.
Source: Bloomberg, NORD/LB Floor Research

Other European agencies: outstanding bonds by issuer



Other European agencies: outstanding bonds by currency



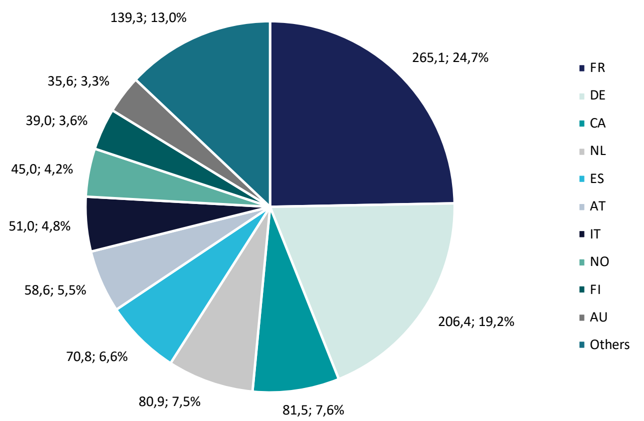
NB: Foreign currencies are converted into EUR at rates as at 30 January 2024.
Source: Bloomberg, NORD/LB Floor Research

Conclusion and comment

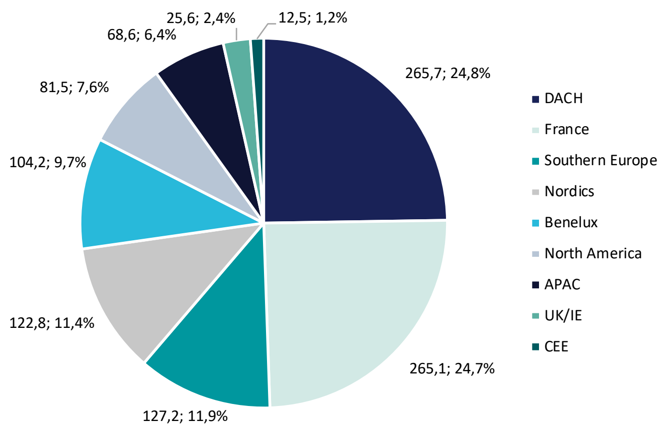
In our opinion, the here portraited other European agencies offer interesting diversification opportunities. Particularly in the case of securities from peripheral issuers or Eastern European agencies, there are in some cases significant pick-ups compared with the core issuers and also govies, which are accompanied by correspondingly poorer ratings. The establishment of further agencies in European countries where no established agency market exists to date could lead to a further increase in the issuance volume in our definition of other European agencies. Due to the low volumes in some cases (low liquidity in EUR benchmarks) and the comparatively lower ratings, some investors are likely to see EUR securities from these other European agencies as an interesting addition.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



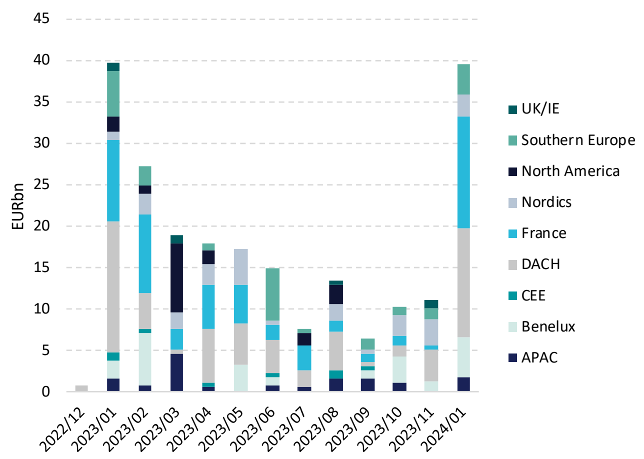
EUR benchmark volume by region (in EURbn)



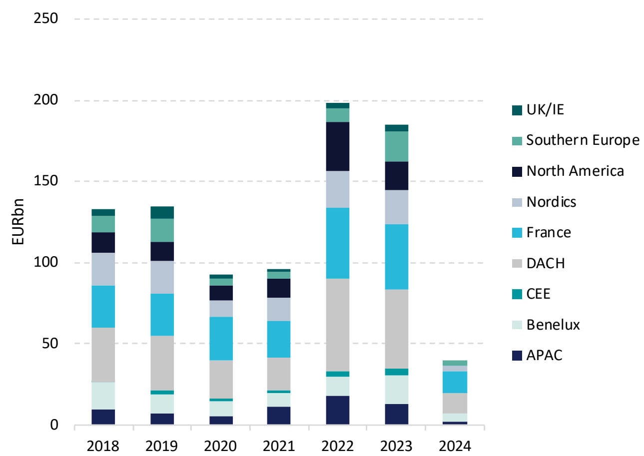
Top-10 jurisdictions

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	265,1	255	24	0,97	9,3	4,9	1,34
2	DE	206,4	293	38	0,65	7,9	4,1	1,31
3	CA	81,5	60	0	1,33	5,5	2,7	1,15
4	NL	80,9	81	3	0,94	10,4	6,1	1,22
5	ES	70,8	56	5	1,15	11,0	3,3	2,05
6	AT	58,6	99	5	0,58	8,1	4,5	1,45
7	IT	51,0	63	4	0,78	8,5	3,7	1,71
8	NO	45,0	55	12	0,82	7,3	3,6	0,78
9	FI	39,0	43	4	0,89	6,9	3,7	1,56
10	AU	35,6	34	0	1,05	7,2	3,3	1,60

