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Covered Bond & SSA View

NORD/LB Floor Research

13 November 2024 ♦ 37/2024

Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

Author: Dr Frederik Kunze

Primary market: relative value analysis thwarting primary market

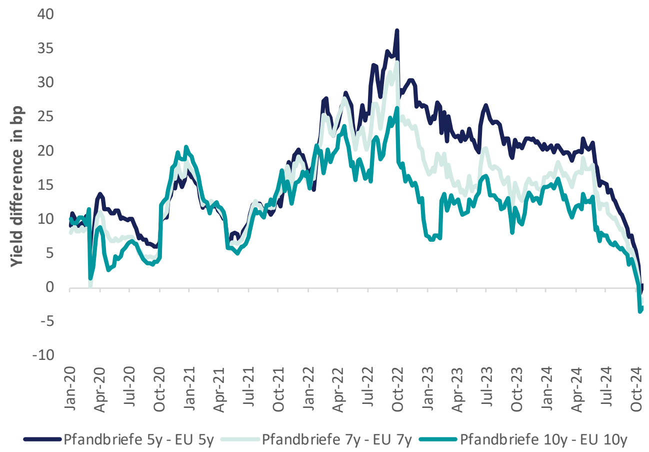
The asset categories we include in our coverage have been facing a challenging market environment over the last few trading weeks. In this context, the covered bond segment recently found itself increasingly in the eye of the storm, which can be said to have originated in the ever-narrowing price differential between Bunds and Euroswaps. Back in October (cf. Covered Bond & SSA View dated 23 October), we carried out a relative value investigation of covered bonds and found that the relative attractiveness of covered bonds has noticeably diminished versus products from the public issuers/SSA segment and government bonds. The primary market for public covered bonds in the EUR benchmark segment is at risk of coming to a total halt. While we had expected new deals amounting to EUR 19bn only a few weeks ago, the aforementioned challenges have essentially pulled the rug out under those. The level of uncertainty with regard to the fair value spread is extremely high. As a result, we now only expect very few isolated issuances on the market. While we do not want to call an end to the 2024 issue year at this juncture, we are currently at a turning point. We would certainly not be surprised to see a few issuers from Canada, France or Germany appearing on the market. This is not necessarily reliant on there being pronounced funding pressure, although this would surely “favour” primary market activity in 2024.

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

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

Bund vs swaps spread (weekly)

Yield differential Pfandbriefe vs EU (weekly)



Source: Bloomberg, NORD/LB Floor Research

Secondary market: mood a little calmer at least

The primary market might expect a degree of bolstering from trading activity. Recently, at least, the picture has been a little more balanced in terms of buy and sell enquiries from customers. This applies to longer maturities, in particular. The calmer sentiment can be observed across the board, although the situation as regards France remains a little bleaker.

Primary market: what's next in 2025?

The "postponed funding" from 2024 can to some extent be expected to impact the primary market in 2025. At the same time, we would more strongly weight other factors of influence. For example, we anticipate greater momentum in new credit issuance, which would generally cause an increase in funding requirements. Furthermore, a potential repricing in the seniors segment can be expected to raise the relative appeal of covered financing. With new supply of about EUR 170bn and maturities amounting to EUR 127bn, 2025 is also expected to be a net growth year (EUR 43bn).

NORD/LB forecast for 2025: issuances and maturities by jurisdiction

Jurisdiction	Issues 2024ytd as at 12 November 2024 (EURbn)	Outstanding volume as at 12 November 2024 (EURbn)	Maturities 2025 (EURbn)	Issues 2025e (EURbn)	Net supply 2025e (EURbn)
AT	6.50	59.60	2.80	7.50	4.70
AU	4.85	35.65	7.50	6.50	-1.00
BE	3.00	23.70	3.75	5.00	1.25
CA	10.25	82.45	9.50	12.00	2.50
CH	3.00	3.75	0.75	1.00	0.25
CZ	0.50	2.50	0.00	1.00	1.00
DE	28.50	211.29	21.50	29.00	7.50
DK	1.50	6.50	1.00	2.50	1.50
EE	0	1.00	0.50	1.00	0.50
ES	2.85	68.60	17.25	5.50	-11.75
FI	5.50	40.50	4.25	5.00	0.75
FR	37.50	268.07	21.35	37.50	16.15
GB	5.00	22.91	2.00	7.00	5.00
GR	0	0.00	0.00	0.00	0.00
HU	0	0.00	0.00	0.50	0.50
IE	0	0.75	0.75	0.00	-0.75
IS	0	0.50	0.00	1.00	1.00
IT	9.50	49.75	9.50	10.00	0.50
JP	0	5.60	1.00	2.00	1.00
KR	2.15	11.15	2.60	3.00	0.40
LU	0	0.50	0.00	0.00	0.00
NL	9.65	82.72	3.25	10.00	6.75
NO	6.25	48.75	5.75	8.00	2.25
NZ	0	7.95	1.25	2.50	1.25
PL	0	0.50	0.50	0.50	0.00
PT	2.00	5.85	0.00	3.00	3.00
SE	1.25	29.33	5.90	4.00	-1.90
SG	4.25	10.50	3.25	3.00	-0.25
SK	1.50	9.00	1.00	2.00	1.00
Total	**145.50**	**1089.36**	**126.90**	**170.00**	**43.10**

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

Fitch I: rating upgrade for CPT covered bonds from Banca Monte dei Paschi di Siena

Last week, Fitch rating experts announced that the rating of Banca Monte dei Paschi di Siena's covered bonds would be improved to AA from AA- (ticker: MONTE). The covered bonds under the Italian legal framework (Obbligazioni Bancarie Garantite; OBG) were also assigned a positive outlook. According to Fitch, the rating action reflects the implementation of its revised European RMBS Rating Criteria to issuances under the programme, which features a conditional pass-through structure. The OBGs are now eight notches above the bank's issuer default rating (IDR), with Fitch pointing out that there are two unused notches of uplift available for the programme. Conversely, in the event of the bank's IDR being downgraded, the rating of the covered bonds would not be negatively affected until the issuer rating is at least BB-. Further sensitivities for the OBG rating result from the classification of Italy by Fitch. After all, the current rating of AA is at the applicable rating cap. Changes to Italy's long-term IDR or the respective outlook would trigger a similar action on the ratings of Banca Monte dei Paschi di Siena's OBGs. This would also mean that were Italy to be upgraded by at least one notch and given sufficient overcollateralisation for a higher rating, bonds could achieve an improved rating of AAA. The CPT programme is rated Aa3 by Moody's and AA by DBRS. This year, MONTE has so far approached investors in the EUR benchmark segment twice, placing bonds in April (EUR 750m; 5.0y) and July (EUR 750m; 6.0y).

Fitch II: Banco Santander Totta's covered bonds upgraded to the top AAA rating

While conducting a periodic review of its programme – and reflecting its revised European RMBS Rating Criteria – Fitch's experts changed the rating of a Portuguese benchmark bond issuer. As a result, the covered bonds from Banco Santander Totta have been upgraded from AA- to a AAA rating with a stable outlook (ticker: SANTAN). This rating is six notches above the IDR. According to Fitch, this means there is a buffer of one notch versus a possible IDR downgrade. The covered bond rating is furthermore vulnerable to potential changes in Portugal's sovereign rating and the covered bond programme's overcollateralisation ratio. The Portuguese covered bond market for EUR benchmarks was slightly more active at the start of 2024 than it had been in preceding years. In fact, three banks appealed for investors in the shape of Banco Santander Totta (EUR 1bn), Banco BPI (EUR 500m) and Novo Banco (EUR 500m). The fourth Portuguese EUR benchmark issuer last appeared on the market in 2019, namely Caixa Economica Montepio Geral (ticker: MONTPI). The benchmark (EUR 500m) and non-syndicated bond (EUR 330m) placed then were due for repayment in the current trading week. With cover assets amounting to EUR 3.2bn as at the reporting date of 30 September 2024, we anticipate that the issuer will continue to be active on the covered bond market for EUR benchmarks. At the same time, we are not expecting the maturing bonds to be refinanced directly, which is in part – though not entirely – due to the current market environment. For additional information on the Portuguese covered bond market, please refer to our Issuer Guide Covered Bonds 2024 and the relevant focus article from April.

vdp I: property price index once again indicates a certain stabilisation

In our weekly publication, we regularly focus on factors that might influence the credit quality of cover assets as well as possible drivers of new business in the area of real estate finance. As part of this we refer to the property price index, which is compiled and published every quarter by the Association of German Pfandbrief Banks (vdp). This widely regarded index suggests that the German property market is continuing on its course of recovery. Jens Tolckmitt, vdp Chief Executive, commented: "Recent property price developments in Germany are a ray of light in an otherwise rather challenging geopolitical and macroeconomic environment, both nationally and internationally. Given these overall conditions, too, we believe it is still too early to speak of the start of a lasting property market upturn." However, as regards data on the third quarter of 2024, it is worth looking at the underlying trends for residential and commercial property markets. In today's edition of our weekly publication, we will focus on this in the relevant covered bond focus article.

vdp II: transparency reporting pursuant to Section 28 of the German Pfandbrief Act (PfandBG) for the third quarter of 2024

Transparency is a key feature of covered bonds. It is therefore not surprising that high value is placed on the minimum standards for the European covered bond market and regulatory stipulations with regard to transparency requirements. Section 28 of the German Pfandbrief Act outlines the specific requirements. This data is provided by vdp at institution level pursuant to Section 28 of the PfandBG, with a distinction between vdp members and Pfandbrief issuers within the German savings bank group. As part of our regular coverage, we have published covered bonds specials on the vdp members and savings banks over the past few days and will reflect on developments in the Pfandbrief segment in next week's publication.

Sweden: Moody's critical of possible relaxation in the LTV cap

Moody's risk experts have recently voiced criticism of Sweden's proposal to relax mortgage requirements. The working group tasked by the Swedish government proposes to raise the LTV for new lending from 85% to 90% and accompany this change with the introduction of a debt-to-income limit. Moody's is concerned about higher private household debt and greater vulnerability in respect of the interest burden in the wake of rising mortgage rates. The loss ratio would also increase for banks, since the available buffer would reduce in the event of credit defaults were the LTV limit to change from 85% to 90%. Given the desired effect is to boost lending, including through higher loan volumes, this flip side is worth consideration. In this context, the rating experts highlight the counterproductive effect of property prices rising as a result of this amendment, which would especially make the prospect of affordable home ownership less likely for young people. When it comes to covered bonds, Moody's rates this proposed change as "credit negative". This applies both in relation to the collateral provided and issuer credit quality. However, risk factors would be mitigated by Swedish covered bond legislation (LTV limit: 80%) and the actual overcollateralisation ratio in the Swedish market.

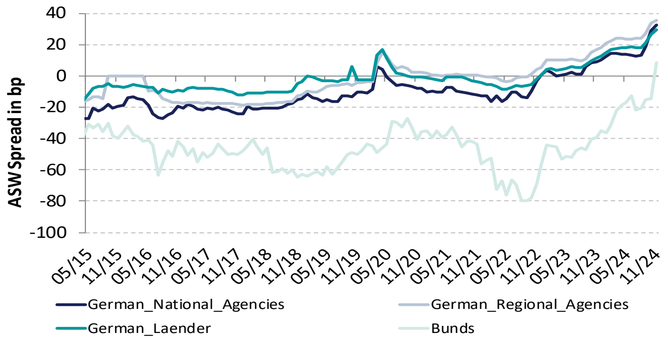
Market overview
SSA/Public Issuers

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

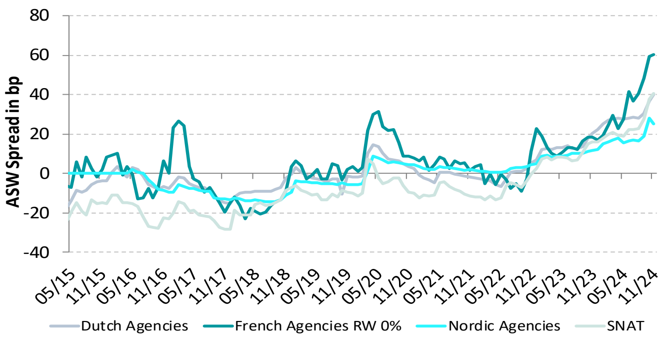
SSA spreads affected by political uncertainties

06 November 2024 will certainly go down in history in many respects. As a rule, it is not our intention to comment on political events, however, the latest developments are resulting in effects on our SSA coverage and their spreads that cannot be ignored. To begin with, the German Finance Minister Christian Lindner presented the draft budget for 2025, which had been much discussed, to the Bundestag on 25 August; a new President was elected in the USA on 05 November. Donald Trump has once again been the US President-designate since last Wednesday. Since last Wednesday, Germany has de facto been without a functioning government after discussions about the 2025 federal budget culminated in the dismissal of the German Finance Minister and the FDP's subsequent announcement that it would be withdrawing from the traffic light coalition. The overall situation is completed with a dash of economic weakness, in Germany in particular, concerns about the highly indebted countries in the Eurozone and a cut in interest rates of -100 basis points since 06 June. These factors have resulted in a ubiquitous degree of uncertainty, which has evoked a repricing on all fronts that is – from our perspective – overdue and at the same time exaggerated (even) on SSA markets. This also means that familiar patterns and legalities are breaking up in part: for example, spreads on ten-year Bunds were last north of the zero line in May 2009, they are currently at ms +11bp. Since 2022, the Bund swap spread (10y) has fluctuated between 0bp and 100bp but has "disappeared" entirely at present. German Laender, whose spreads are traditionally to be found above those of KfW, for instance, are now to be found consistently below the spread curve for German national agencies with a maturity of >3 years. Looking at the rest of Europe, it is clear that spreads, such as those for supranationals as well as Dutch or French agencies, have widened further since mid-2024 at least. The latter is primarily driven by the downgrade of France at the end of May. It is also worth noting that the spreads (10y) of Scandinavian agencies have risen comparatively less sharply by and large and, contrary to the general market trend, also fell slightly again in November. We shall probably provide a detailed outlook for the SSA market in 2025 in our weekly publication on 05 December and, in doing so, give you our forecasts for its future development.

