

# Capital Markets Spotlight Outloook H2/2025

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# Covered Bond & SSA View

NORD/LB Floor Research

13 August 2025 ♦ 27/2025

Marketing communication (see disclaimer on the last pages)



# Agenda

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# Market overview Covered Bonds

Author: Alexander Grenner

# Primary market: issuers continue to stay away

Once again, we have no new issuances to report in the primary market for covered bonds in EUR benchmark format over the past five trading days. The summer break from issuance activities evidently goes on. Even the EUR sub-benchmark deal placed by DekaBank has been unable to change this situation. However, as we explained in the previous edition of our weekly publication, from our point of view this is not an unusual state of affairs, as the issuance window in previous years has not reopened until around 16-20 August. Specifically, last year it was 19 August (Commerzbank on that occasion), following which the primary market slowly got back to business. Issuance activities then picked up speed again in the final week of August and the first couple of weeks in September. In 2023, it was 16 August when primary market activities resumed, with Berlin Hyp taking centre stage as the first issuer back to the market. Following its acquisition by Landesbank Baden-Württemberg, the merger of the cover pools has now been completed. This process also entailed renaming the Bloomberg tickers, with the result that all outstanding issues now appear under LBBW only. As at the reporting date of 30 June 2025, Berlin Hyp still had an outstanding mortgage Pfandbrief volume of EUR 19.1bn, including 21 issues in EUR benchmark format. However, in terms of publicly placed Pfandbriefe, the bank had a much lower volume of just EUR 131m. As at the same reporting date, LBBW had outstanding mortgage and public Pfandbriefe totalling EUR 10.4bn and EUR 11.1bn respectively. With regard to the EUR benchmark segment, the merger creates the largest covered bond issuer with a total outstanding volume of EUR 32.5bn (47 ISINs) - ahead of DZ Hyp at EUR 29.6bn (41 ISINs). In our outlook for the second half of the year after the summer break, Germany leads the way in our projections with an issuance volume of EUR 8.5bn, followed by France at EUR 7.8bn and Canada at EUR 4.8bn. We are also expecting (several) issuers from the Netherlands, Italy and Norway to be active on the primary market. Overall, we are anticipating a total volume of EUR 51.4bn in new deals across the remainder of the year – although we should point out that this forecast is more towards the "upper end" of our expectations. It remains to be seen whether covered bond issuers can build upon the strong months of May and June or whether a greater sense of caution will shape the market, as was the case towards the beginning of the year.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG

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

# Secondary market: transaction volume remains low

The situation on the secondary market is similar to the quiet picture from last week. The lack of fresh supply is keeping the transaction volume very low overall. The buy side continues to clearly dominate, while demand remains focused on the medium and long maturity segments. Looking at the secondary market spreads, another tightening movement can be observed. It remains to be seen, however, whether or not this will be reflected in the first new deals after the end of the summer break.



# DekaBank reopens the market in the EUR sub-benchmark segment

Although the market for covered bonds in EUR benchmark format would still appear to be in the midst of a summer holiday, there has at least been some movement in the EUR subbenchmark segment. After a hiatus lasting more than two months, DekaBank has now served investors in this sub-market again, placing a covered bond with a volume of EUR 250m (3.6y) at a reoffer spread of ms +17bp. The fairly remarkable level of demand seen for this public sector Pfandbrief was reflected in a well-filled order book in the amount of EUR 935m. The bank is a regular issuer in the market for covered bonds in EUR sub-benchmark format with 11 outstanding deals at present, including ten publicly secured and one mortgage Pfandbrief. The bank was last active on the market almost exactly two years ago (September 2023: another EUR 250m deal). We will keep an eye on this transaction with a view to whether it can be seen as "reopening" the EUR benchmark segment, although we would not be surprised if the summer break on the primary market ultimately lasts a while longer.