EUR benchmark issue volume by month

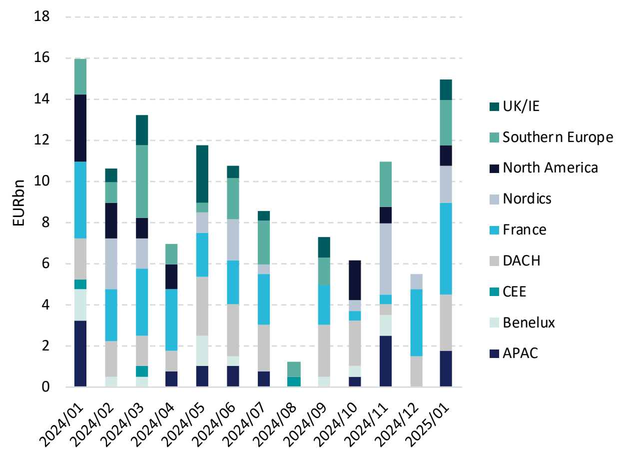


EUR benchmark issue volume by year

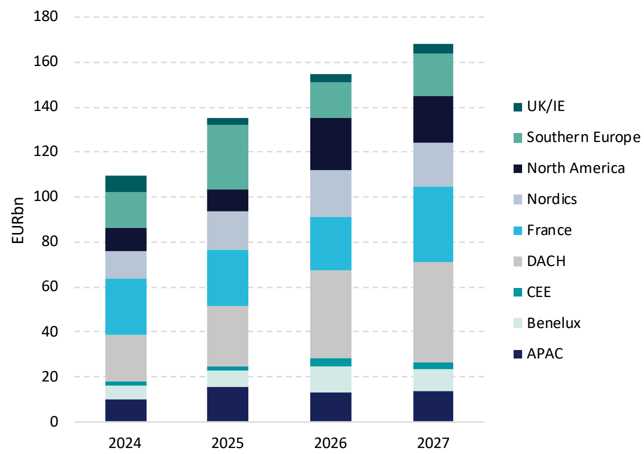


Source: market data, Bloomberg, NORD/LB Floor Research

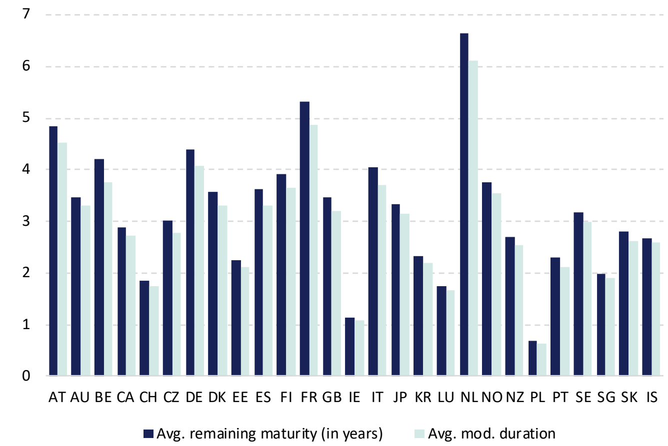
EUR benchmark maturities by month



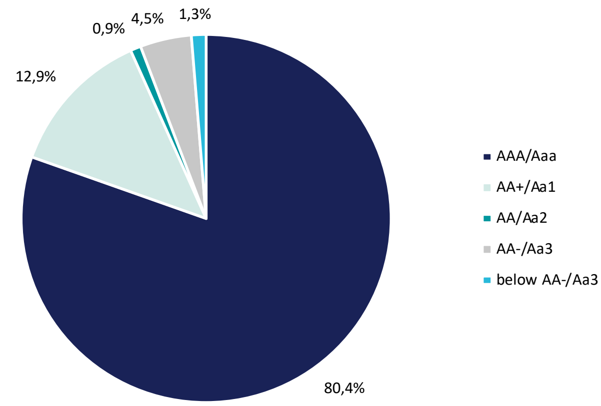
EUR benchmark maturities by year



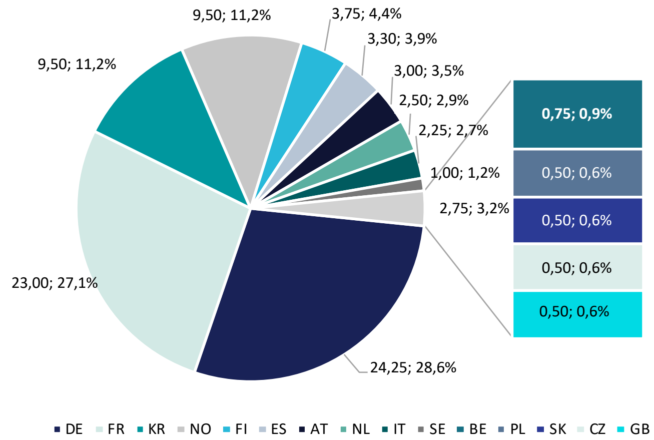
Modified duration and time to maturity by country



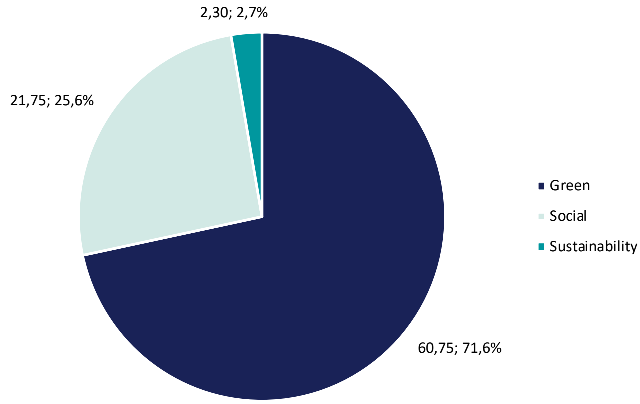
Rating distribution (volume weighted)



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

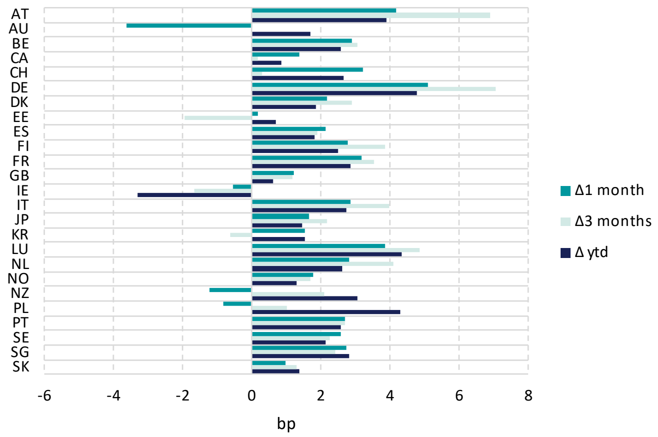


EUR benchmark volume (ESG) by type (in EURbn)