German agencies, Laender & Bunds – 10y



Selected agencies & SNAT – 10y



Source: Bloomberg, NORD/LB Floor Research

LfA: promotion business in the first nine months of 2024

On 30 October, the German agency LfA Förderbank Bayern (ticker: BAYLAN) published its review of the first three quarters of 2024. Loans of around EUR 1.2bn to support the Bavarian economy were provided in the first nine months, of which just under EUR 970m came from programme loans. The funds were credited to a total of circa 2,500 companies and local authorities in Bavaria. However, demand for the LfA's subsidised loans fell compared with the same period in the previous year. None the less, the trend in the most recent third quarter was once again more positive, making it the strongest quarter in 2024 according to the press release. In particular, loan commitments in the start-up, growth and innovation segments were increased. Lower interest rates mean that demand for promotional funding is expected to increase over the next few months. Once again, demand for LfA's start-up and corporate succession programmes (EUR 310m) as well as its growth and modernisation measures (EUR 395m) was strongest in the period from January to September. Demand for its innovation loan 4.0, a specialised programme to finance innovation and digitalisation, also remained high. Over EUR 140m was promised under this programme up to the end of Q3/2024. Even more companies are to benefit from this form of promotional funding in future, since in addition to SMEs, small mid-caps with an annual turnover of up to EUR 500m have also been eligible for innovation loan 4.0 funding since the beginning of October. "LfA helps Bavaria's SMEs to undertake significant investments in start-ups, growth and innovation despite challenging economic conditions. […] We shall expand the range of support provided by LfA still further to create more incentives for investing in the future and, in doing so, make Bavaria more competitive," promised Bavaria's Economics Minister Hubert Aiwanger.

Kommuninvest: quarterly report on "Local Government Debt Management"

The municipal financier Kommuninvest (ticker: KOMINS) has published its quarterly report on Swedish local government's debt management for Q3/2024. This report is based on Kommuninvest's loans and transactions, which were registered by municipalities and regions plus their companies in the in-house debt management tool "KI Finans". The recently analysed dataset for Q3/2024 contains 9,605 loans, commercial paper and bonds worth a total of SEK 669bn (EUR equivalent: EUR 60.5bn) as well as 1,618 derivatives worth SEK 200bn. As the report explains, the average interest rate in this sector has fallen for the first time since 2021. The reduction compared with the previous quarter amounted to -10 basis points, meaning that the average interest rate was 2.5% most recently. "The drop in the average interest rate for the sector was expected due to lower interest rates for new transactions in the last 12 months. However, it is not clear in which quarter precisely the fall occurred. Nevertheless, the fall indicates clear that lower market rates rapidly have an impact on the rates municipalities must pay for their borrowing," commented Viktor Johansson, analyst at Kommuninvest, on the results. Besides funding costs, the average capital commitment also decreased in the third quarter. Most recently, the period in question amounted to 2.3 years compared with 2.5 years in Q2/2024. The capital commitment and fixed interest period for the sector has fallen steadily in the last four years and may now be compared with the rates prevalent around 2016.

EIB and CDP: EUR 1bn for the public sector in Italy

The European Investment Bank (ticker: EIB) and the Italian bank Cassa Depositi e Prestiti (CDP, ticker: CDEP) plan to step up their partnership to support the Italian economy in future. In this connection, it will focus on initiatives to generate positive environmental impacts, in particular. Specifically, the EIB will guarantee loans up to a total of EUR 500m to be made available to Italian regions by CDP. This will allow CDP to lend public institutions up to EUR 1bn for investment purposes over a period of five years. The new loans are expected to promote economic development in central and southern Italy and also to finance projects that will keep climate change at bay, improve resilience against extreme weather events and encourage social cohesion. The EIB and CDP will therefore continue to support the public sector on the basis of their strong working relationship, which will be further strengthened by this second guarantee agreement.

EUROFIMA announces a capital increase

On 04 November, EUROFIMA (ticker: EUROF) announced that the capital increase of CHF 50m (EUR equivalent: EUR 53.7m) approved last June has now taken place. This development follows the extraordinary general meeting of EUROFIMA, in which it resolved to increase the organisation's share capital, which was subsequently confirmed by the Board of Directors. As a result, the issuer's total share capital now stands at CHF 2.65bn. The capital increase was effected by converting freely distributable reserves in accordance with Article 625d of the Swiss Code of Obligations (Swiss stock corporation law). In this context, 500 class B registered shares worth CHF 100,000 were issued.

Primary market

As if the presidential elections in the USA were not reason enough for a sharp fall in issuance activity, the subsequent collapse of the traffic light coalition in Germany led to another uncertainty factor, which practically brought the SSA primary market to a standstill in the past trading week under review. On top of this, there are of course the hard factors on the market, namely spread widening and repricing. Only EUROF, which we talked about in the previous section, ventured onto the market on Tuesday (yesterday). It was seeking investors for a ten-year green bond worth EUR 500m. Having started with a guidance of ms +67bp, the order book reached EUR 1.5bn in total at the end of the marketing phase, meaning that the deal was three times oversubscribed. The final reoffer spread stood at ms +62bp. EUROF's last EUR benchmark issue to date dates back to November 2022. For the coming week, the European Union (ticker: EU) has sent an RfP to the relevant group of banks in the context of its fourth syndicated transaction in H2/2024 (cf. funding plan). It is the EU's last regular scheduled syndicated transaction this year. However, it should be noted that the community is holding open an optional window for a further deal in CW50. We also expect the following transaction to appear on our screens shortly following the issue of new mandates: the Hanseatic City of Bremen (ticker: BREMEN) intends to issue EUR 500m (WNG) in the five-year maturity segment.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EUROF	SNAT	12.11.	XS2941356698	10.2y	0.50bn	ms +62bp	AA / Aa2 / AA	X

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

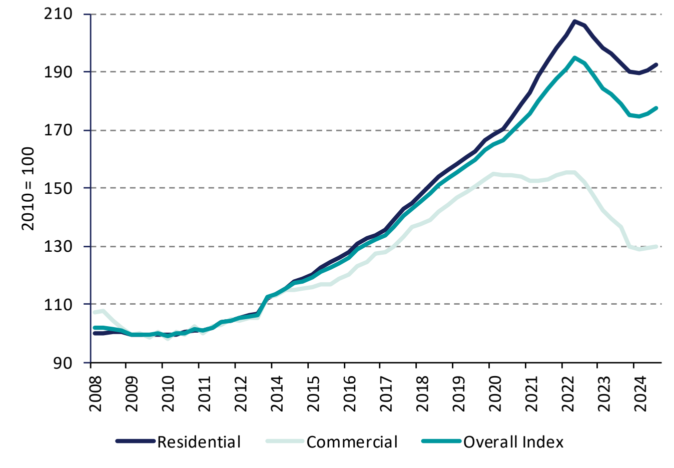
Covered Bonds
Development of German property market (vdp index)

Author: Lukas Kühne

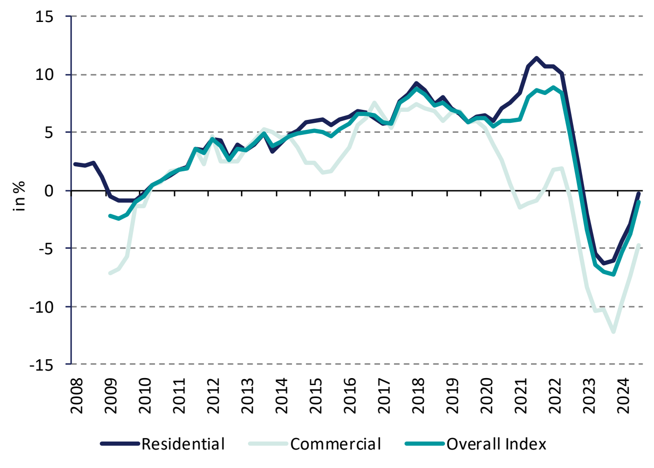
vdp: slight upward trend in property prices discernible

Current figures on price trends in Germany's real estate markets were published at the start of this week. This latest data for the widely regarded vdp property price index relates to the third quarter of 2024. The vdp property price index is based on transaction data, meaning actual purchase prices and rents, and is supplied by over 700 banks in the German financial sector. In the third quarter of 2024, the overall index achieved a second consecutive increase (+1%) and now stands at 177.3 points (baseline year 2010 = 100 points). However, when compared with the 179.2 points in the same quarter of the previous year, the vdp property price index is down 1%. The rise of 2.1 points in the third quarter of 2024 was attributable to both commercial and residential properties. With prices rising by 1.1% quarter on quarter, the upward movement in residential property is greater than the +0.7% in commercial property. Our assessment is that this second consecutive rise suggests a stabilisation of the German property market but should not be interpreted as a clear trend reversal since, quarter on quarter, residential properties posted a slight decline of 0.4 points, while commercial property even dropped 6.4 points.

Index level: all, residential and commercial



Year-on-year change: all, residential and commercial



Source: vdp, NORD/LB Floor Research

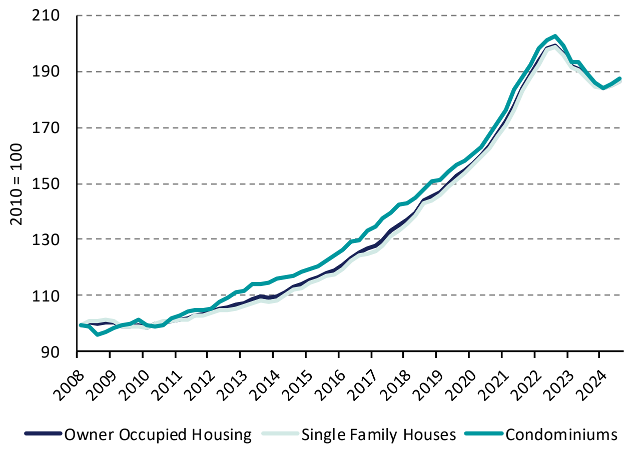
Residential properties: prices up 1.1% quarter on quarter

Residential property prices were up by 1.1% compared with the immediately preceding quarter (-0.2% Y/Y). On a quarterly basis, the greatest rise was attributable to housing in Germany (+1.0%), while owner-occupied homes were +0.8% against the second quarter of 2024. This means the upward trend was not only sustained across all residential categories in the third quarter, but in fact accelerated. However, all sub-categories registered a year-on-year decline in prices, by between 0.5% and 1.0%.

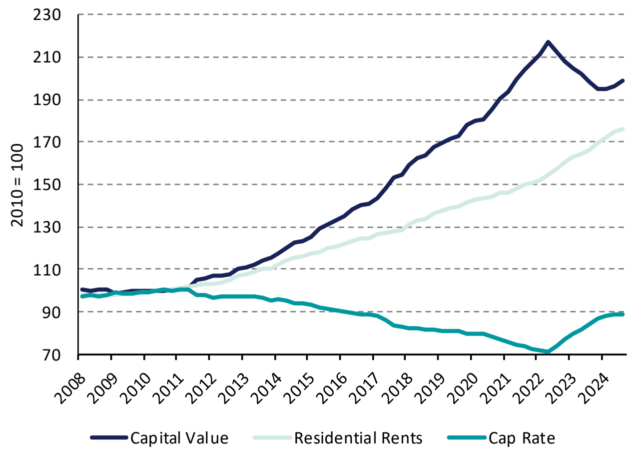
Rising property prices are no cause for overt optimism

In the latest press release, vdp Chief Executive Jens Tolckmitt highlighted the stabilisation of the German market, but warned against too much optimism. However, the downturn phase in the property market will only be fully overcome "when the transaction numbers and financing volumes continue to climb substantially in all asset classes". Tolckmitt first and foremost mentions economic developments in Germany and the ongoing geopolitical risks as uncertainty factors. He also voiced criticism about the latest developments in the housing market. "Housing is already far too scarce. Nevertheless, month for month, fewer and fewer building permits are being reported, and building completions are languishing at much too low levels." Reflecting the persistent housing shortage, rents under new contracts for multi-family houses rose 0.7% on the quarter and +5.6% on the year.