# EBA stress test: major European banks with improved capital strength

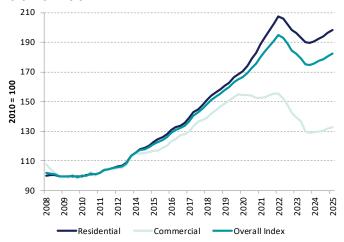
On 01 August, the European Banking Authority (EBA) published the results of its pan-European stress test encompassing 64 banks from the EU/EEA sector. These account for approximately 75% of the assets of all banks within the EU. The stress test, which is conducted in cooperation with relevant European committees and the authorities of the respective jurisdictions, aims to assess the resilience of EU banks in the event of adverse economic developments across the period 2025–2027. In this way, the stress test is designed to simplify the identification of potential risks for banks and facilitate informed supervisory decisions on the part of the authorities, in addition to increasing market discipline in general. The results of the stress test indicate that the largest EU banks should be in a position to withstand a severe hypothetical stress scenario. According to the rating experts from Moody's, just 13 banks would be in breach of their CET1 requirements in such a scenario, as against 22 banks in 2023. Overall, the banks' CET1 ratios fell by 370bp to 12.1% in the adverse scenario – in 2023, the decline was as high as 479bp (down to 10.4%). This more moderate reduction can largely be attributed to improved bank earnings, supported by higher interest rates. However, the CET1 ratios of four banks - two Landesbanken in Germany and two major French banks – did fall below the 10% threshold. In summary, Moody's states that banks in France, Spain, Germany and the Netherlands reported stressed capitalisation levels below the EU average, while banks in Norway, Portugal, Sweden, Poland and Hungary posted the highest stressed capitalisation levels overall. Looking at the risk landscape, it is clear that credit risks account for the largest share of the simulated losses. This impacts banks with strong exposure to trade-intensive sectors in particular, including the manufacturing industries, which are more exposed to geopolitical risks than is the case for other sectors on account of their energy-intensive activities. Compared with 2023, the potential losses due to credit risks are significantly higher, the study explains, although these can be offset by almost half thanks to the improved revenue generation of the banks. From our perspective, the results of the stress test are positive overall. However, the implications should be taken into account by the supervisory authorities when implementing future measures to ensure the continued resilience of the EU banking system during times of crisis. In this respect, for example, Moody's cites the impact on future capital ratio requirements, specifically an adjustment of the Pillar 2 requirements and the Pillar 2 guidance, as possible consequences.



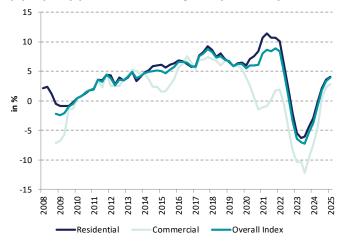
# vdp property price index: property prices continue to rise

The Association of German Pfandbrief Banks (vdp) published the latest edition of its quarterly property price index on 11 August. According to this, the increase in real estate prices continued in the second quarter of 2025, with the index rising by +3.9% in comparison with the same quarter of the previous year to 182.4 points. Compared with Q1/2025, an increase of 1.0% was recorded. The main reason for this growth are residential property prices, which have risen by nearly +4.1% year on year and by +1.1% compared with the previous quarter. Prices for multi-family houses, in particular, rose by as much as +5.6% versus the second quarter of 2024 (+1.3% compared with the previous quarter), while the prices for owner-occupied residential properties (i.e. single-family houses and condominiums) increased less sharply, rising by +2.6% year on year and +0.8% quarter on quarter. According to Jens Tolckmitt, vdp Chief Executive, the housing shortage will likely cause residential property prices and rents to rise further. While the "Bau-Turbo" project, an initiative aimed at speeding up housing construction announced by the federal government, is said to be moving in the right direction, the creation of new housing will take time and needs additional impetus. Commercial real estate prices, (i.e. office and retail properties), also rose by +2.9% year on year and +1.0% on the previous quarter. According to Tolckmitt, while developments on the commercial real estate market have certainly stabilised, this situation it is not yet quite as solid as the residential real estate market. This can be seen, for example, in the lower transaction volume. Looking at the price trends in the top 7 cities (Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart), the growth in residential real estate prices is slightly higher than is the case for Germany as a whole. On average, prices in the top 7 cities rose by +5.5% compared with the same quarter of the previous year. Among these cities, Munich and Frankfurt am Main lead the way with increases of +6.5% and +6.4% respectively. Overall, with the index having increased five times in a row now, we are seeing increasing signs of sustained momentum, particularly with regard to the residential real estate market. In terms of commercial real estate assets, the positive trend should continue to be interpreted with a degree of caution owing to the presence of risk factors such as the economic and geopolitical situa-

# vdp property price index (overall)



# vdp property price index (change vs. previous year)



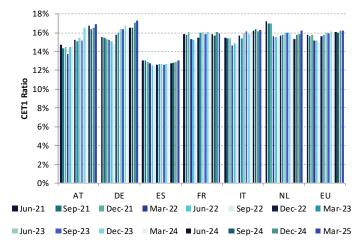
Source: vdp, NORD/LB Floor Research



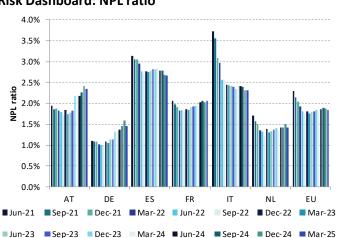
# EBA Risk Dashboard: EU/EEA banking sector robust despite increased risk costs