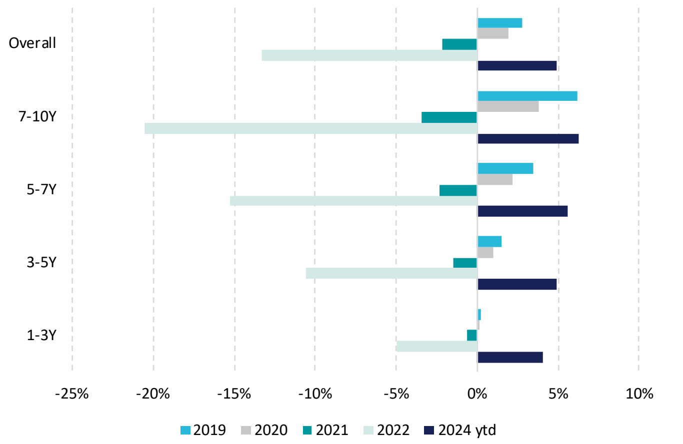


Source: market data, Bloomberg, NORD/LB Floor Research

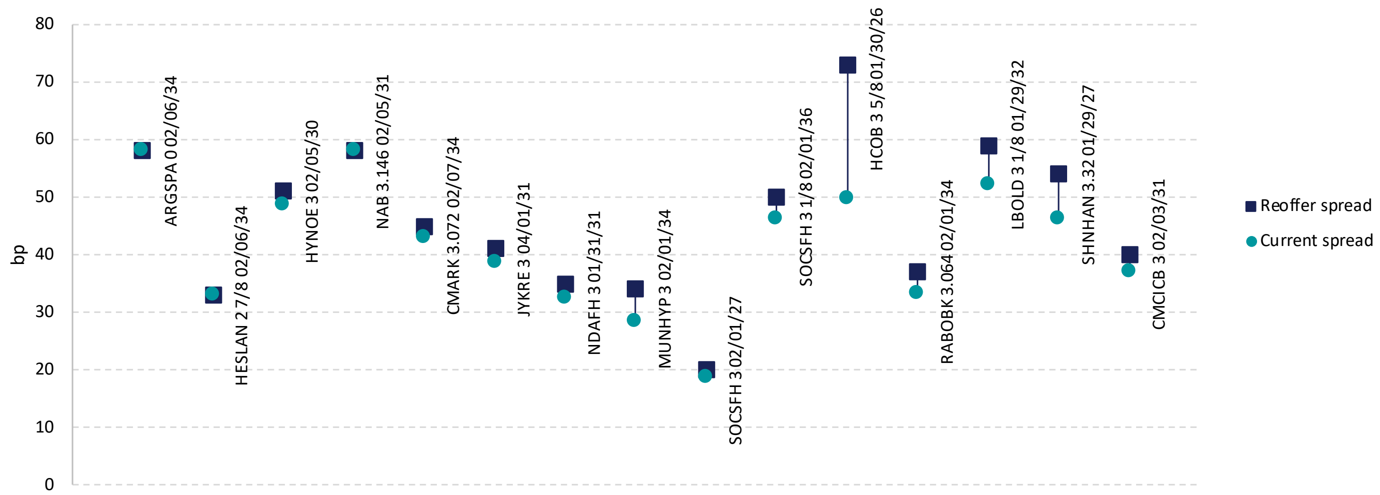
Spread development by country



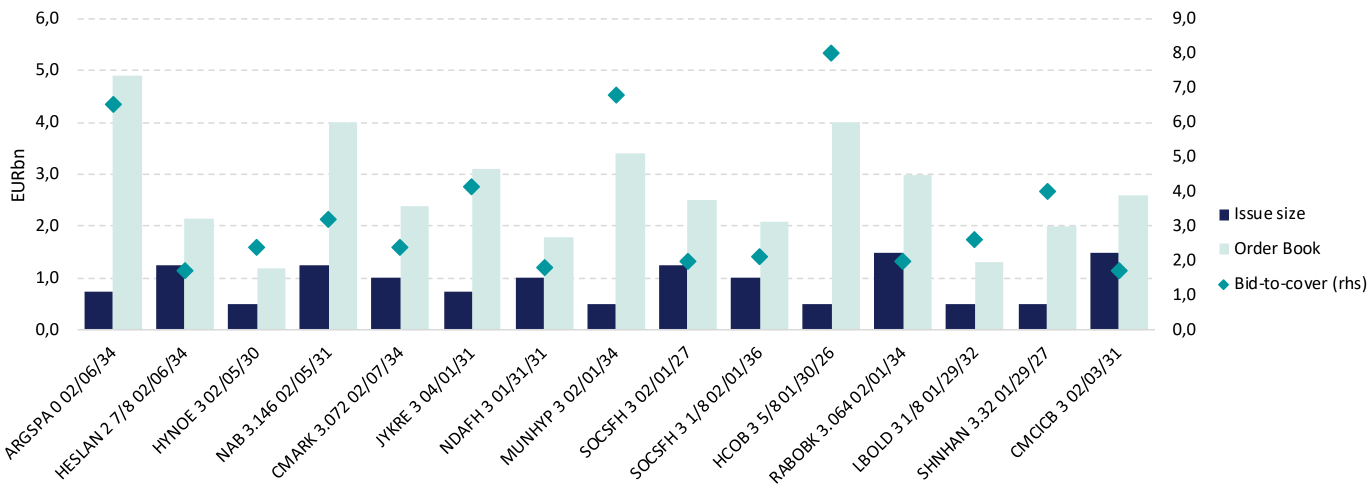
Covered bond performance (Total return)



Spread development (last 15 issues)



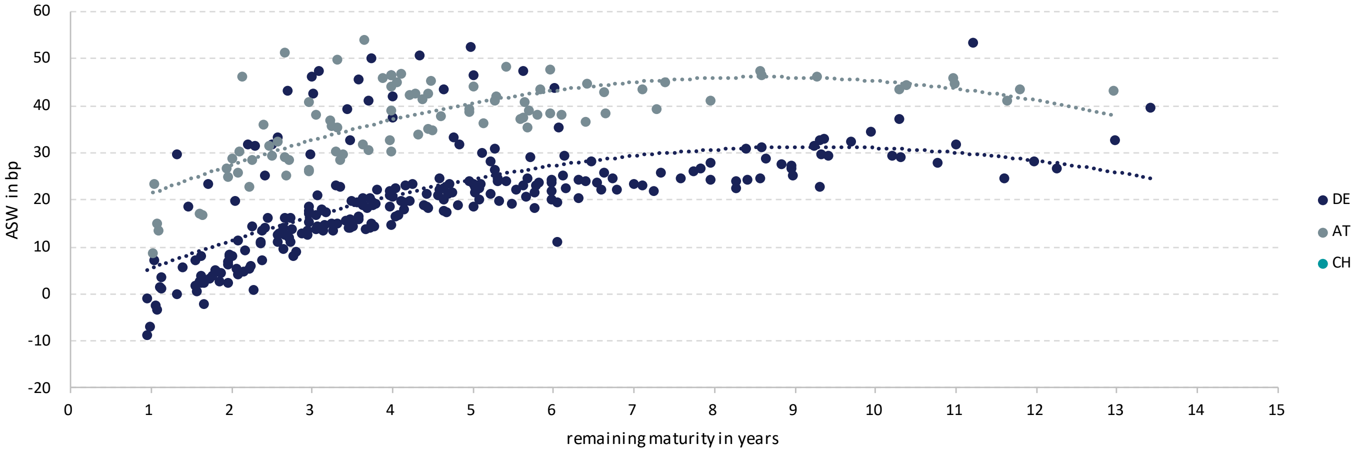
Order books (last 15 issues)



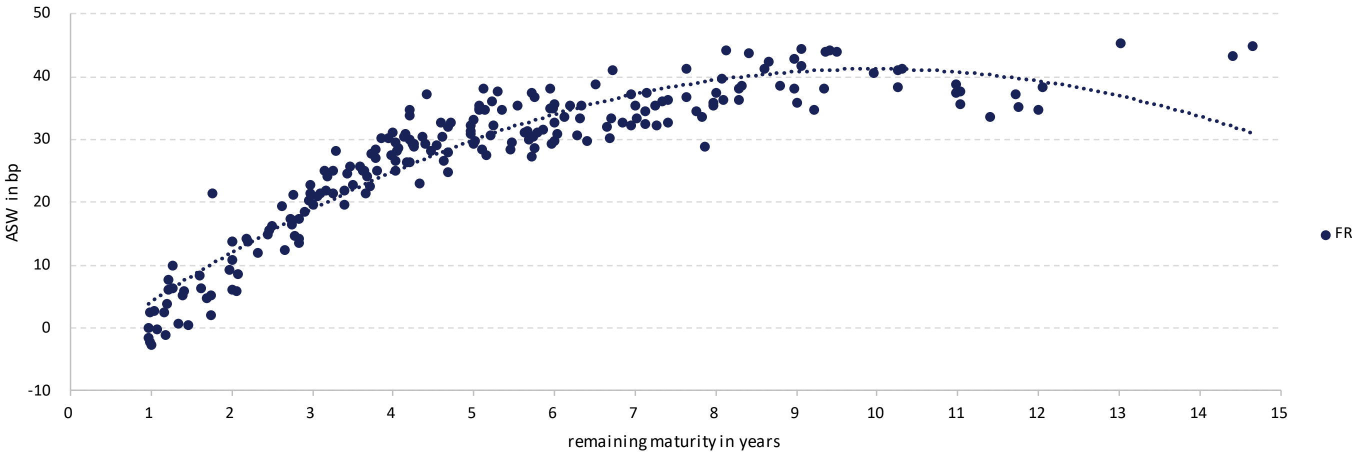
Source: market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