Owner-occupied housing



Multi-family houses



Source: vdp, NORD/LB Floor Research

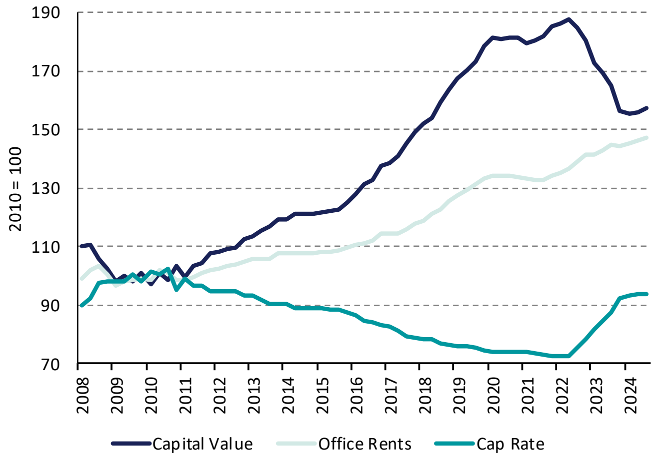
Housing in top 7 markets: positive price trend in all cities

In line with the overall index, the special index for the development of the residential property market went up by an average of 1.1% against the immediately preceding quarter in the top 7 cities. No price declines were observed in any of the seven metropolises between the second and third quarter of 2024. The greatest price increase was seen in Frankfurt am Main (+1.6%), followed by Dusseldorf and Munich (+1.5% in each case). When compared with the previous year, the trend in prices was mixed. For example, prices in Munich were -1.7% versus the third quarter of 2023.

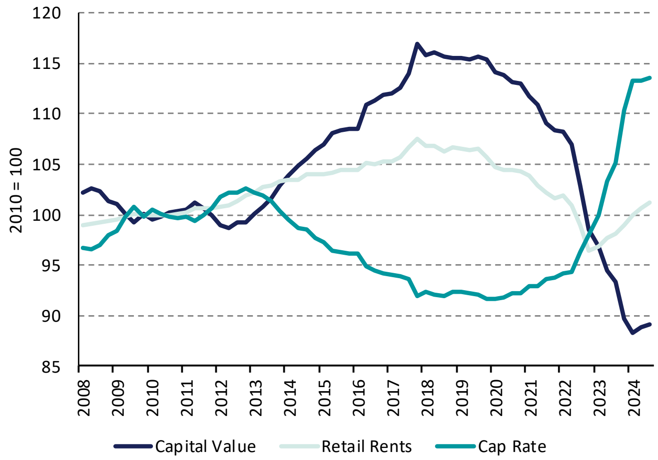
Despite positive developments, situation in commercial property market remains tense

While the sub-index for commercial property prices was up 0.4% in the second quarter of 2024, the quarter-on-quarter increase was boosted to 0.7% in the third quarter of 2024. Capital values for office properties increased by 0.8% against the previous quarter, thereby rising somewhat more strongly than for retail properties (+0.3%). The positive price trend in the third quarter of 2024 cannot mask the fact that the commercial property market remains under pressure. Jens Tolckmitt urged restraint in how the situation in the German property market is viewed, stating that "the current development is as yet no more than a first indication of an end to the two-year decline in prices and the entry into a possible sideways movement".

Office buildings



Retail buildings



Source: vdp, NORD/LB Floor Research

Conclusion

The picture of the German property market painted by the vdp data set is somewhat brighter in the third quarter of 2024. While a positive upward trend on the property market does slowly appear to be emerging, it is our view that talk of a trend reversal would be premature. The cooling economic climate in Germany and geopolitical risks present risk factors for the property market. Furthermore, the persistently low transaction volumes and reduced sales in commercial property mean a sustained recovery of this submarket has not yet begun. We take a slightly more positive view of developments in the residential property market. This seems to have bottomed out and a gradual trend of recovery is likely to set in. This trend might be supported by further rate reductions from the European Central Bank over the coming months. We regard the index published for the third quarter of 2024 as positive in relation to the Pfandbrief segment. The stabilisation of property prices should effect lower lending values for assets in the cover pool of German Pfandbrief issuers. With regard to the CRE crisis, it can be asserted that the situation has stabilised, which should be seen as a positive sign for Pfandbrief issuers with a strong focus on this segment.

SSA/Public Issuers
Auvergne-Rhône-Alpes Region – spotlight on REGRHO

Authors: Dr Norman Rudschuck, CIIA // assisted by Tobias Cordes and Maximilian Lingenfelser

Auvergne-Rhône-Alpes region – an overview

The Auvergne-Rhône-Alpes region (ARA, ticker: REGRHO) was created in 2016 from the merger of the Auvergne and Rhône-Alpes regions and is now one of France's 13 regions. The sub-sovereign is located in south-eastern France and contains significant cities such as Lyon, Grenoble and Clermont-Ferrand. The first of these, as the largest city and administrative centre, is one of France's most dynamic urban areas. The ARA region has 13 départements and borders on Italy, Switzerland and several French regions. It is home to 8.1m inhabitants or around 12% of the French population. The ARA region is one of the most densely populated regions of France. The age structure is similar to the national average: around 31% of the population is aged under 25. The ARA region benefits from a highly varied landscape extending from the Alps in the east through vast river valleys and agricultural areas to the volcanic mountains of the Auvergne.

Regional government built around Les Républicains party in the 2021 elections

Laurent Wauquiez (Les Républicains) won the French regional elections in 2021 and therefore remained the region's president – an office he had occupied since 2016. He resigned in September 2024 to lead the parliamentary group in Paris. The office of regional president is now occupied by Fabrice Pannekoucke (Les Républicains). The regional parliament consists of a conservative government and a strong left-wing (49 seats) and right-wing (34) opposition. The political power of the regional parliament is comparable to that of a German Landtag (regional parliament): its main duties therefore include education, infrastructure and economic development. On a national level, the central government and national parliament – which consists of two chambers – take precedence over the regional government. The two chambers, the national assembly and senate, function in a similar way to the British bicameral system. At local level, in contrast, the structure is similar to the German system: the French regional authorities are essentially divided into regions, départements and municipalities (communes). Several municipalities belong to a département, several départements are part of a region. The division of tasks and legal options open to these regional authorities are similar to those in the German system.

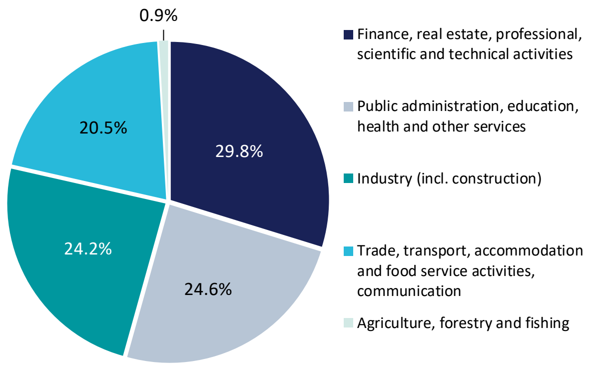
The appeal of the ARA region

Tourism is one of the region's key economic sectors. With 176 ski resorts, several national parks and three of the largest lakes in France, the region offers numerous opportunities for sporting activities and outdoor holidays. This makes it particularly attractive to sports enthusiasts and active holidaymakers. In addition to its natural attractions, its cities are also a key part of its success. For instance, Lyon is not only well-known for its rich history and superb cuisine, but its ancient city centre has also been recognised as a UNESCO world heritage site. In 2023, the region generated revenue from tourism of EUR 14bn, making it France's second most important tourism region after Paris. With 53.8m overnight stays in the same year, the ARA region ranks ninth in Europe, which emphasises the importance of the sector.

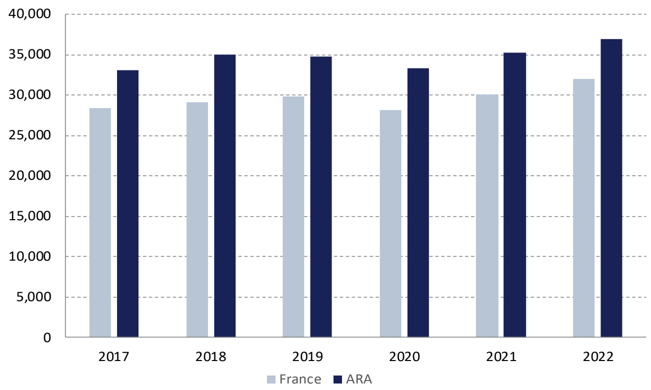
An important economic region characterised by high levels of innovation

The ARA region is one of the most innovative and economically strong regions in France. Thanks to its well-developed infrastructure, it plays a key role as a hub for transportation and logistics. This is apparent from its dense network of motorways and highways, which offers connections both within France and to neighbouring countries Italy and Switzerland. International airports in Lyon, Grenoble and Clermont-Ferrand and the well-developed railway infrastructure with many high-speed routes contribute to the region's importance. The significance of industry is characteristic of the sub-sovereign: with more than 520,000 jobs at 61,000 locations, it is the French region with the highest number of jobs in this sector. Over 16% of national value-added is generated there. Accordingly, a large number of well-known companies – such as Michelin, Sanofi and Danone – are headquartered or have production facilities there. It is also the second largest region for universities with over 370,000 students spread across eight universities and 50 Grandes Écoles. Thanks to close links to industry combined with the large number of universities, the ARA region has evolved into a centre for innovative start-ups and now ranks among the world's 100 most important natural science and technology clusters. This is reflected in the fact that 13 of the 55 French "pôles de compétitivité" (competitive clusters) are based in the region. Its capacity for innovation is apparent from the number of patent applications, in particular: Around 20% of all patent-protected innovations come from the sub-sovereign and 79.8% alone of French semiconductor patents originated there. R&D expenditure is therefore comparatively high, accounting for around 15% of all R&D expenditure in France, at EUR 8.4bn, in 2022. In terms of GDP, at just under EUR 305bn, the ARA region is the strongest economic region in France after the Île-de-France (just under EUR 783bn). This economic strength is also reflected in per capita GDP and household income: at EUR 37,000, per capita GDP is the third highest in France (as per 2022), at EUR 30,491, average household income is some 4.5% above the average national of EUR 29,180. In 2023, the unemployment rate of 6.4% was below the national average (7.2%). The two biggest, non-French trading partners in the region are Germany and Italy, which jointly account for around 25% of all exports and imports. It is striking that, although China is not among the five biggest export partners, it is the third biggest import partner (as per 2022). In 2017, there were more than 7,300 foreign firms operating in ARA, providing over 220,000 jobs with the biggest foreign employers coming from the USA, Germany and Switzerland.

Gross value-added by economic sector



Trend in nominal per capita GDP



Source: Eurostat, NORD/LB Floor Research

Extensive efforts surrounding environmental protection

Auvergne-Rhône-Alpes Énergie Environnement (AURA-EE) was founded in 1978 as an environmental agency supported by the regional parliament. The institution is not state-backed and operates as a non-profit making organisation with over 80 members consisting of public institutions, other NGOs, energy companies. Its activities are mostly limited to supporting local institutions in implementing projects involving sustainability and environmental protection. The focus is sustainable energy and climate planning, energy efficiency in buildings and transport, sustainable mobility as well as waste disposal and the recycling industry. At EU level, the AURA-EE leads the EUSALP initiative (EU Strategy for the Alpine Region) as Co-Lead. In 2021, the ARA region issued a green bond worth EUR 100m to finance environmental projects for the first time.

Rating downgrade in line with that of France

After S&P downgraded its rating for France from AA to AA- at the end of May 2024 in response to the increase in government borrowing and the unexpectedly high budget deficit, it aligned its rating for the Auvergne-Rhône-Alpes region with the sovereign rating in June. This is because S&P will not rate individual regions more highly than the state at national level. However, in its explanation, the risk experts referred to the region's prudent financial management and, in this connection, highlighted its good liquidity, strong economy and low unemployment, in particular. The region's independent credit rating is therefore better at AA+.

Liability mechanism and regulations

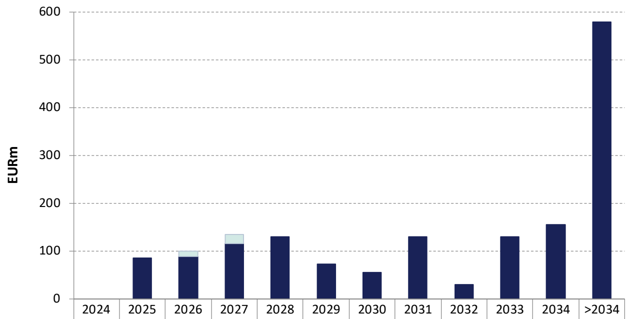
It is true that the French government does not provide any explicit guarantees for regions or regional authorities, however, a financial equalisation system was enshrined in the constitution as part of the decentralisation of France in 2003, which provides for both horizontal and vertical financial equalisation (Art. 72-2). Under the current legal position, it is not possible for the regions to become insolvent either. In this respect, the region is – as described above – highly creditworthy despite the rating downgrade. In July 2024, the French financial market supervisory authority, Autorité de Contrôle Prudentiel et de Résolution (ACPR), which is directly subordinate to the Banque de France in operational terms, also decided that in future risk exposure to French sub-sovereigns would be treated in the same way as exposure to the French central government in future from a regulatory perspective (cf. weekly publication dated 7 August). Under the standard approach of the Regulation (EU) 575/2013 (CRR), this gives ARA a risk weight of 0%. Consequently, this classification also allows it to be categorised as a level 1 asset under the LCR, and to derive a corresponding NSFR classification of 0%. This has given the region's bonds equivalent status to bonds issued by German Laender in this respect. They already benefited from preferential classification under Solvency II – freed from the changes to the regulatory treatment.