The EBA provides a regular overview of the potential risks in the European banking sector in its EBA Risk Dashboard (RDB). The database, which is put together on the basis of regulatory reports from the largest commercial banks in the EU/EEA, takes into account a wide range of key metrics (including capitalisation and liquidity, asset quality and profitability). The current period under review looks at the key metrics for the first quarter of 2025. In its latest RDB (cf. press release), the EBA continues to evaluate the situation of European banks as robust despite increased risk costs. On average, the institutions are still strongly capitalised compared with the previous quarter. The EBA's publications are an important source of information for us. From our perspective, they ultimately offer important insights into the state of the European banking sector in addition to addressing the funding behaviour of European banks. In the context of covered bonds, the insights into secured funding activities are of particular importance. The average share of secured funding across the EU/EEA stands at 31.4% (previous quarter: 31.6%). The EBA figures also cover the investment side. For example, in relation to the weighted composition of liquid assets, the supervisory authority reports a share of extremely high-quality covered bonds of 6.5% (previous quarter: 6.6%). In terms of the quality of assets on banks' balance sheets, this can still be described as stable. The volume of non-performing loans (NPLs) increased marginally by +0.7% to EUR 377.8bn, although the average NPL ratio came in at 1.84% for the first quarter of 2025 (previous quarter: 1.88%) and therefore remains at a low overall level. However, there are still significant differences between the individual jurisdictions in this regard.

# **Risk Dashboard: CET1 ratio**



## **Risk Dashboard: NPL ratio**



Source: EBA, NORD/LB Floor Research



# **APRA recommends easing the Australian Covered Bond Act**

In its recently published "Review into Small and Medium-sized Banks", the Australian Prudential Regulation Authority (APRA) analysed, among other aspects, the country's Covered Bond Act, which was introduced in 2011. The agency recognises covered bonds as a stable funding vehicle and, in terms of wholesale funding more generally, potentially one that is more cost-effective too. At the same time, covered bonds can provide lower-rated medium-sized banks with the opportunity to partially mitigate institutional funding costs compared with larger banks due to the fact that they typically have a high rating. However, alongside the major banks, only five medium-sized Australian banks have issued covered bonds up to now. In specific terms, APRA is therefore recommending raising the limit of Australian assets that may be used for covered bonds from 8% to 12%. For medium-sized banks in particular, this would offer several advantages: first, it would reduce the rollover risks of banks that offer offshore financing, as covered bonds tend to have longer maturities. For banks that already have outstanding covered bonds, this new regulation would offer additional flexibility in terms of reducing their dependency on other refinancing sources (e.g. unsecured funding). Other implications highlighted by APRA in the report, which will however initially require further discussion, include the potential inclusion of covered bonds as high-quality liquid assets under the LCR and the introduction of an asset encumbrance cap, as this would also be raised to track any potential increase in the cap for covered bonds. We welcome this initiative aimed at creating a more dynamic covered bond market in Australia and shall watch with interest as to whether and in what form the government opts to implement the recommendations. According to our records, the total outstanding volume of covered bonds in EUR benchmark format from Australia currently amounts to EUR 33.3bn spread across seven issuers.



# Market overview SSA/Public Issuers

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

# Satisfactory first half of 2025 for KfW - sharp growth in loan commitments

In a press release published on 07 August 2025, KfW (ticker: KFW) looked back on business developments in the first half of the year and presented the relevant figures. Based on the press release, the promotional bank's loan commitments amounted to EUR 39.4bn in H1/2025 – an increase of EUR +4.7bn on the same period in the previous year (H1/2024: EUR 34.7bn). Domestic development business rose, in particular, with growth of +22.8% Y/Y to EUR 25.3bn. Demand was especially high for the financing of climate, environmental and innovation projects in the SME segment. The relevant volume of commitments more than doubled in the period under review, amounting to EUR 6.9bn in H1/2025 (H1/2024: EUR 2.8bn). The volume of new business in export and project financing was down by EUR -0.7bn on H1/2024 and totalled around EUR 11.6bn in the first six months of this year. Commitments at KfW Development Bank were up by EUR +0.6bn to EUR 2.0bn (H1/2024: EUR 1.4bn), whereas new commitments at DEG were unchanged on the same period in the previous year at EUR 0.6bn. Overall, KfW achieved an increase in its operating profit on H1/2024 of EUR +4.0m to 969m. However, charges from the valuation of assets due to the challenging geopolitical situation resulted in a marked decrease in Group income. In H1/2025, Group income totalled EUR 289m, after EUR 932m in H1/2024. For funding purposes, KfW raised funds equivalent to EUR 50.3bn in the international capital markets during the first six months of 2025 (H1/2024: EUR 55.0bn). This means that KfW has already achieved around 72% of its funding target, which is approximately EUR 70bn. For H2/2025, KfW is planning to issue bonds worth almost EUR 20bn, including in the form of green bonds.