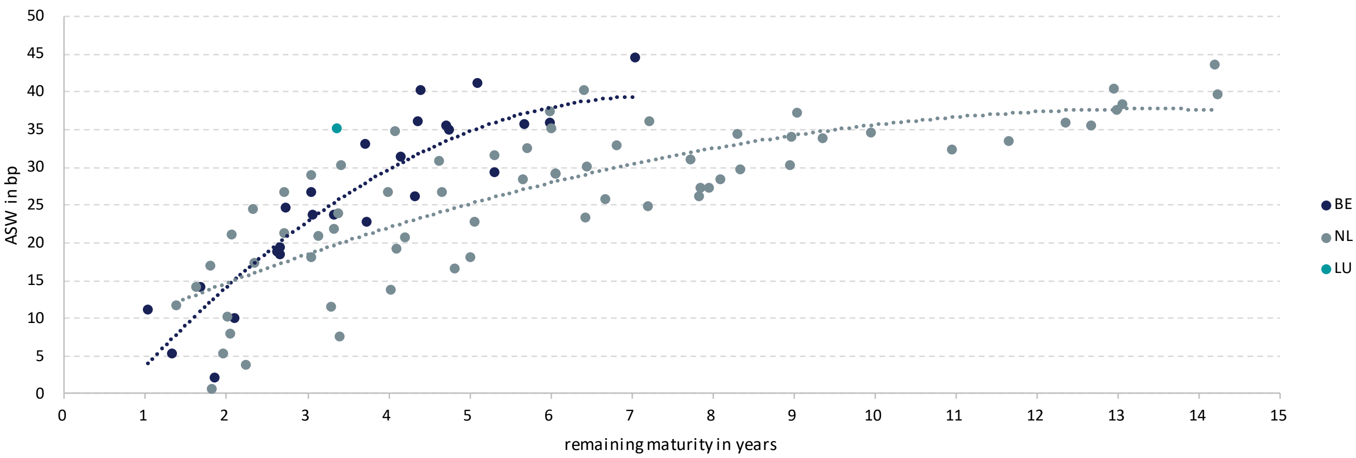
DACH



France

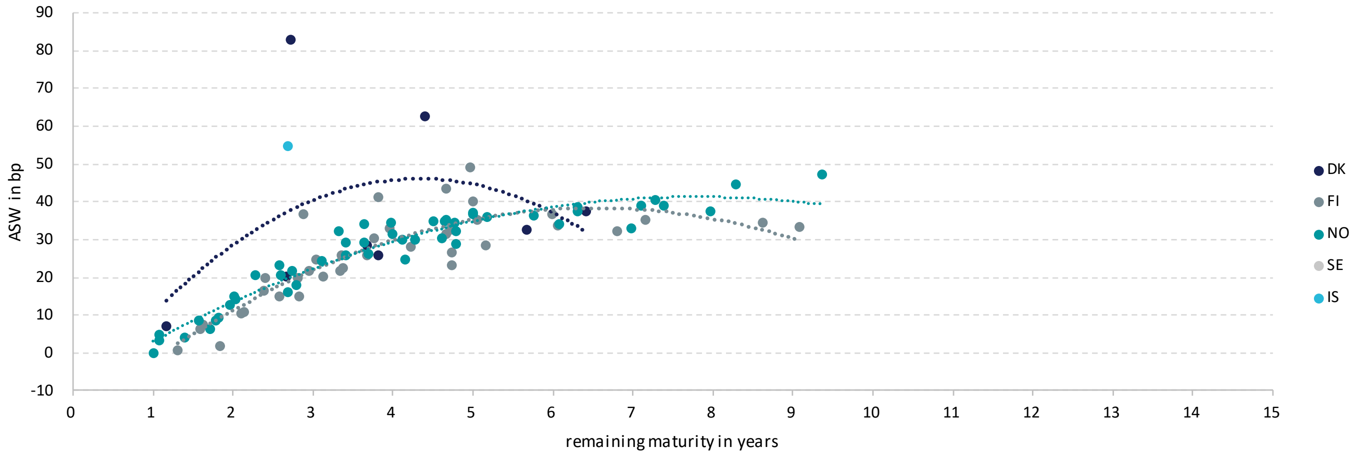


Benelux

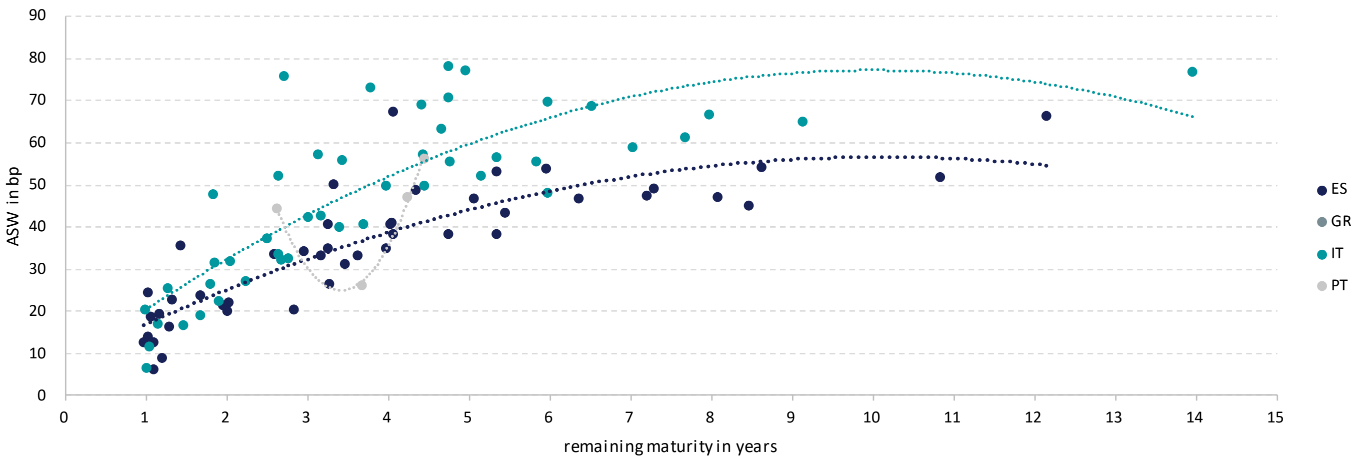


Source: market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

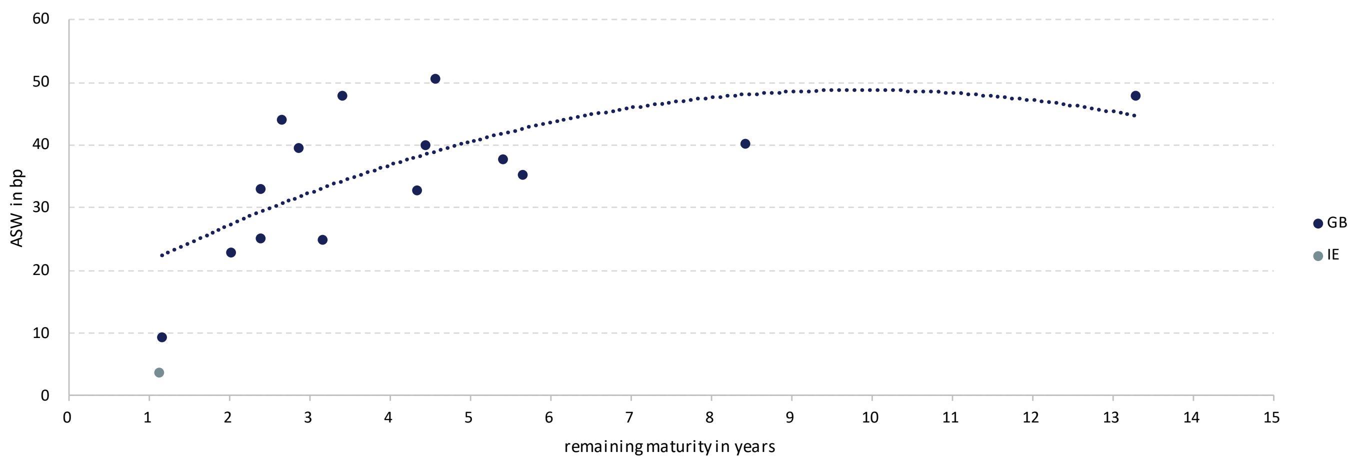
Nordics



Southern Europe

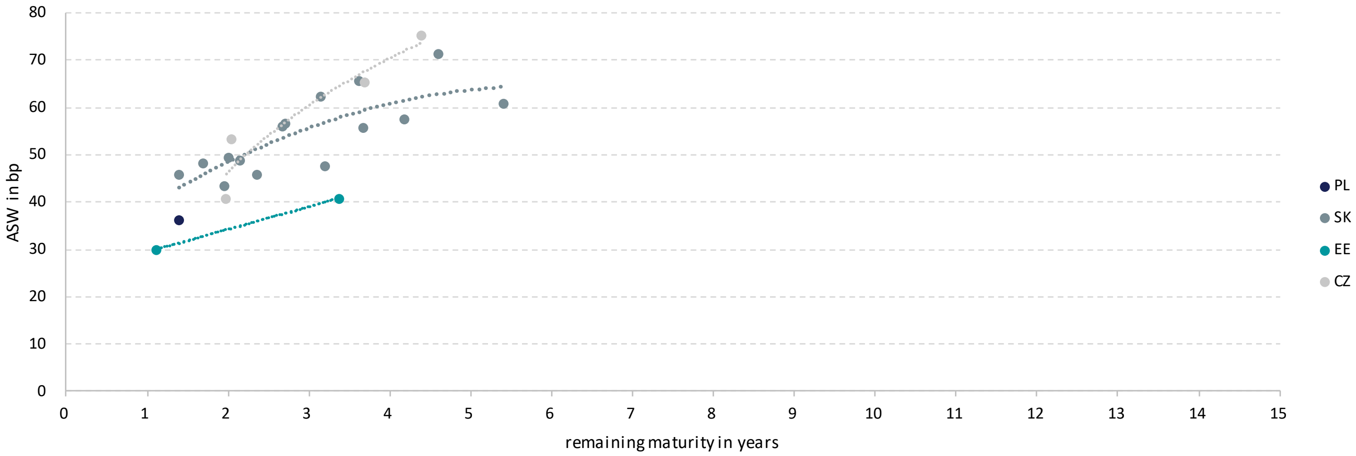


UK/IE

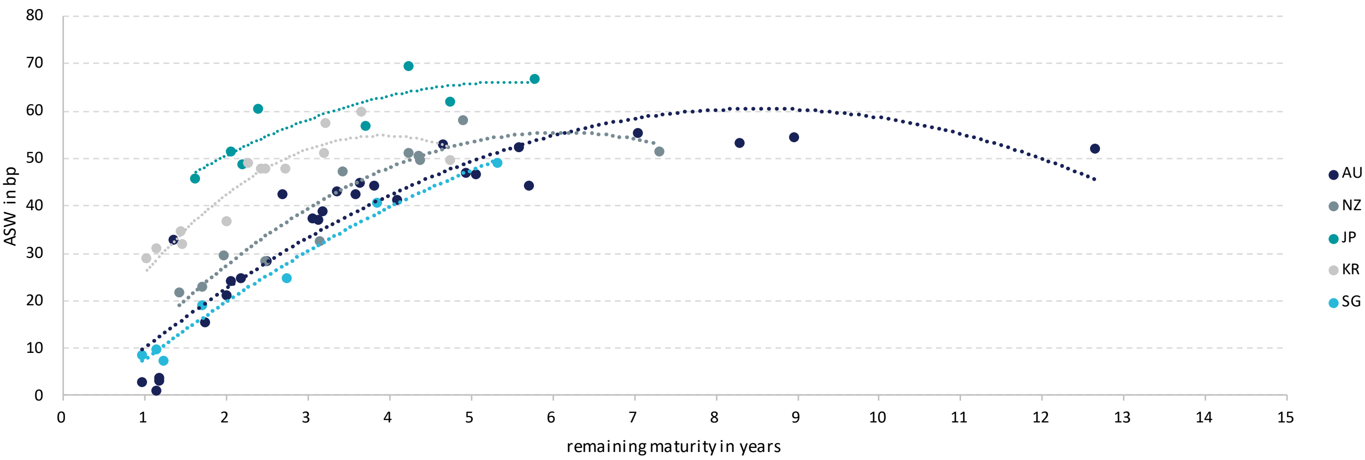


Source: market data, Bloomberg, NORD/LB Floor Research

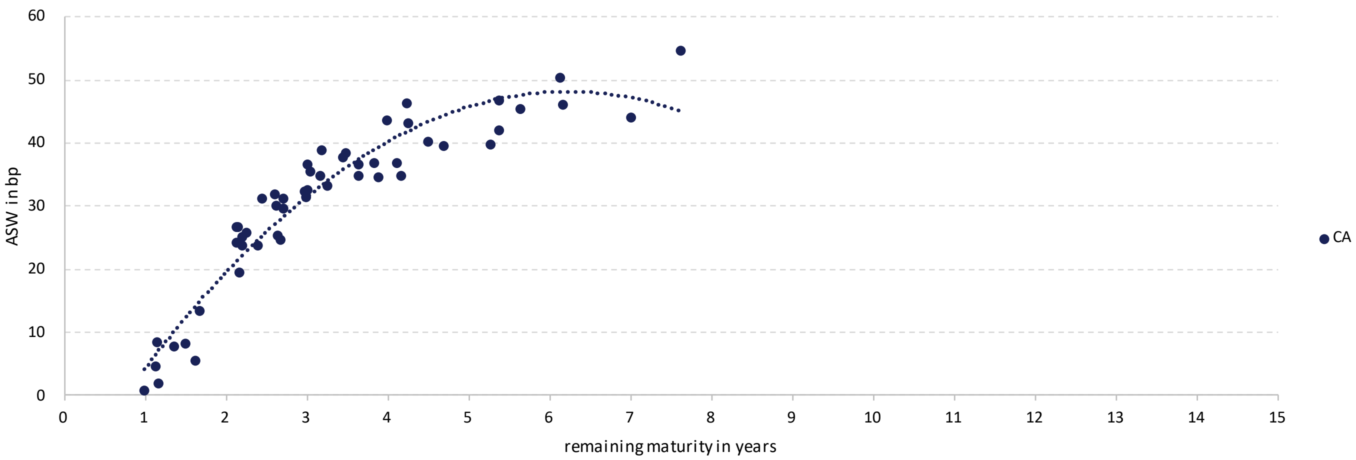
CEE



APAC