Regulatory summary for Auvergne-Rhône-Alpes and French regions

Risk weight	0%
LCR classification	Level 1 (EBA-list)
NSFR classification	0%
Solvency II classification	Preferred (0%)

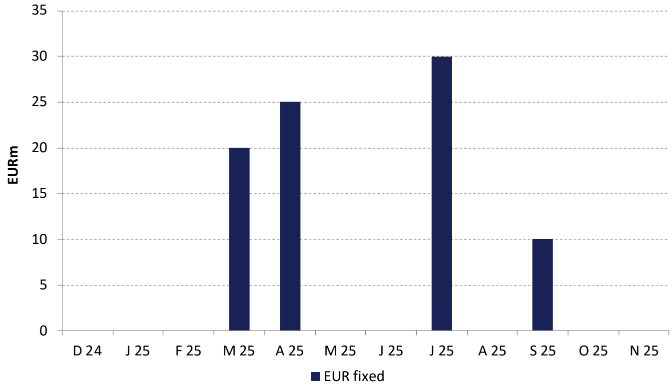
Source: Regulation (EU) No. 575/2013, Delegated Regulation (EU) 2015/61, Delegated Regulation (EU) 2015/35, NORD/LB Floor Research

Maturity profile by currency and coupon type



	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	>2034
EUR floating	0	0	10	20	0	0	0	0	0	0	0	0
EUR fixed	0	85	89	115	130	73	55	130	30	130	155	580

Bond maturities in the next 12 months



Source: Bloomberg, NORD/LB Floor Research; data from 12.11.2024

Outstanding volume of the Auvergne-Rhône-Alpes region

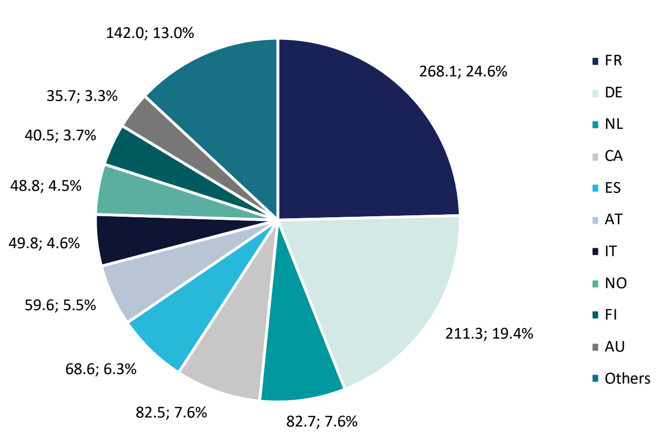
The outstanding bond volume under ticker REGRHO amounts to EUR 1.6bn in total, split between 61 different ISINs. Of this figure, EUR 580m (36%) will not mature until after 2034. The share of EUR 30m under “floating” is almost negligible. In addition, there is a zero-coupon bond, the remaining bonds therefore come with a fixed coupon. There is no foreign-currency diversification, however, the sustainability projects mentioned above and the ESG framework could be of interest. The longest outstanding bond is the green bond issued in October 2021 (EUR 100m, 20y). Medium and long-term refinancing takes place on the capital market within the framework of the EMTN programme amounting to EUR 1.5bn.

Conclusion

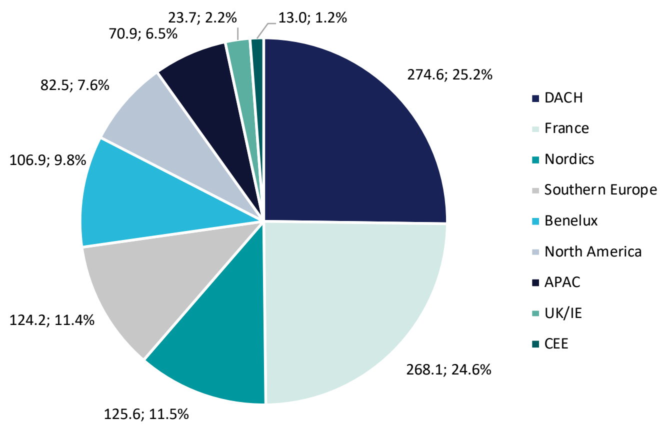
Due to its size and position, the ARA region is characterised by its economic strength, and also has good links to Europe thanks to its excellent infrastructure. Its diverse economy meant that it overcame the effects and consequences of the COVID-19 pandemic rather better than other regions. In many respects, the region ranks second in a French comparison, such as number of inhabitants, GDP, the employment rate and tourism. Prudent financial management, positive socio-economic indicators and its future-oriented focus help make the region attractive to investors. The region also benefits from the changes to its regulatory treatment in 2024 and, in our opinion, these improve the conditions for future refinancing activities on the capital market.

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



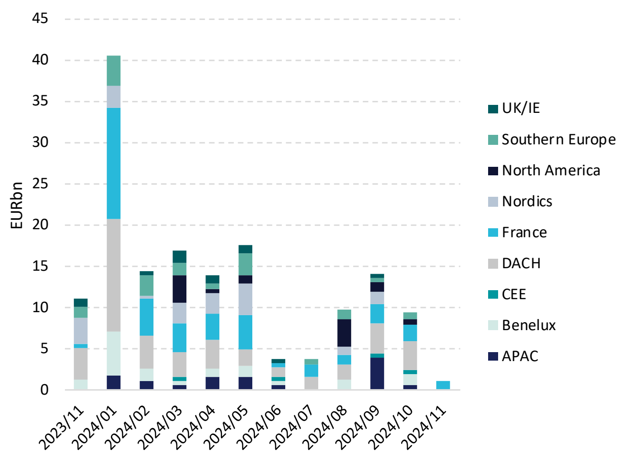
EUR benchmark volume by region (in EURbn)



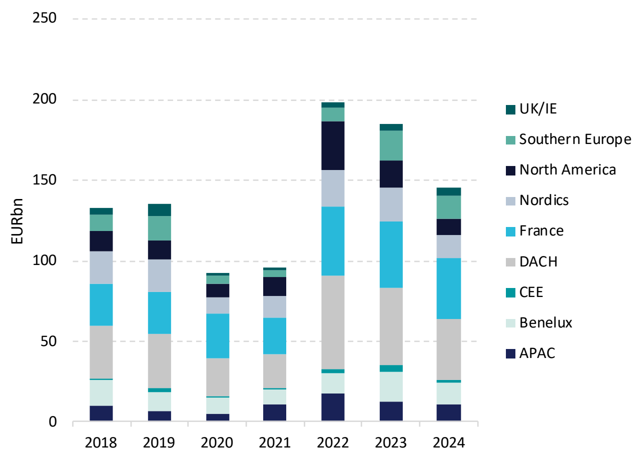
Top-10 jurisdictions

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	268.1	258	29	0.98	9.2	4.7	1.48
2	DE	211.3	300	46	0.65	7.7	3.9	1.52
3	NL	82.7	84	3	0.92	10.4	5.8	1.38
4	CA	82.5	61	1	1.33	5.6	2.6	1.45
5	ES	68.6	54	5	1.15	11.1	3.1	2.17
6	AT	59.6	100	5	0.59	8.0	4.1	1.56
7	IT	49.8	64	5	0.76	8.5	3.9	2.01
8	NO	48.8	59	12	0.83	7.2	3.4	1.10
9	FI	40.5	46	4	0.87	6.8	3.4	1.75
10	AU	35.7	33	0	1.08	7.1	3.1	1.83

EUR benchmark issue volume by month



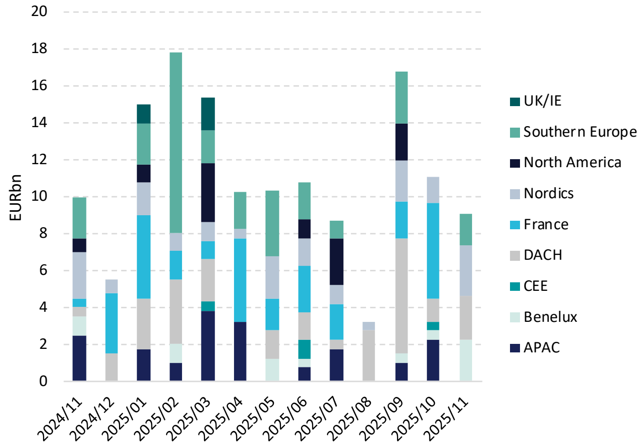
EUR benchmark issue volume by year



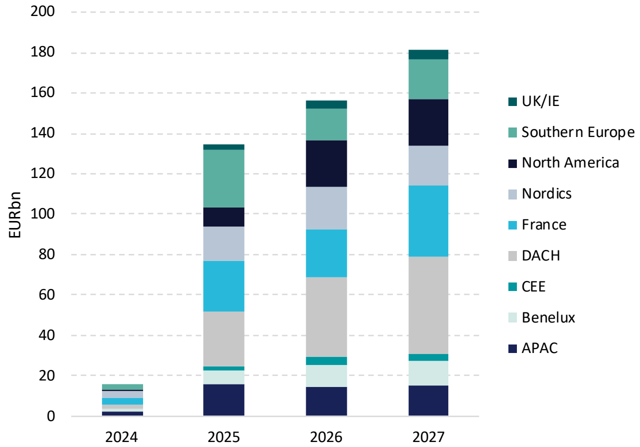
Source: Market data, Bloomberg, NORD/LB Floor Research

NORD/LB

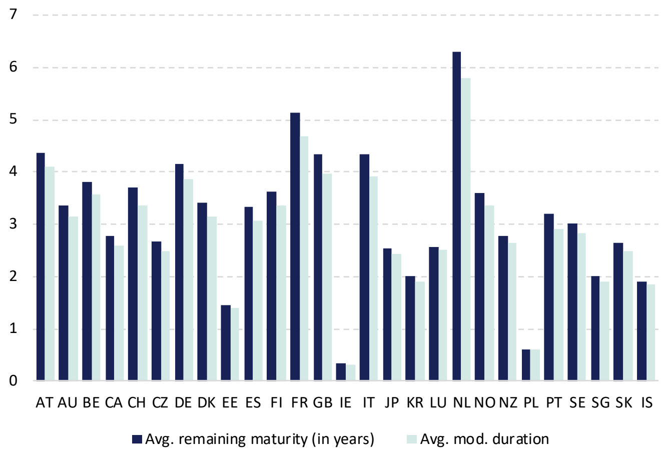
EUR benchmark maturities by month



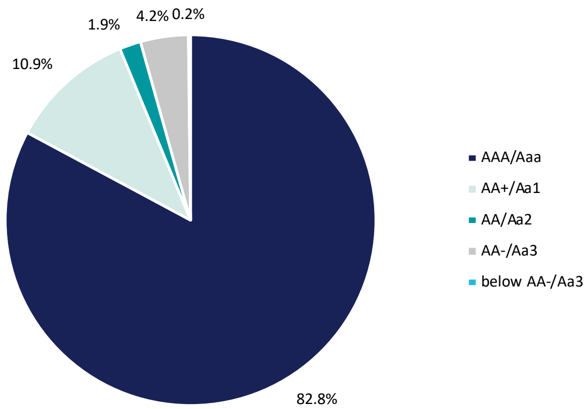
EUR benchmark maturities by year



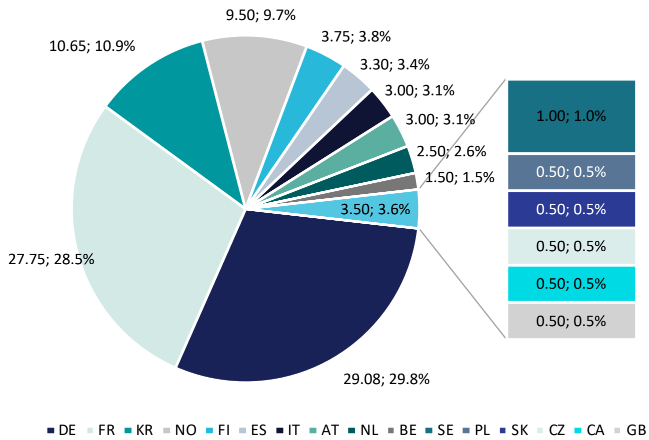
Modified duration and time to maturity by country



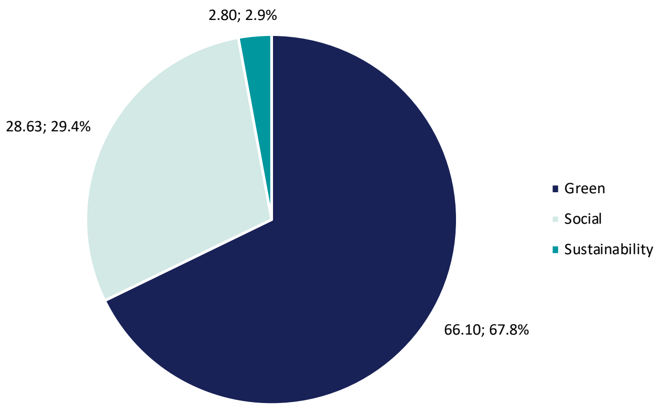
Rating distribution (volume weighted)