German federal government gets bill underway for amending the Sanierungshilfengesetz

After the parliament of the Free and Hanseatic City of Hamburg (ticker: HAMBRG) voted in favour of amending the state constitution following the second reading, paving the way for the city state to utilise the structural leeway available for incurring debt, Bremen (ticker: BREMEN) and Saarland (ticker: SAARLD) also indicated that they wish to make use of the additionally gained financial leeway. In order to enable federal states which receive restructuring aid also to utilise the higher debt leeway resolved by the constitutional amendments of March 2025, the Sanierungshilfengesetz (SanG, restructuring aid act) must first be adapted to the new financial policy conditions for the federal states. The German federal government started this process at the end of July 2025, with the first reading in the German Bundestag (national parliament) to follow in September this year. However, the borrowing options are to remain restricted for the two above-mentioned federal states compared with other sub-sovereigns, which are not receiving restructuring aid. This is to ensure the reduction of their excessive debt. If the legislative amendments to SanG fail to materialise, Bremen and Saarland would have to do without the structural leeway available for incurring debt in accordance with current requirements, so as not to jeopardise the parallel payment of restructuring aid in full. Both federal states receive EUR 400m per year in restructuring aid from Germany's federal budget.



# NRW.BANK.ifo business climate - upturn in sentiment continues throughout July

Economic sentiment in North Rhine-Westphalia has improved on the previous month and for the fifth consecutive time, according to the NRW.BANK.ifo business climate. The 1,500 companies surveyed every month for this indicator rated both their current business situation and expectations for the coming six months more positively than in June 2025. Expressed in figures, the NRW.BANK.ifo business climate overall climbed by +0.9 points to -7.5 points. According to the survey findings, this increase was mainly attributable to a more positive assessment of the current business situation. This assessment saw a comparatively sharp increase of +1.3 points to -7.3 points. Although at -7.8 points (+0.5 points up on the previous month) expectations in terms of the coming six months improved only slightly, this figure was at the highest level for over two years. The analysis based on sectors of the economy provided a mixed picture in July. While the service sector and retail were gloomier, construction and the manufacturing industry recorded a considerable upturn in sentiment in part. The significantly brighter sentiment in the manufacturing industry stood out particularly. In this sector of the economy, the business climate climbed from -16.1 points to -11.3 points. This represented the sharpest increase in a sector comparison. At the same time, business prospects were also brighter and at the highest level since the start of 2022. Nonetheless, the around 40% of industrial companies participating in the survey had ongoing concerns about an insufficient level of orders. Sentiment in retail was also noticeably brighter in view of a positive assessment of the current business situation. Accordingly, the business climate climbed overall from -24.7 points to -22.2 points. In contrast, business expectations remained unchanged. However, in the service sector, the economic indicator was down from 0.5 points to -0.7 points. The current business trend in the sector was assessed as less satisfactory while expectations were also revised downwards. In the construction industry, the NRW.BANK.ifo business climate fell by -2.2 points to -10.7 points. Based on the findings, this was mainly due to public sector construction. Conversely, sentiment in residential construction and civil engineering saw an upturn.

# MuniFin publishes half-year report

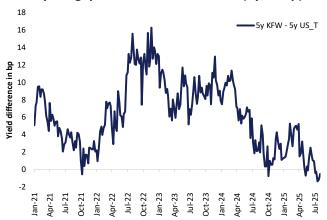
The Finnish local government finance provider Municipality Finance (MuniFin, ticker: KUNTA) has offered insight into its figures for the first six months of the current financial year. As stated in its half-year report, net operating profit excluding unrealised fair value changes was down by around -12% on the same period in the previous year, as a result of higher expenses, and amounted to EUR 79m in total (H1/2024: EUR 89m). Net interest income decreased from EUR 129m to EUR 124m (-3.6% Y/Y). The volume of long-term lending to customers - comprising long-term loans and lease transactions (excluding fair value changes) – amounted to EUR 37.1bn as at the end of June 2025 and was +3.7% up on H1/2024. Of this, green loans accounted for around EUR 7.9bn (H1/2024: EUR 6.8bn) and social loans for EUR 2.6bn (H1/2024: EUR 2.5bn). Their aggregated share of long-term lending rose by 2.2 percentage points to 28.3% (H1/2024: 26.1%). New business in long-term lending to customers of EUR 2.4bn was at the previous year's level. On the funding side, MuniFin's activities included two bond issues in EUR benchmark format during the period under review, with an aggregated volume totalling EUR 2.25bn. In June this year, the financial institution slightly adjusted its funding target for the current year to EUR 9-10bn, following the figure of EUR 9bn announced at the beginning of this year.