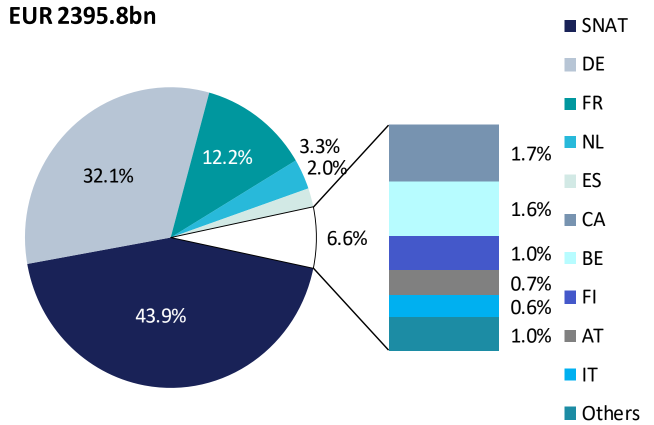
North America



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

Charts & Figures
SSA/Public Issuers

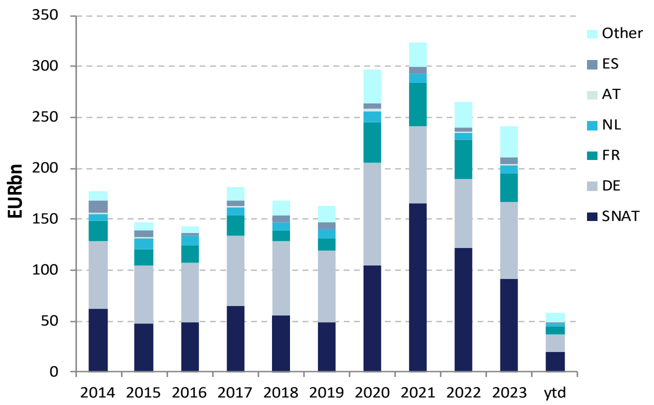
Outstanding volume (bmk)



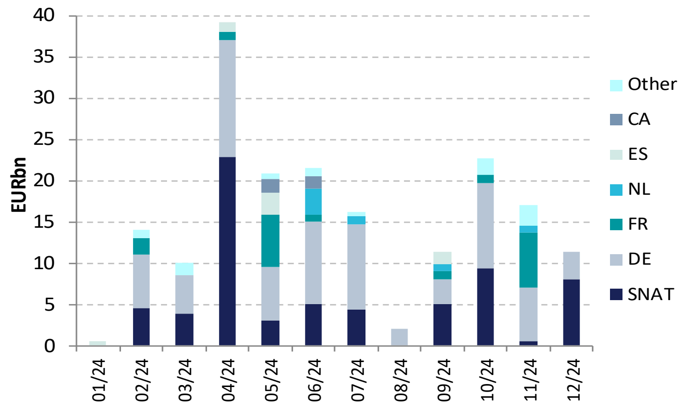
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1,051.9	230	4.6	8.0
DE	768.5	572	1.3	6.2
FR	291.5	197	1.5	6.0
NL	78.3	67	1.2	6.7
ES	48.5	66	0.7	4.6
CA	39.9	27	1.5	4.5
BE	37.8	41	0.9	10.7
FI	23.5	25	0.9	4.8
AT	17.8	22	0.8	4.4
IT	14.5	18	0.8	4.5