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

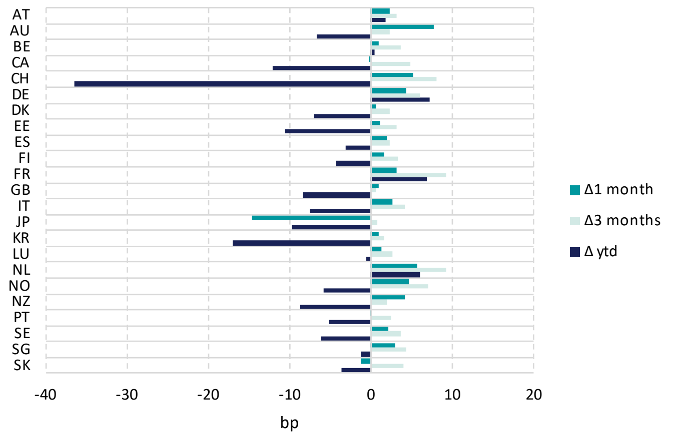


EUR benchmark volume (ESG) by type (in EURbn)

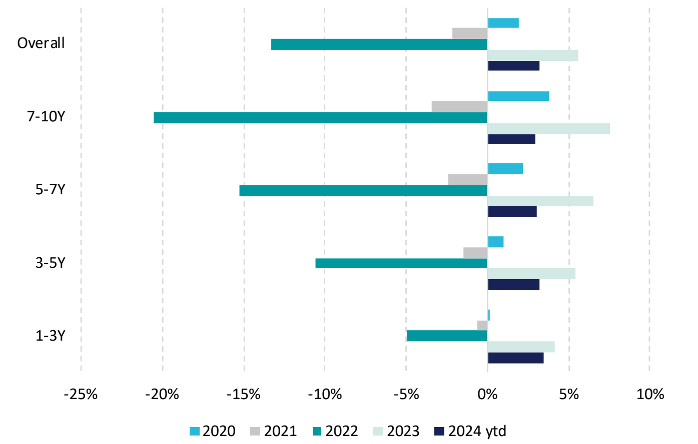


Source: Market data, Bloomberg, NORD/LB Floor Research

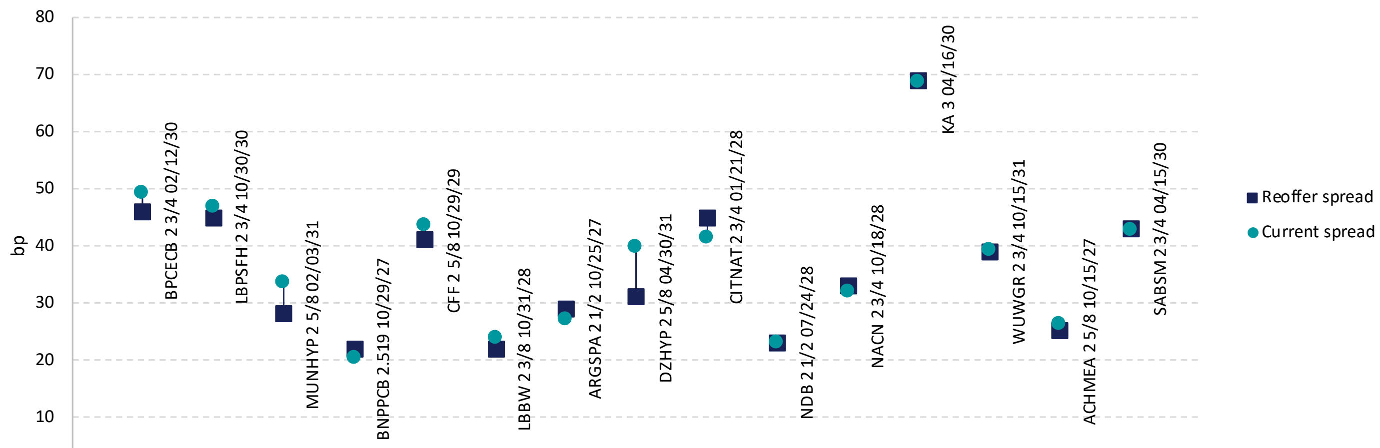
EUR benchmark emission pattern



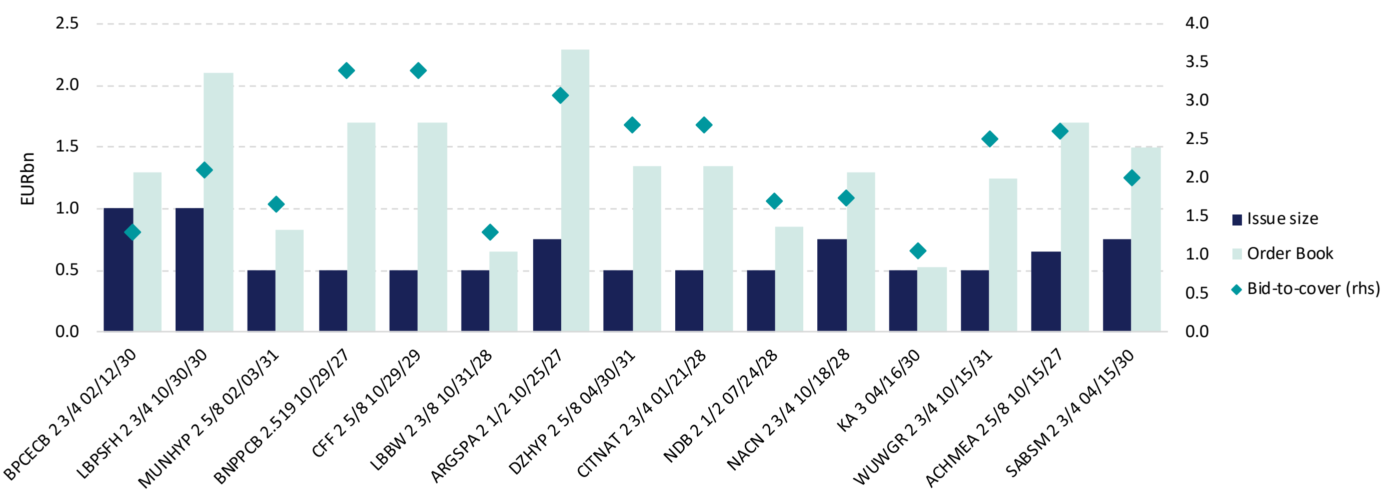
Covered bond performance (Total return)



Spread development (last 15 issues)



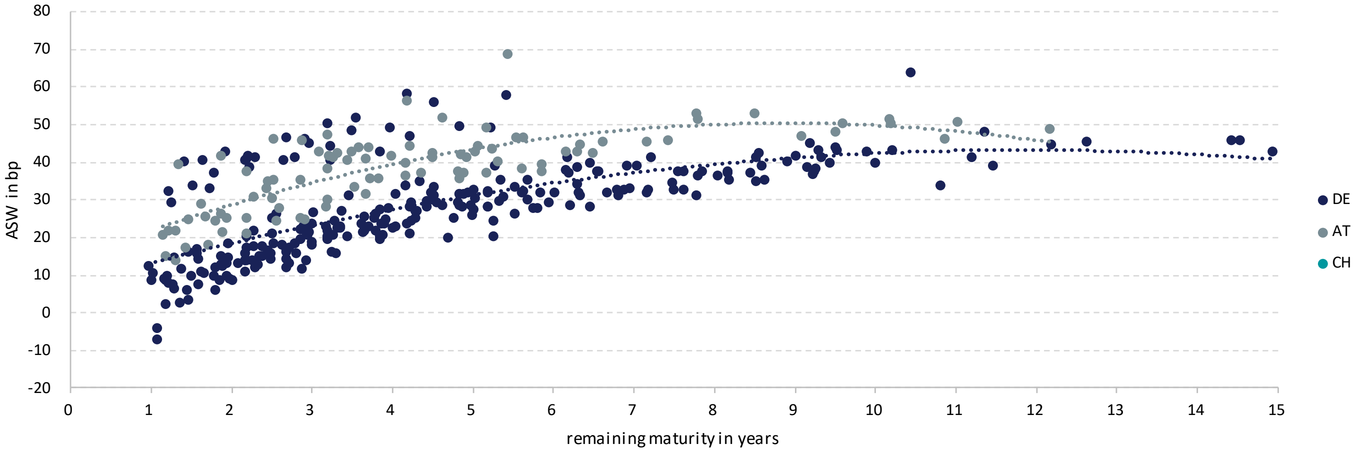
Order books (last 15 issues)



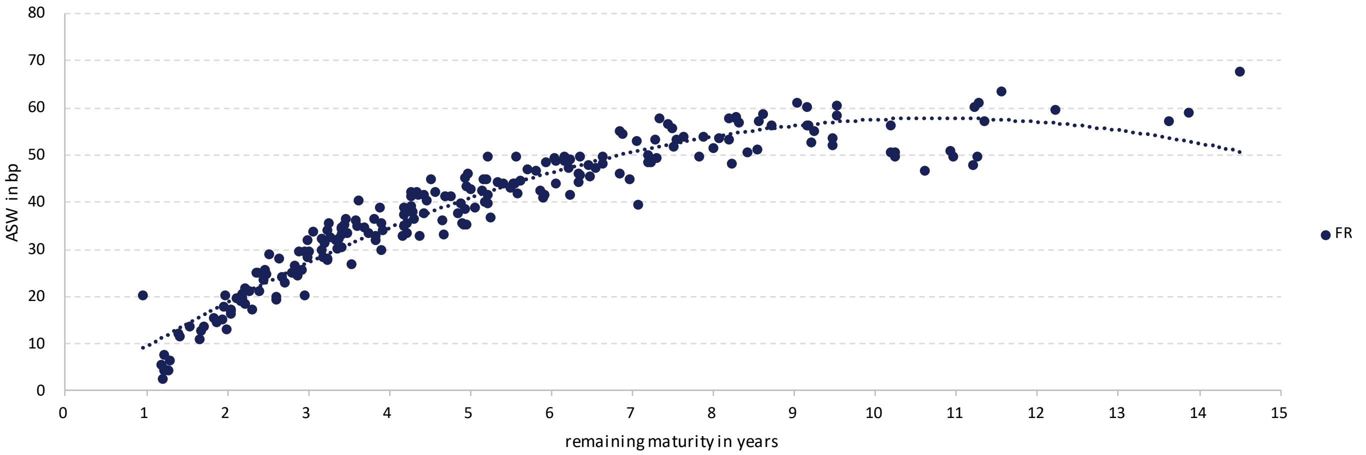
Source: Market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