Yields on 5y US Treasuries vs 5y KFW Generic



Delta – yield gap between UST and KFW (5y, in bp)



Source: Bloomberg, NORD/LB Floor Research

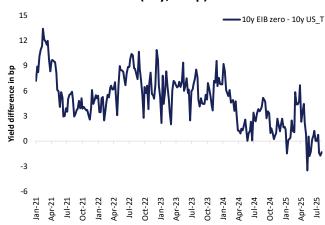
# Market anomalies for USD public sector issuers

Although we generally focus on EUR benchmark bond issues as part of this publication, we also regularly adopt a wider perspective. In this context, we mention the following statement by KfW in its recent half-year newsletter: "We have been witnessing for some time now that investors increasingly tend to diversify in different currencies. This particularly benefits KfW with its offer of liquid bonds. Especially in the USD market, this is resulting in a narrowing of spreads against US bonds." In the USD market, KfW has already taken advantage of this momentum to set up four USD benchmark bond issues with a nominal volume of USD 14bn in H1/2025. Most recently, KfW issued USD benchmark bonds with a spread of only 4bp above US Treasuries in the market. KfW's total funding in USD amounting to USD 15.5bn accounts for a share of around 28% of the bank's total borrowing. This happened almost six weeks ago. We have now noticed an interesting detail at KfW, EIB and Rentenbank: the yield gap between, for example, 5y US Treasuries and KfW bonds with the same maturity meanwhile is negative. We have illustrated the relevant data on a weekly basis in the charts on this page. The weekly average of KfW versus UST (5y) from the start of 2021 up to today's date is +6.3bp, and since the end of 2016 up to today's date +8.8bp. The average since the end of 2016 up to today's date for the 10y range is +12.1bp, and -2bp at present. Although this does not yet apply to all three issuers in all maturity ranges, the trend towards US downgrades is undeniable.

Delta – UST vs RENTEN Generic (7y, in bp)



Delta – UST vs EIB zero (10y, in bp)





# **CADES publishes allocation report for 2024**

The French debt repayment fund Caisse d'Amortisation de la Dette Sociale (ticker: CADES) published its allocation report on the utilisation of proceeds from the bonds it issued in social format during 2024. According to the report, CADES issued social bonds worth EUR 11.7bn in 2024. CADES stated that this confirmed its position as one of the major issuers of bonds in that format. In addition to the EUR 11.7bn from the above-mentioned bond issues, a further non-allocated total of EUR 3.7bn was available from 2023. This means that total funds amounted to EUR 15.4bn. Of this figure, around EUR 8.8bn was allocated to the health insurance sector, represented by Caisse nationale de l'Assurance Maladie (CNAM), and used for projects in the three strategic areas of action - prevention and mental health, access to healthcare and innovation in healthcare. The remaining EUR 6.6bn was used to refinance maturing bonds. In total, CADES assumed debt of EUR 8.8bn in 2024 – another step towards full implementation of the assumption of debt totalling EUR 136bn, as provided for in the Act of 07 August 2020. Overall, issuing activities amounted to EUR 18.1bn, with approximately two-thirds under the social bond programme. For 2025 as a whole, the agency announced a funding target of EUR 10bn. At the same time, maturities this year total EUR 21.3bn. In the current year, CADES market activities have included two social bond issues, each worth EUR 2.5bn. Both transactions attracted a high level of demand from investors. The order book for the bond (5y) issued in May this year was four times oversubscribed, and the deal placed in February (3y) featured an oversubscription ratio of nearly 12.0x.

# Saarland – regional government presents key points of 2026/27 double budget

The regional government of Saarland (ticker: SAARLD) presented the key points of its double budget for 2026/27, which is expected to increase significantly in terms of volume. Some of the additional spending is to be financed through new borrowing. Consequently, Saarland also plans to make use in the near future of the option provided by the structural leeway available to incur debt equivalent to 0.35% of nominal GDP. According to the relevant press release, the regional government's planning is based on a budget totalling EUR 6.3bn in 2026 and EUR 6.5bn in the subsequent year – in combination with net borrowing of around EUR 95m in each year. Based on the current draft, Saarland would remain more than EUR 80m below the debt brake limit for the German Laender following its reform. Additional other funds stem from the transformation fund and the German federal government's infrastructure fund. Once further details have been worked out, the draft budget is to be resolved by the council of ministers before being presented to the regional government.

# **Primary market**

Last week, we returned from our summer break with an issue of our weekly publication. However, the SSA primary market is taking its time to resume activities. We therefore have no notes today about any new transactions. Nevertheless, there is light at the end of the tunnel. The federal state of Schleswig-Holstein (ticker: SCHHOL) is planning the issuance of a 10y EUR benchmark bond. We also expect that other German Lander as well as additional established bond issuers, such as KfW and EFSF, will be taking a close look at the market. In the past, both issuers have been only too happy to bring the summer break to an end.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG



# **Covered Bonds**

# Relative value analysis: a stocktake of the situation

Author: Lukas Kühne

# Covered bonds: focus on spread differences between asset classes

Before the primary market restarts after the summer break, we want to focus on the relative value of covered bonds versus other asset classes in today's focus article of our weekly publication. Alongside absolute returns, this is one of the key parameters that many investors use for gauging the attractiveness of covered bonds and is highly relevant for issuers who are active on the market with senior bonds in addition to covered bonds. Accordingly, on the following pages we shall seek to assess the spread differences between covered bonds and bonds from the SSA/Public Issuers universe as well as senior bonds.