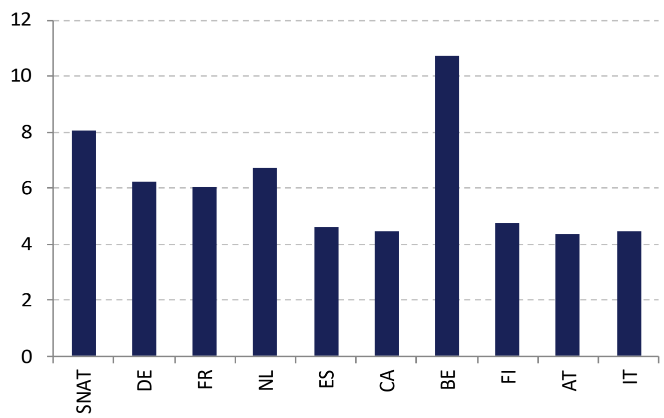
Issue volume by year (bmk)



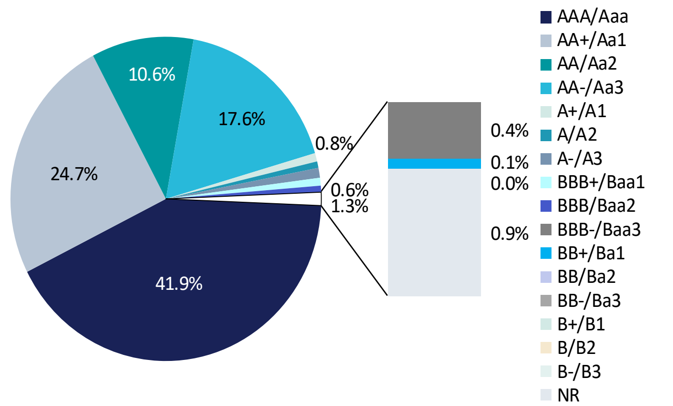
Maturities next 12 months (bmk)



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

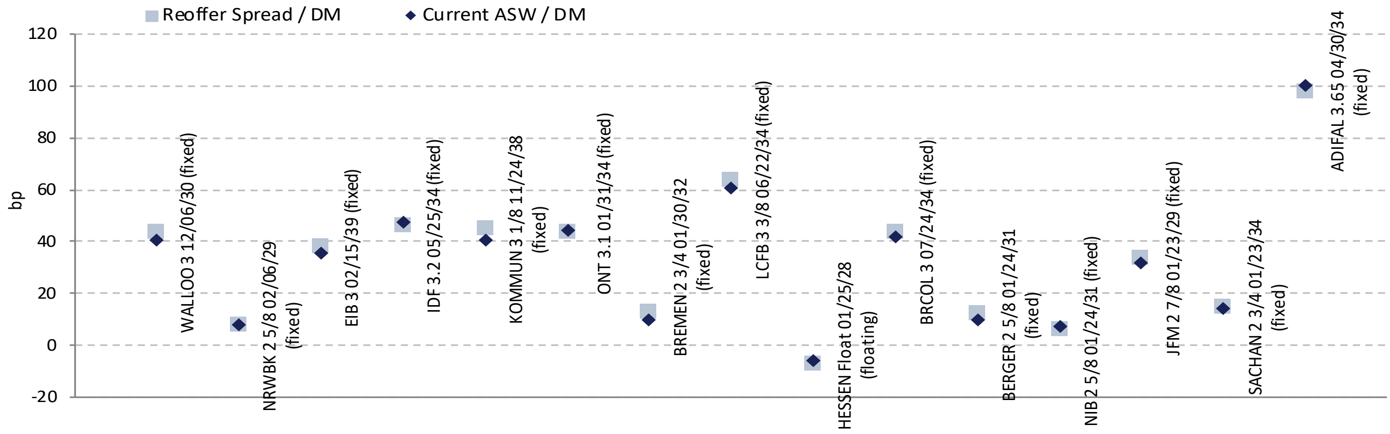


Rating distribution (vol. weighted)

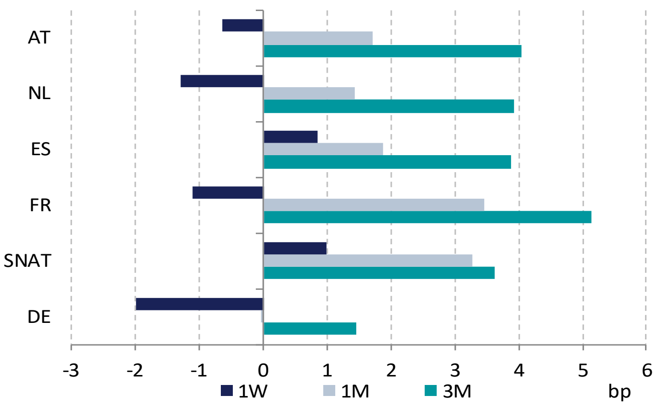


Source: Bloomberg, NORD/LB Floor Research

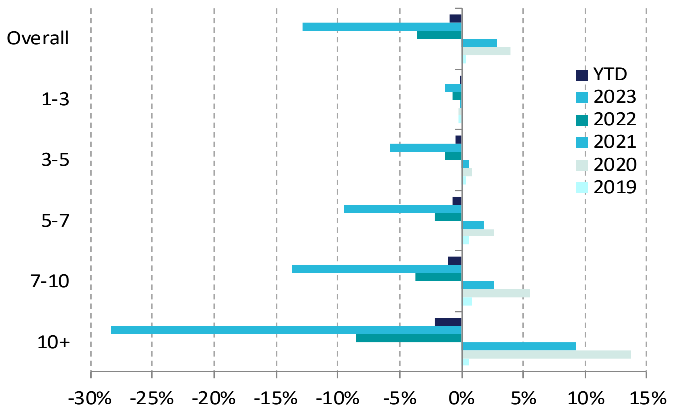
Spread development (last 15 issues)



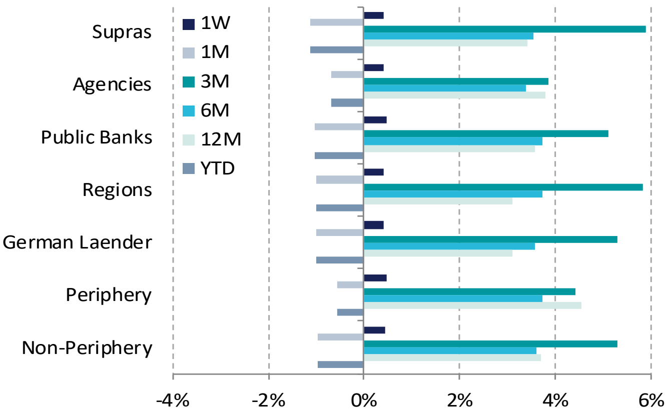
Spread development by country



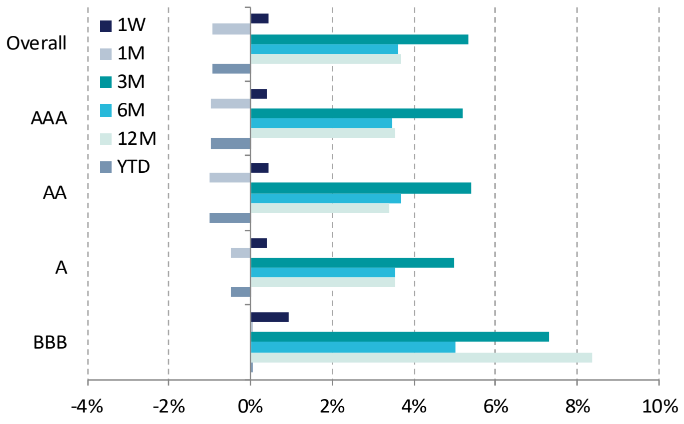
Performance (total return)