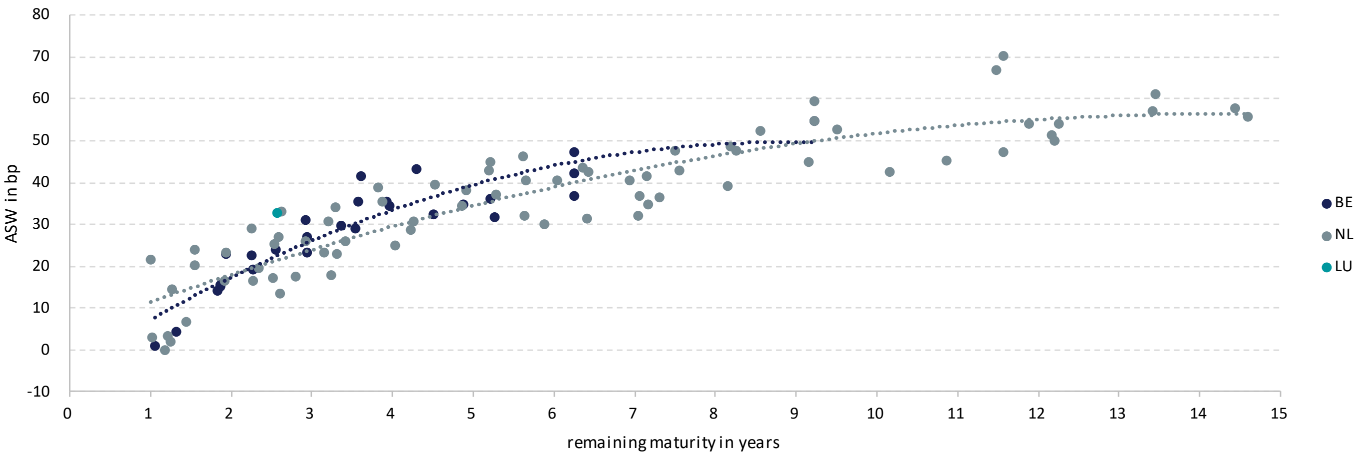
DACH



France

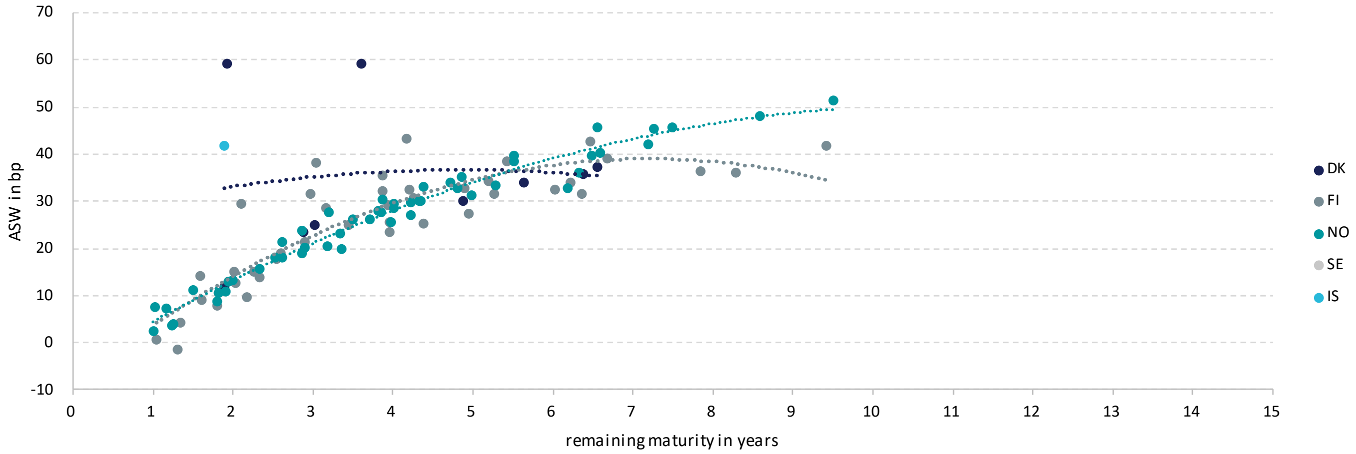


Benelux

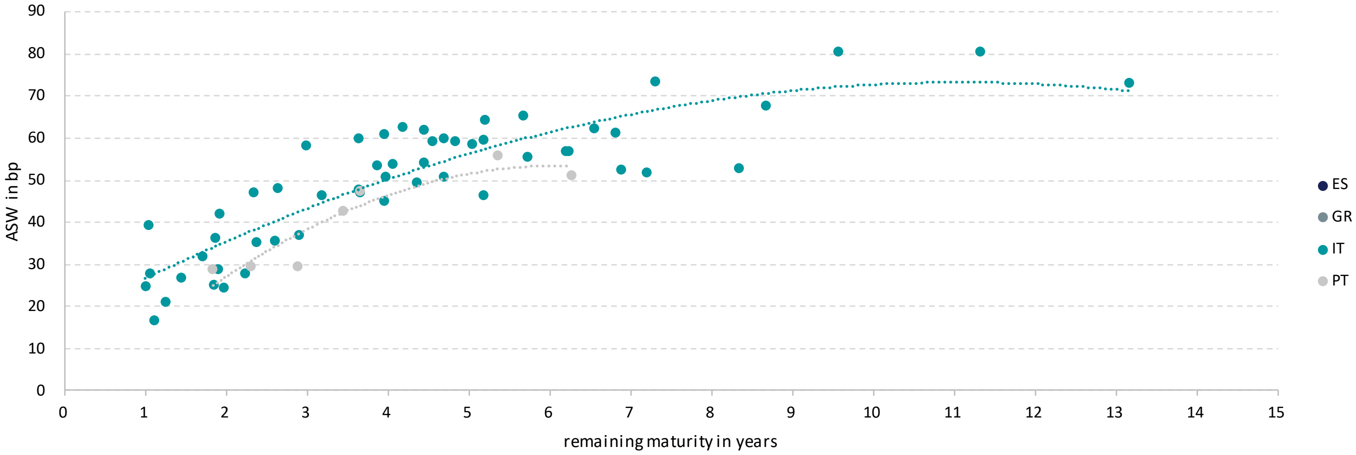


Source: Market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

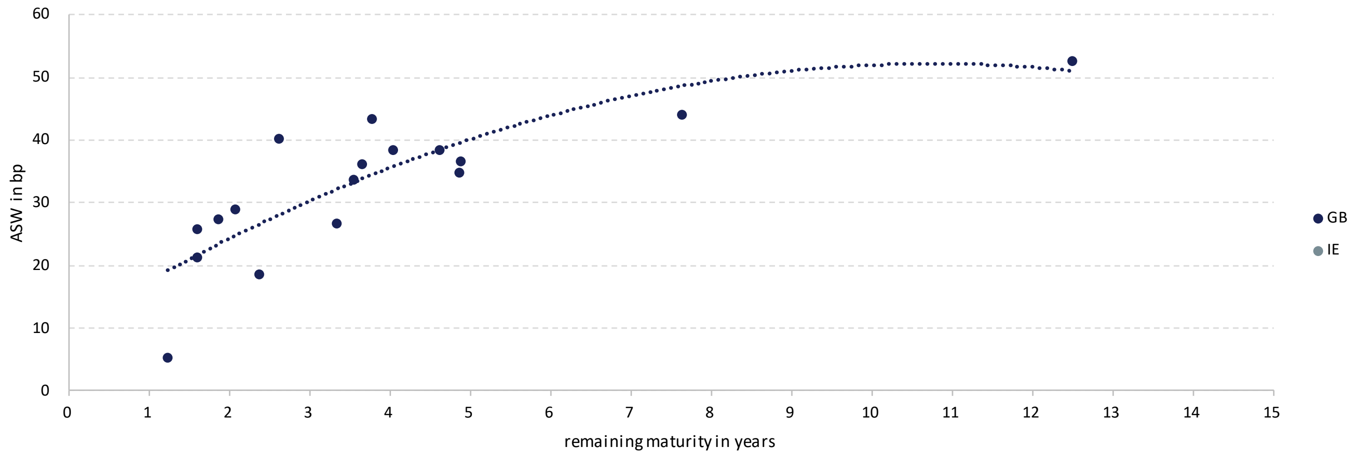
Nordics



Southern Europe

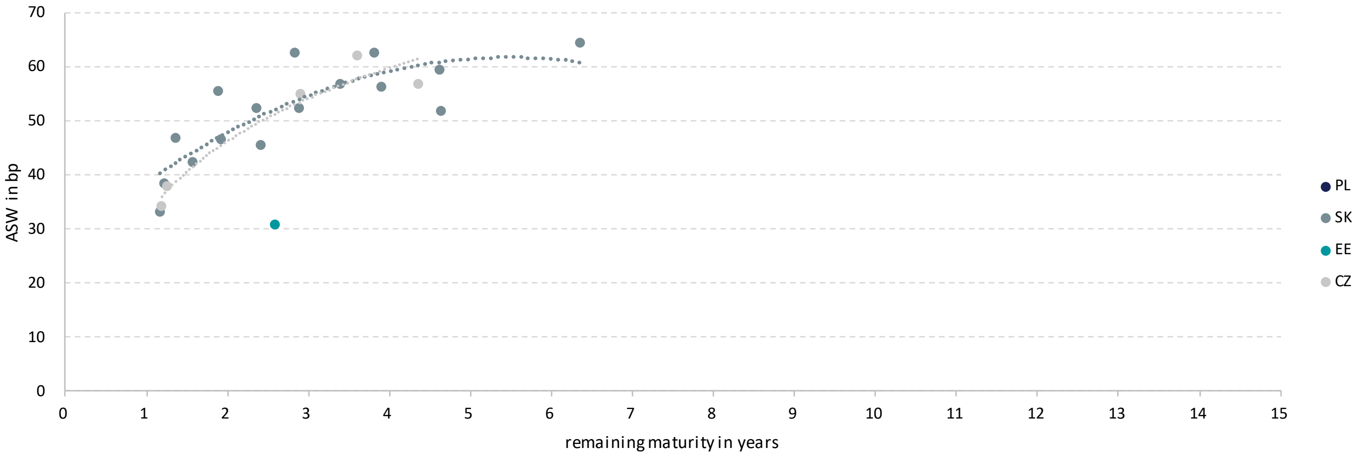


UK/IE

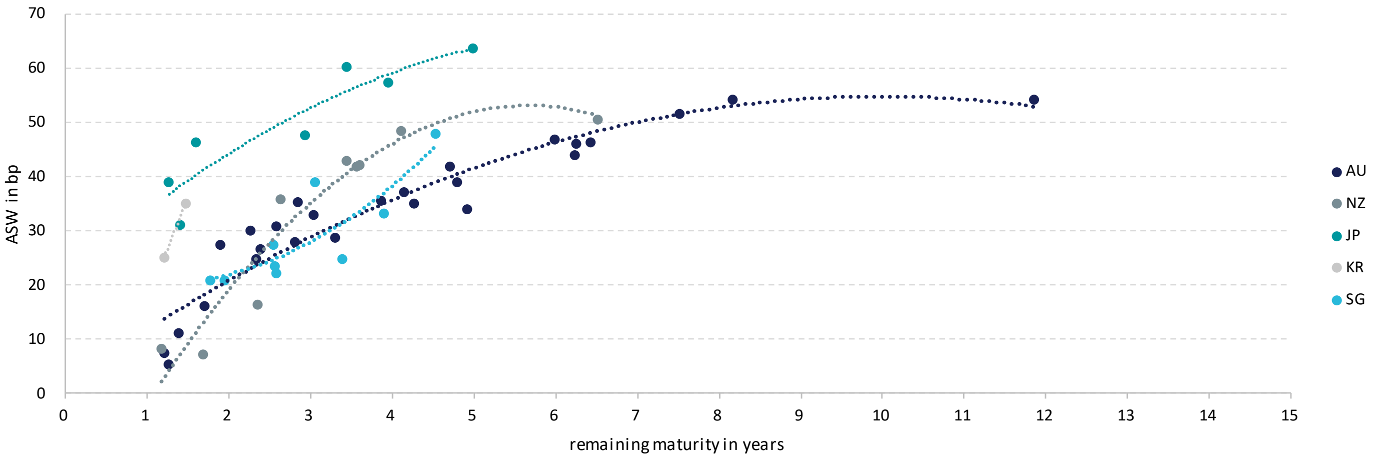


Source: Market data, Bloomberg, NORD/LB Floor Research

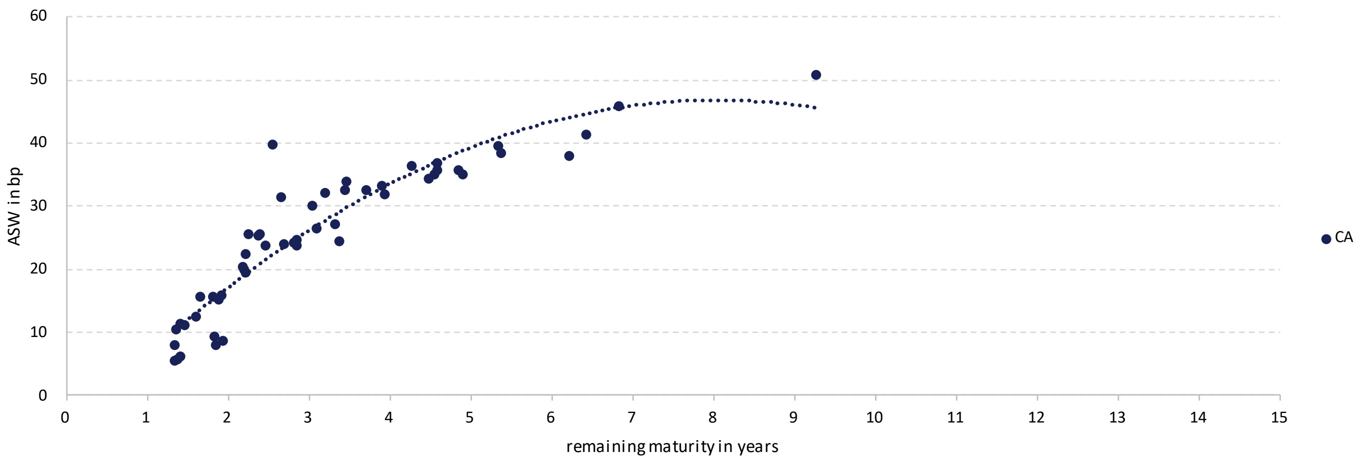
CEE



APAC



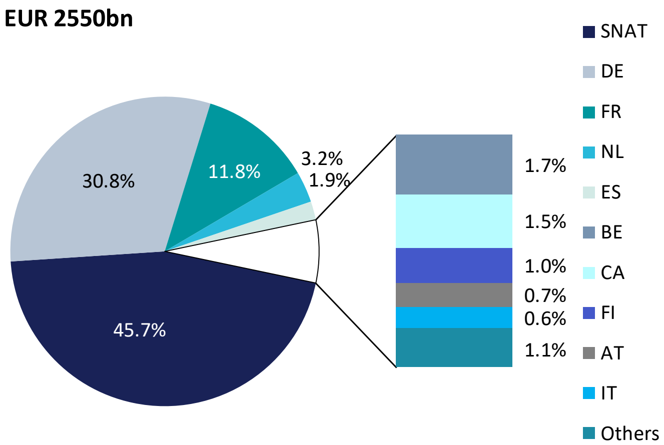
North America



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

Charts & Figures
SSA/Public Issuers

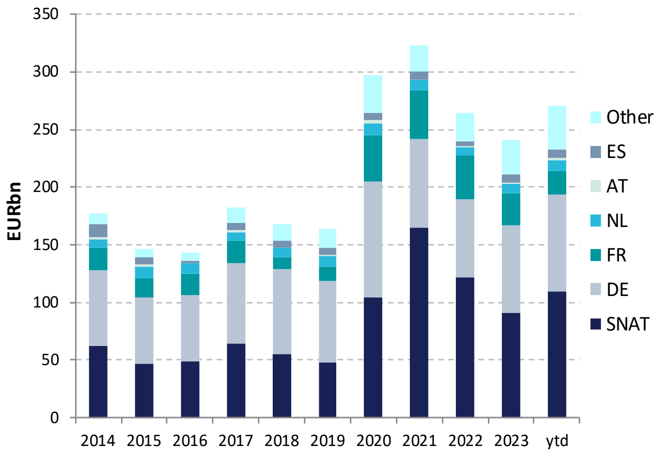
Outstanding volume (bmk)