# **Bund-swap spread**



# Spread overview: FR, NO, DE



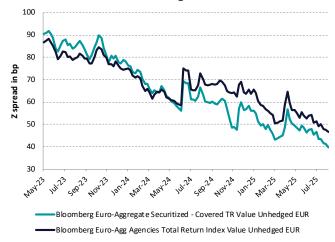
Source: Bloomberg, NORD/LB Floor Research

# Bund-swap spread is driving subtle spread tightening on the covered bond market

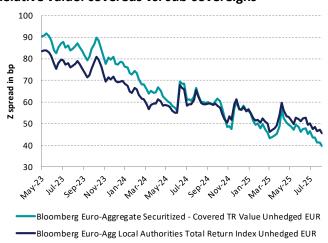
Spread development on the covered bond market has been characterised by slight tightening tendencies across all jurisdictions and maturity bands since June, with this narrowing slightly more pronounced in some jurisdictions than in others. For example, we have seen average spread tightening of almost seven basis points in the case of French EUR benchmark issues in the five-year maturity band, whereas five-year Norwegian EUR benchmarks recorded tightening of only just under three basis points over the same period. In this context, higher spread tightening tends to be concentrated in the medium to longer maturity segment in most jurisdictions, and is generally less pronounced in the short end. This trend is supported by the development of the Bund-swap spread, which has almost reached the important "zero" mark again in the long maturity segment (10y). However, we should point out at this point that we have not witnessed any transactions on the primary market since 07 July. Consequently, it will be interesting to see to what extent the performance of the secondary market is reflected on the primary market in the coming weeks – after the end of the summer break.



# Relative value: covereds vs. agencies



# Relative value: covereds vs. sub-sovereigns

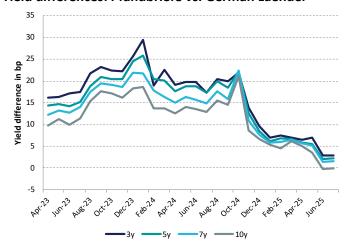


Source: Bloomberg, NORD/LB Floor Research

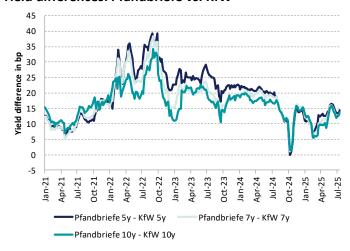
# Bloomberg indices as a starting point for analysing relative value

Selected Bloomberg indices can be used as a starting point for assessing relative value between the asset classes of covered bonds and SSA/Public Issuers. All the following indices are sourced from Bloomberg and are "Total Return" and "Unhedged" in EUR. When assessing the bonds included in our coverage, we typically refer to the iBoxx EUR indices, which differ from the Bloomberg indices in one particular aspect, namely the "iBoxx EUR Covered" only includes benchmark issues (EUR 500m outstanding volume), whereas the Bloomberg Euro-Aggregate Securitized – Covered TR Value Unhedged EUR starts at issues with an outstanding volume of EUR 300m. The same applies to the Bloomy EuroAgg Local Authorities and Bloomy EuroAgg Agencies indices under review. Until 2024, it was clear on the basis of the Bloomberg indices that covered bonds traded above local authorities and agencies. Since early summer 2024, this trend has largely reversed and covered bonds are now trading on an index basis within agencies and local authorities. The movement of the Bund-swap spread can be seen as the main reason for this development.

Yield differences: Pfandbriefe vs. German Laender



Yield differences: Pfandbriefe vs. KfW





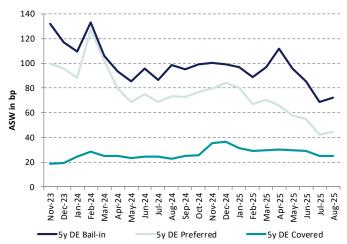
# Focusing solely on index performance can be misleading