Performance (total return) by segments



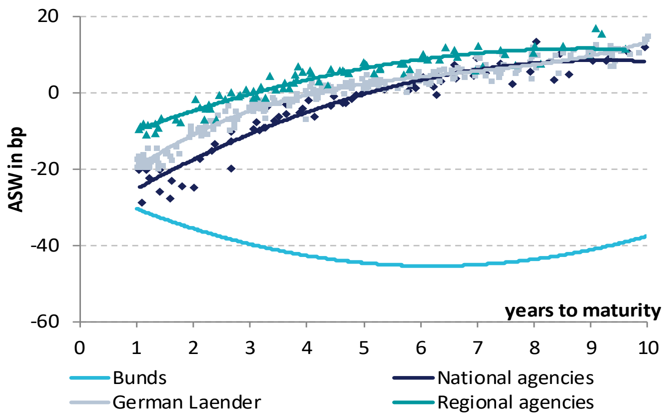
Performance (total return) by rating



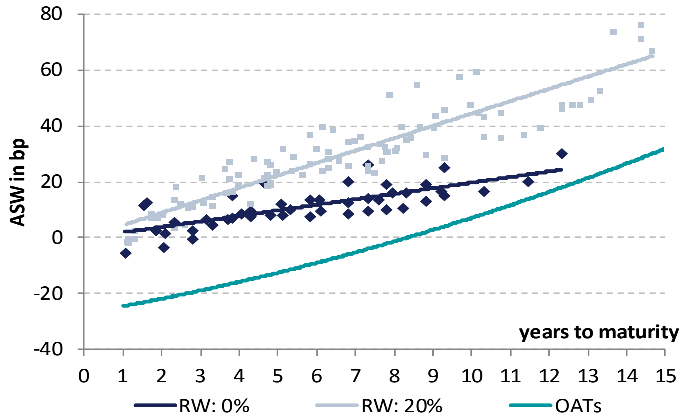
Source: Bloomberg, NORD/LB Floor Research

NORD/LB

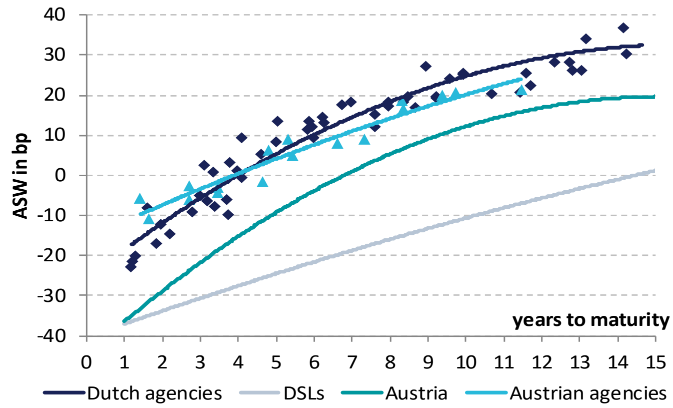
Germany (by segments)



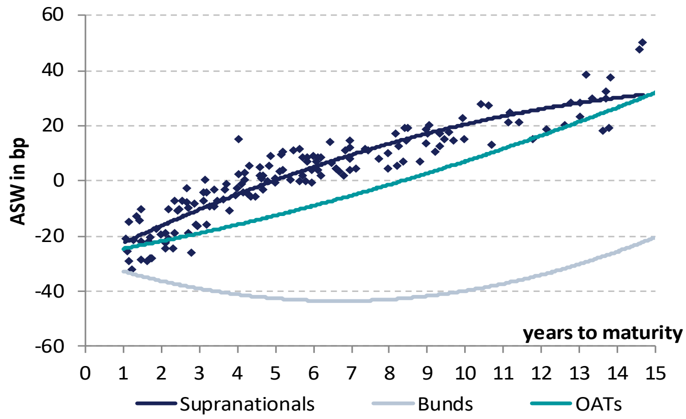
France (by risk weight)



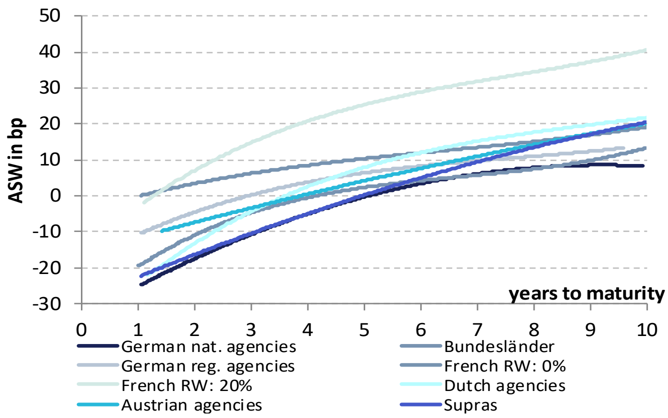
Netherlands & Austria



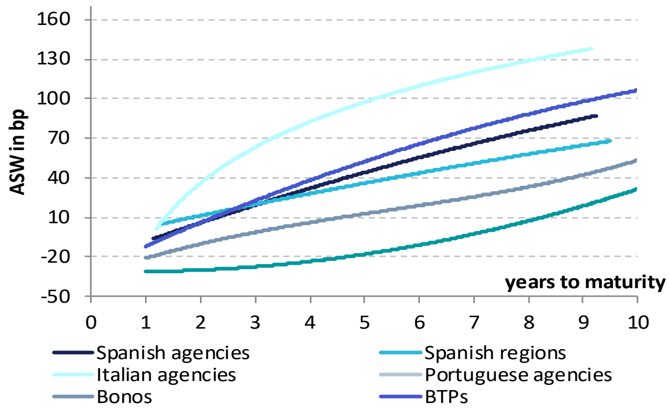
Supranationals



Core



Periphery



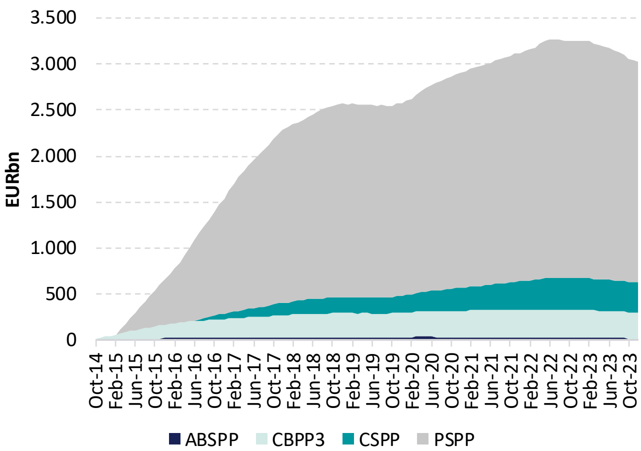
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

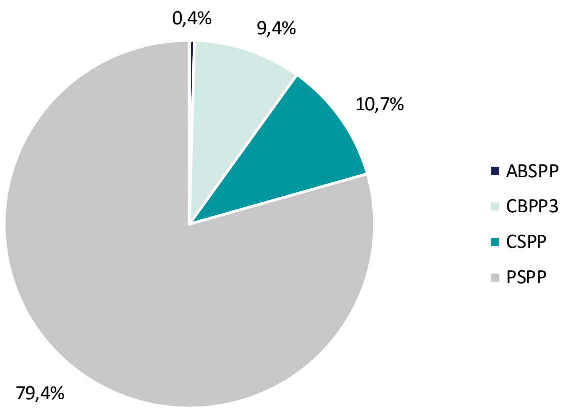
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Nov-23	13.840	286.174	325.481	2.412.976	3.038.471
Dec-23	13.350	285.620	323.921	2.403.035	3.025.926
Δ	-478	-408	-1.355	-6.776	-9.017