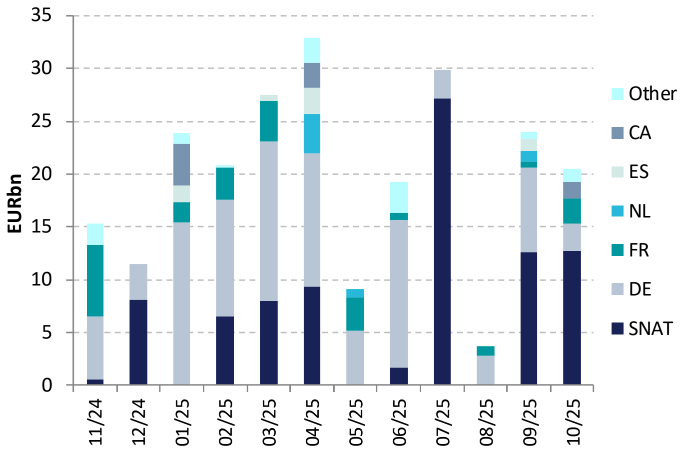
Top 10 countries (bmk)

Country	Vol. (EURbn)	No. of bonds	ØVol. (EURbn)	Vol. weight. ØMod. Dur.
SNAT	1,165.1	244	4.8	7.9
DE	786.2	590	1.3	6.1
FR	300.1	202	1.5	5.6
NL	82.3	67	1.2	6.4
ES	49.4	69	0.7	4.8
BE	43.1	46	0.9	10.2
CA	38.2	28	1.4	4.8
FI	25.2	26	1.0	4.2
AT	17.0	22	0.8	4.6
IT	15.6	20	0.8	4.4

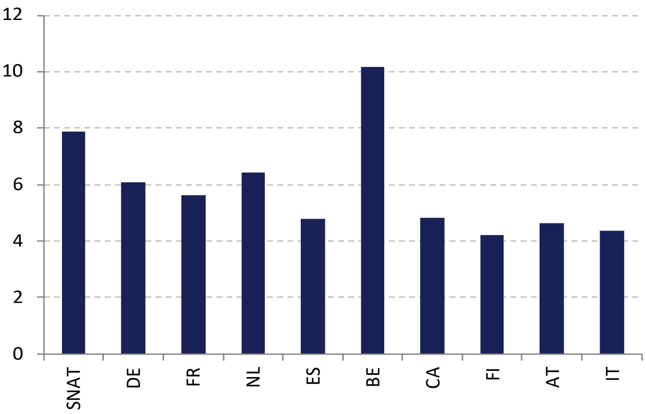
Issue volume by year (bmk)



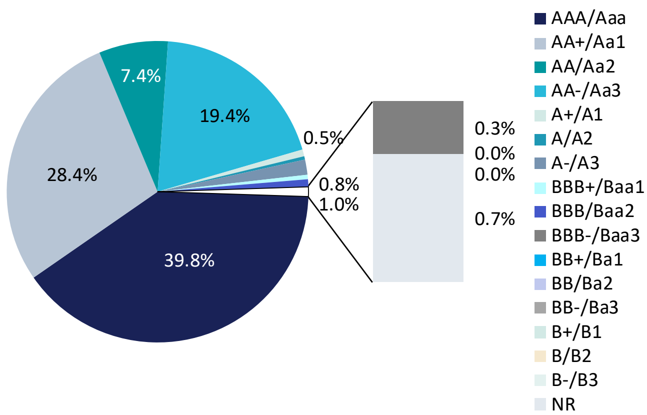
Maturities next 12 months (bmk)



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

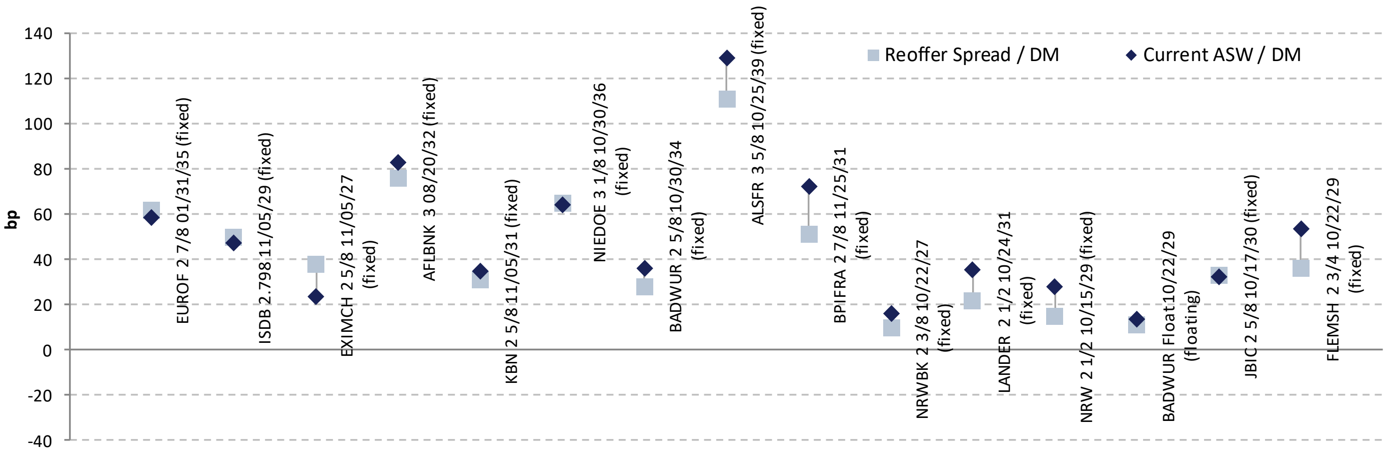


Rating distribution (vol. weighted)

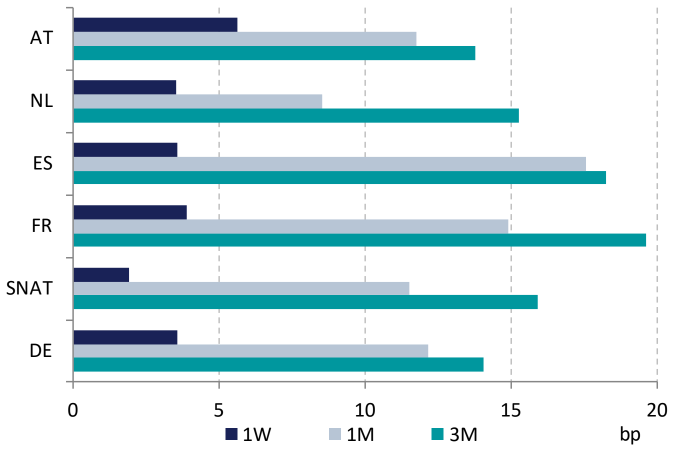


Source: Bloomberg, NORD/LB Floor Research

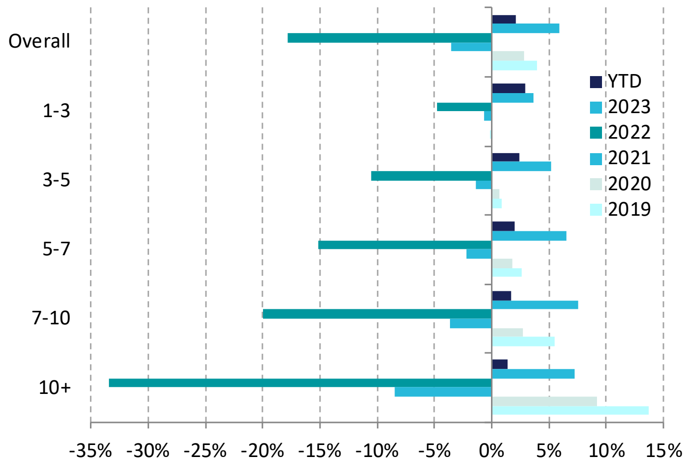
Spread development (last 15 issues)



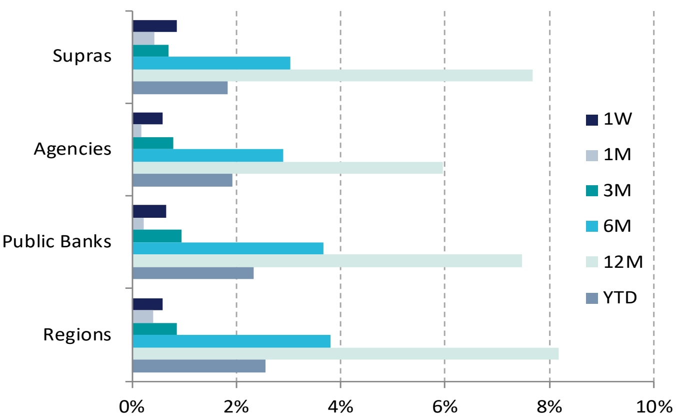
Spread development by country



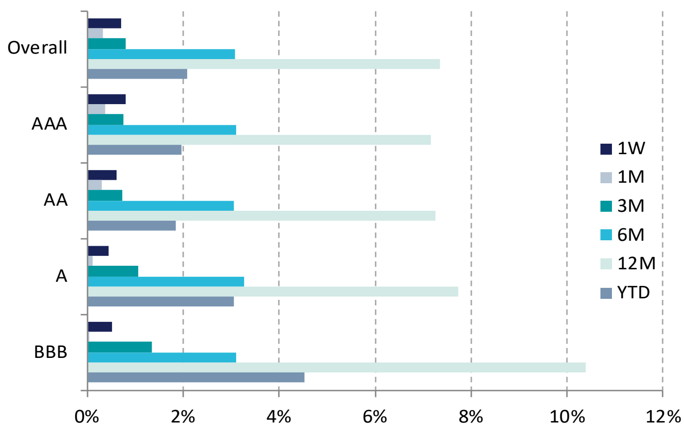
Performance (total return)



Performance (total return) by segments

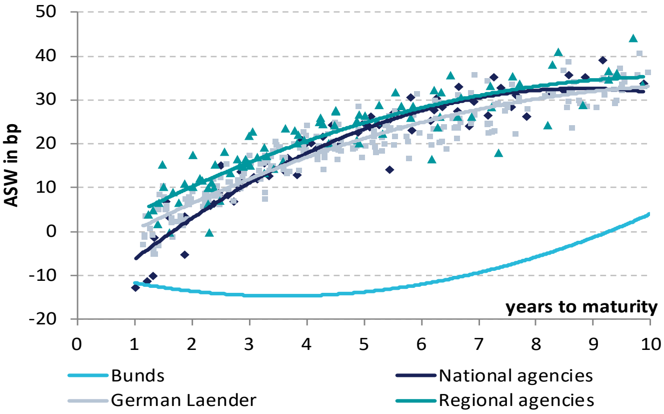


Performance (total return) by rating

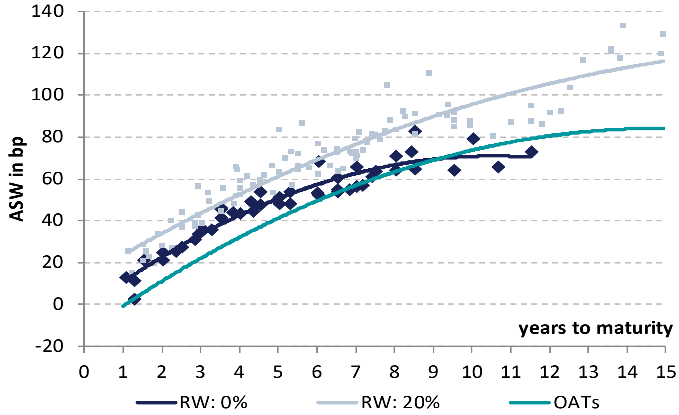


Source: Bloomberg, NORD/LB Floor Research

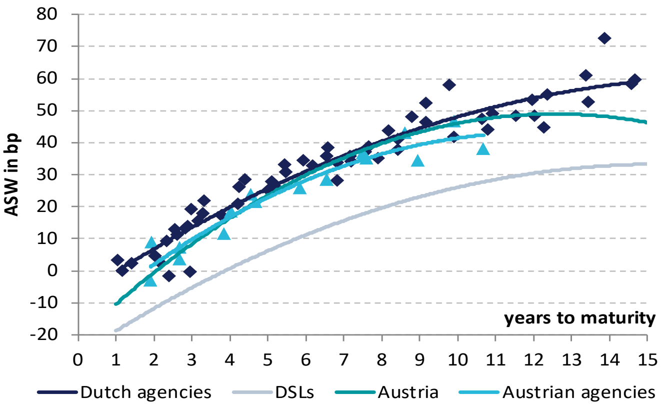
Germany (by segments)