It now appears that a new balance between the individual asset classes is slowly emerging on the market. When analysing the Bloomberg indices, we should not forget that they do not distinguish between individual jurisdictions, which is sometimes reflected in significant overweighting of individual countries in the index. For example, German Laender account for almost 64% of the index weighting of the Bloomy EuroAgg Local Authorities with 497 bonds, whereas German Pfandbriefe make up just under 21% of the index weighting of the Bloomy EuroAgg Covered. German Laender are generally traded at lower spreads on the market than their European peers due to their high credit ratings. The dampening effect on the spread level is correspondingly more pronounced if German Laender account for a high proportion of the index. However, if we differentiate between jurisdictions and compare German Laender with Pfandbriefe represented in the iBoxx EUR Covered index, we can still derive a spread pick-up for most covered bonds from Germany compared with German Laender. This has also declined significantly since autumn 2024 and is virtually non-existent for the long end. Especially in the ≥10y maturity segment, the supply of newly placed Pfandbriefe has been very limited in recent years, meaning that comparable price points are correspondingly rare. A similar picture emerges when comparing Pfandbriefe with issues by Germany's largest agency, KfW. At the end of last year, five-year spread levels for KfW and Pfandbriefe were briefly identical before the trend towards a higher spread for Pfandbriefe prevailed once again. Five-year Pfandbriefe are currently again trading around 14 basis points higher than KfW spreads. Accordingly, focusing solely on the Bloomberg indices when looking at specific markets can be somewhat misleading. Overall, however, they clearly reflect the general trend of narrowing interest rate spreads between covered bonds and bonds from the SSA/Public Issuers universe over the past year. At present, a return to the old spread differences between the asset classes is unlikely.

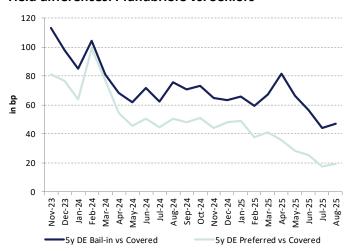
# Spread compression between covered bonds and senior bonds

The spread compression noted above is not only evident between covered bonds and bonds from the SSA/Public Issuers universe, but also between covered and unsecured primary market products. Over the course of the year, the spread between covered bonds and senior bonds (both preferred and non-preferred) included in the respective iBoxx has narrowed significantly. For example, the spread between German senior preferred bonds and Pfandbriefe has narrowed from just under 50 basis points at the start of the year to less than 20 basis points now. A similar trend can be seen in other jurisdictions, but it is not as pronounced as in Germany. One reason for the sharper decline in spread differentials between assets classes in Germany is undoubtedly the ongoing spread normalisation among monoline banks. At index level, the senior preferred issues from these banks account for a significantly higher proportion of German issuers than of Pfandbrief issuers in the iBoxx EUR Covered. Accordingly, spread movements are more pronounced in the aggregate index view of senior bonds. However, the general trend towards narrowing spreads between covered bonds and senior bonds appears to have come to an end; instead, we would say that a new balance has been established here that is set to continue until at least the end of the year.

# Pfandbriefe vs. Seniors (5y, generic)



## Yield differences: Pfandbriefe vs. Seniors



Source: Bloomberg, NORD/LB Floor Research

# Relative attractiveness of covered bonds remains intact

In terms of the attractiveness of covered bonds, we have not noticed any significant changes from a relative value perspective, even given the lower spreads relative to other asset classes. Although excess demand declined, especially with the high volume of issues in June, all issuers were able to successfully place their new issues on the market. In addition, investors should have had enough time during the summer break to digest the high volume of new issues and approach the theoretical "second half of the year" with a fresh appetite. Covered bonds continue to offer a pick-up compared to many bonds from the SSA/Public Issuers universe, while the spread differential compared with unsecured bonds has narrowed. Accordingly, we do not see any acute tendencies for spread widening from a relative value perspective. On the issuer side, the low spread level in particular appears to be increasing the attractiveness of unsecured funding. However, we should not forget at this point that the majority of senior bond issuers are already at a very advanced stage of their funding activity and covered bonds remain a cheaper source of funding for issuers in terms of absolute costs. Consequently, we do not expect many issuers to swap their covered bond issues for senior debt due to the supposedly attractive refinancing costs on the senior market.

# **Conclusion and outlook**

Recent developments on the covered bond market show that the spreads between covered bonds, bonds from the SSA/Public Issuers universe and senior bonds have narrowed significantly, with a new balance emerging in many segments following a strong compression phase. Methodological differences in index comparisons and country weightings can distort market interpretations, but do not alter the overriding trend of declining spread differentials between asset classes. Despite tighter spreads, covered bonds remain attractive to investors and issuers alike in relative terms, so we are expecting the covered bond market to be busy when it reopens after the summer break.