Portfolio development

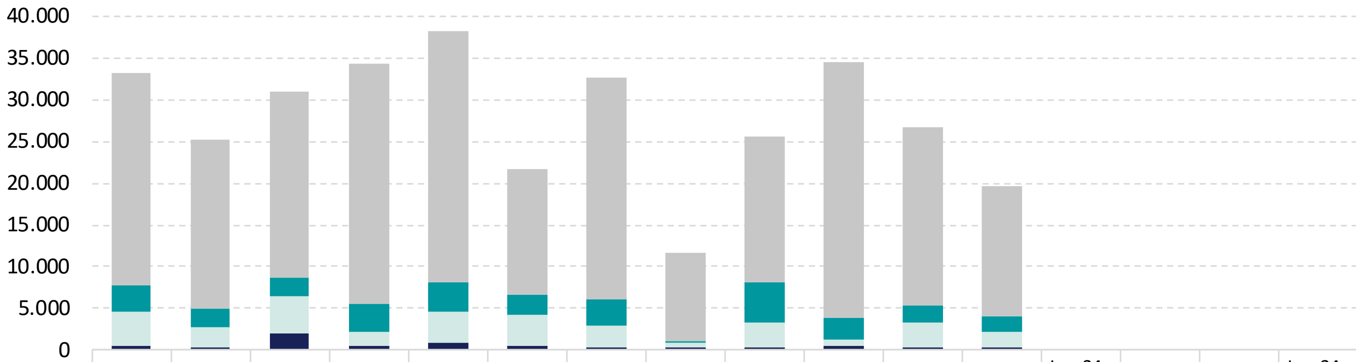


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

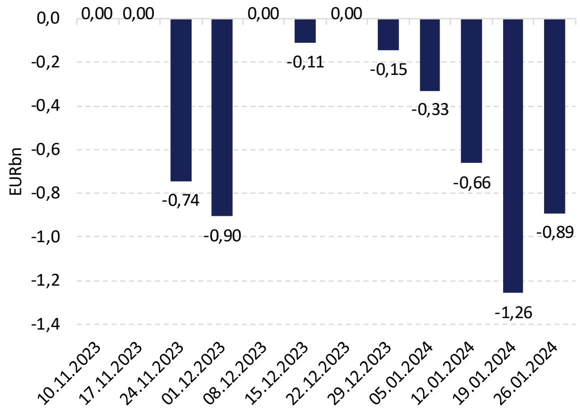


	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-24 - Dec-24	2022	2023	Jan-24 - Dec-24
APP	33.278	25.253	31.064	34.278	38.293	21.656	32.766	11.598	25.530	34.461	26.700	19.650	334.527	299.142	331.563	334.527
PSPP	25.524	20.372	22.413	28.712	30.194	14.974	26.653	10.533	17.440	30.578	21.298	15.579	264.270	228.585	255.025	264.270
CSPP	3.101	2.075	2.188	3.316	3.463	2.462	3.204	244	4.738	2.720	2.031	1.944	31.486	17.670	31.251	31.486
CBPP3	4.109	2.449	4.434	1.814	3.836	3.777	2.558	541	2.993	736	3.136	1.790	32.173	41.244	35.147	32.173
ABSPP	544	357	2.029	436	800	443	351	280	359	427	235	337	6.598	11.643	10.140	6.598

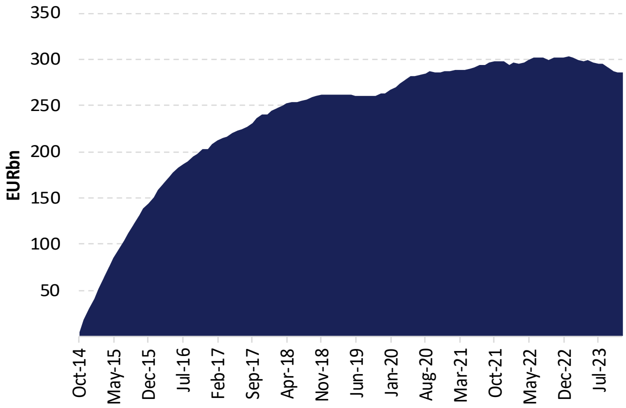
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

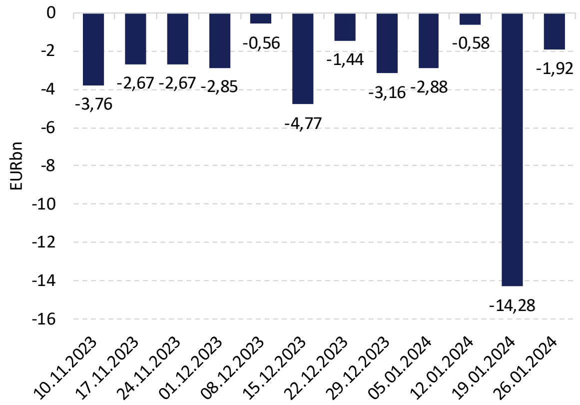


Development of CBPP3 volume

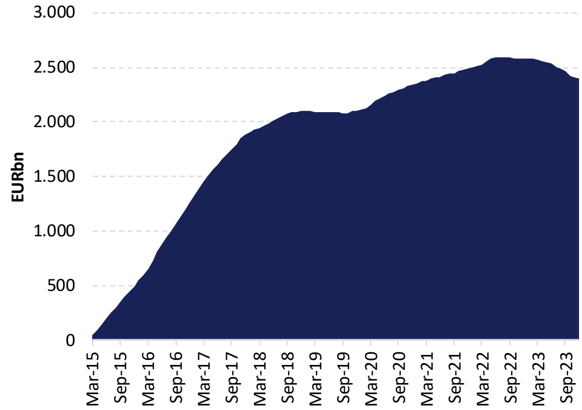


Public Sector Purchase Programme (PSPP)

Weekly purchases



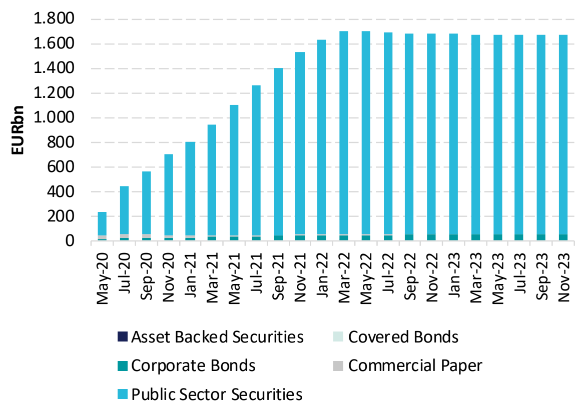
Development of PSPP volume



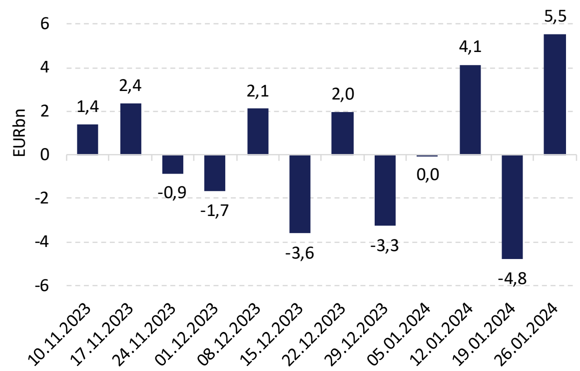
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
03/2024 ♦ 24 January	▪ The "V" in the LTV calculation: Differing approaches persist despite EU Directive ▪ 28th meeting of the Stability Council (December 2023)
02/2024 ♦ 17 January	▪ Pfandbrief market: potential newcomer Evangelische Bank ▪ Review: EUR-ESG benchmarks 2023 in the SSA segment
01/2024 ♦ 10 January	▪ ECB: Annual review of 2023 – no end to high rates? ▪ Covered Bonds: Annual review of 2023 ▪ SSA: Annual review of 2023
37/2023 ♦ 13 December	▪ Our view of the covered bond market heading into 2024 ▪ SSA outlook 2024: ECB, NGEU and the debt brake in Germany
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

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 decision: Council versus market

ECB preview: New year, new luck?!

ECB: Scarf, dry cough and with less liquidity unwell into 2024

Appendix
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Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Institutional Sales MM/FX	+49 511 9818-9460
Fixed Income Relationship Management 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 9818-9660
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

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