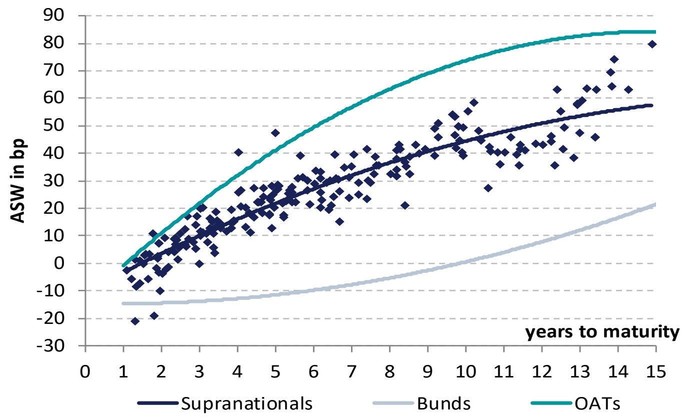
France (by risk weight)



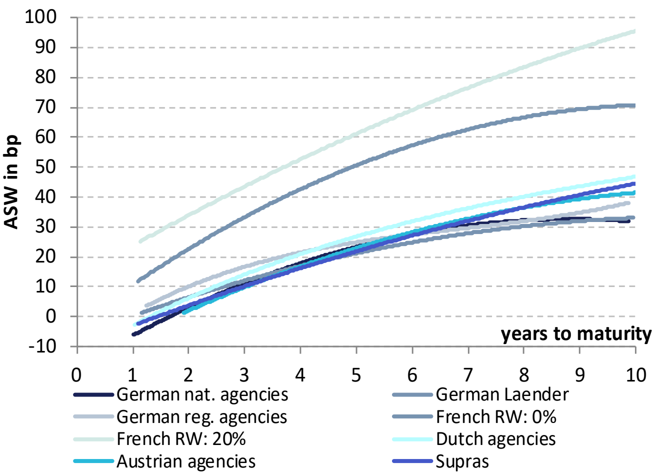
Netherlands & Austria



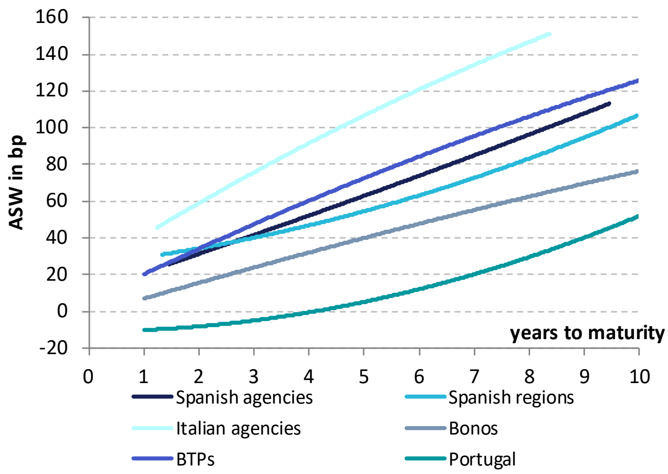
Supranationals



Core



Periphery



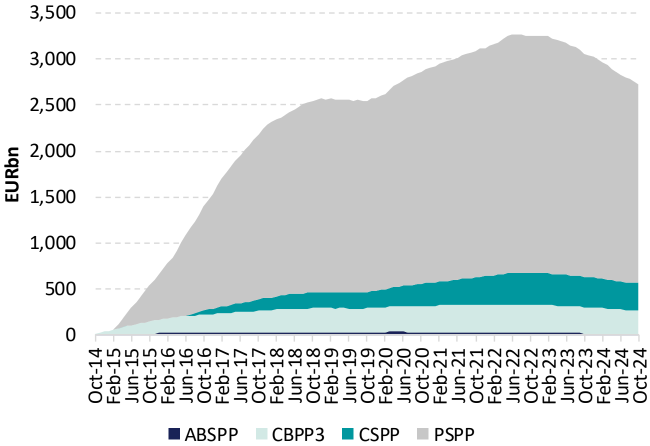
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

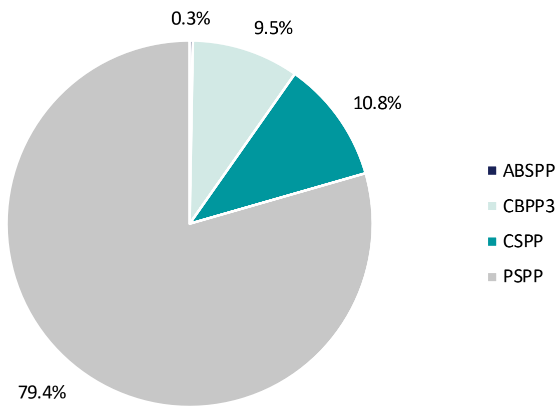
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Sep-24	8,003	258,768	297,662	2,196,710	2,761,143
Oct-24	7,748	258,032	294,507	2,165,737	2,726,024
Δ	-256	-736	-3,154	-30,973	-35,119

Portfolio development

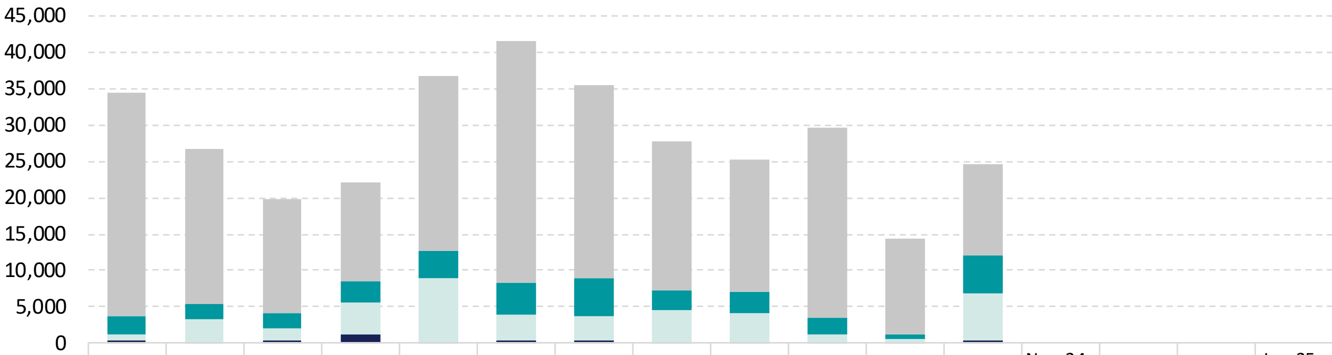


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)

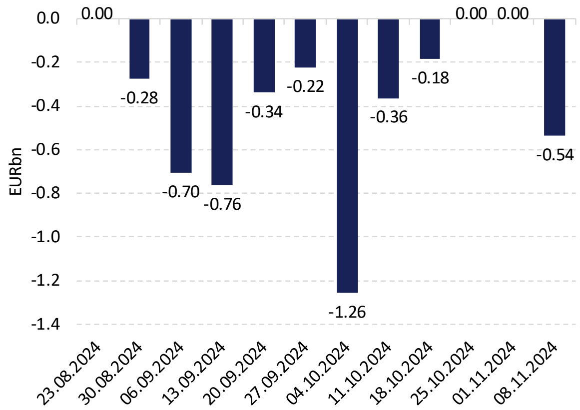


	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-24 - Oct-25	2023	2024	Jan-25 - Oct-25
APP	34,358	26,695	19,721	22,039	36,658	41,660	35,527	27,846	25,290	29,618	14,310	24,596	338,318	338,664	323,141	341,959
PSPP	30,578	21,298	15,643	13,463	24,021	33,379	26,671	20,541	18,261	26,161	13,114	12,568	255,698	260,705	255,173	260,955
CSPP	2,613	2,031	1,944	2,973	3,788	4,279	5,137	2,699	2,940	2,156	562	5,259	36,381	31,158	30,772	34,750
CBPP3	736	3,136	1,790	4,335	8,635	3,709	3,373	4,448	3,864	1,135	468	6,492	42,121	36,226	30,791	42,219
ABSPP	431	230	344	1,268	214	293	346	158	225	166	166	277	4,118	10,575	6,405	4,035

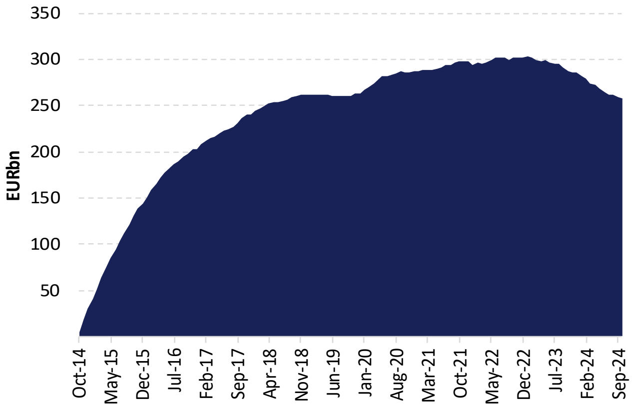
Source: ECB, Bloomberg, NORD/LB Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

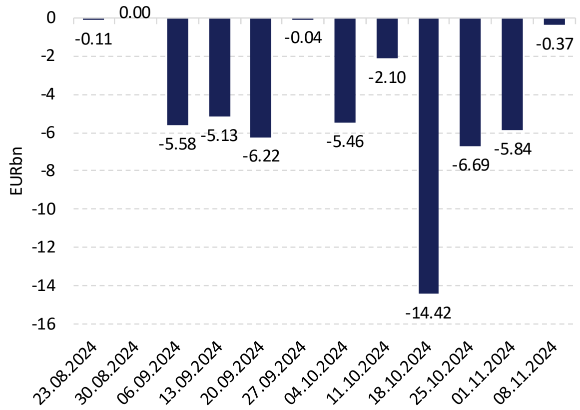


Development of CBPP3 volume

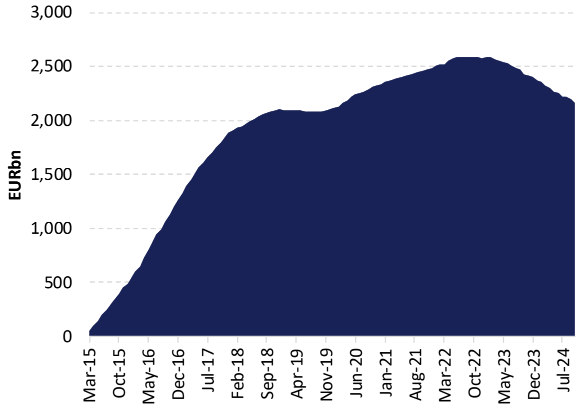


Public Sector Purchase Programme (PSPP)

Weekly purchases



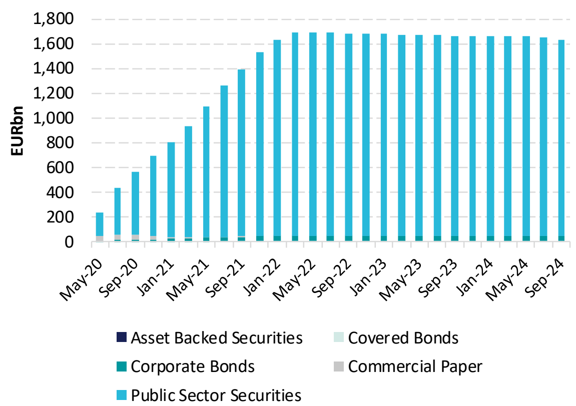
Development of PSPP volume



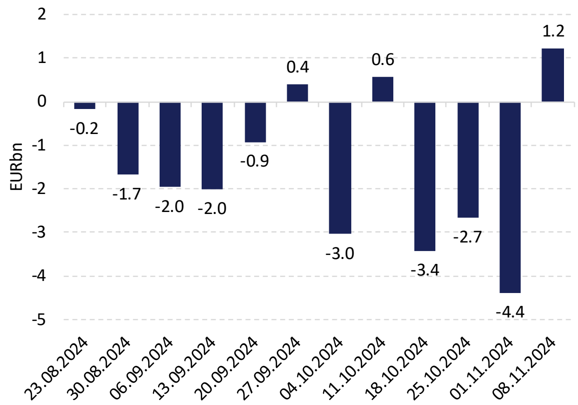
Source: ECB, Bloomberg, NORD/LB Floor Research

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

NORD/LB:	NORD/LB:	NORD/LB:	Bloomberg:
Floor Research	Covered Bond Research	SSA/Public Issuers Research	RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

Issuer Guide – Covered Bonds 2024

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 Q3/2024 (quarterly update)

Transparency requirements §28 PfandBG Q3/2024 Sparkassen (quarterly update)

SSA/Public Issuers:

Issuer Guide – German Laender 2024

Issuer Guide – German Agencies 2024

Issuer Guide – Canadian Provinces & Territories 2024

Issuer Guide – European Supranationals 2024

Issuer Guide – French Agencies 2023

Issuer Guide – Nordic Agencies 2024

Issuer Guide – Dutch Agencies 2024

Issuer Guide – Non-European Supranationals (MDBs) 2024

Beyond Bundeslaender: Belgium

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Beyond Bundeslaender: Spanish regions

Fixed Income Specials:

ESG-Update 2024

ECB: An autumn of interest rate cuts that wasn't supposed to be?

Appendix
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Länder/Regionen	+49 511 9818-9660
Frequent Issuers	+49 511 9818-9640

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