# SSA/Public Issuers

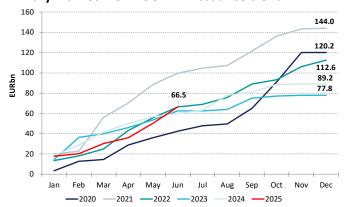
# SSA review: EUR-ESG benchmarks in H1/2025

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

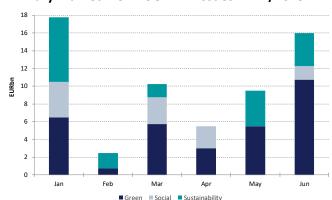
## Introduction

Having looked at the aggregated issuance volume in the first half of 2025 in our weekly publication dated 02 July, we shall focus separately on the ESG segment in our definition of SSA/Public Issuers (i.e., excluding sovereigns) in this publication in order to give the topic the attention it requires. We last published a report that similarly relates to the global ESG bond market at the beginning of June (cf. NORD/LB Fixed Income Special - ESG update 2025). We shall continue to focus strongly on ESG issues throughout the rest of the year and provide regular commentary on current market developments. The data on which this edition is based is provided by our in-house database, where we record every new EUR BMK issue in the SSA segment. To identify ESG bonds, we refer to data fields provided by the financial data provider Bloomberg, which also allow us to differentiate between green, social and sustainability bonds. In H1/2025, we recorded a total of EUR 66.5bn in EUR BMK issues featuring ESG characteristics. In a direct year-on-year comparison, this represents an increase over the two previous years (H1/2023: EUR 62.5bn; H1/2024: EUR 59.9bn) and is therefore at almost the same level as H1/2022 (EUR 66.6bn). According to our interpretation, the significance and relevance of the ESG segment therefore remains substantial both on the part of issuers and investors. January dominated with new issues amounting to EUR 17.8bn compared with the other five months in H1/2025. We recorded a total of 45 new ESG-related ISINs from 33 different issuers in our database. A special development during the period under review was that issuers were able to issue green bonds within the guidelines of the European Green Bond Standard (EUGBS) for the first time. On the following pages, we shall take a look at what has been happening so far in the context of the EUGBS in addition to analysing primary market activities.

# Primary market: EUR-ESG BMK issuance trend



Primary market: EUR-ESG BMK issues in H1/2025

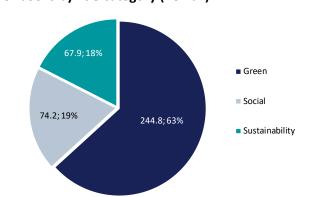






# 18.2;27% 32.3;49% Social Sustainability

# Order books by ESG category (EURbn)

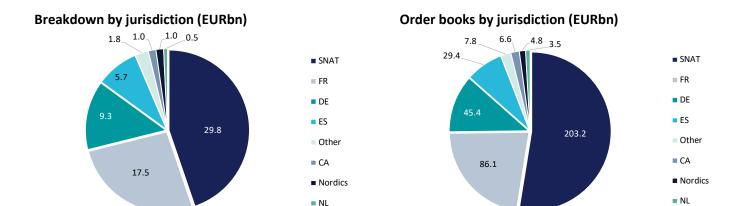


Source: Bloomberg, NORD/LB Floor Research

# Green bonds clearly dominate – supras and the French stand out

Let us look at the ESG issuance volume to date in greater detail: overall, green bonds were ahead at the end of H1/2025. Their share of the total volume amounted to around 49% or EUR 32.3bn. Sustainability bonds accounted for a somewhat smaller share, at 27% (EUR 18.2bn). The social bond volume amounted to EUR 16.0bn (24%). Compared with the same period last year, the share of social bonds in the overall mix therefore decreased by three percentage points, while the sustainability format gained three percentage points. However, the proportion of green bonds remained unchanged year on year. Considering the demand side in the form of aggregated order books, there is an even clearer breakdown in favour of green bonds: at EUR 244.8bn and a share of just under 63%, they are clearly in the lead, followed by social bonds (EUR 74.2bn; 19%). By contrast, sustainability bonds only generated order book volumes of EUR 67.9bn (18%). In the context of order books, we should always take into account the rating and the general popularity of issuers in the analysis, as values tend to be influenced by a few big names. On top of this, the period under review is relatively short, meaning that individual issuers can influence the overall picture even more decisively. In the case of green bonds, for example, of the total EUR 244.8bn analyzed, EUR 166.9bn, or approx. 68%, went into the books of four EIB transactions in this segment alone. There is a similar situation with social bonds: overall, EUR 39.0bn of the EUR 74.2bn was attributable to the order books of two new issues placed by the French CADES. There is an equally unambiguous picture regarding the breakdown by jurisdiction: with an issuance volume of EUR 29.8bn in total, issuers from the supras segment lead the way. We registered thirteen new ESG bonds within this group of issuers in the first half of 2025. The order books for these transactions totalled EUR 203.2bn. To put this in perspective, supras issued a volume of "just" EUR 22.8bn spread across ten deals in the same period of the previous year. In addition, order books totalled EUR 154.1bn at that time, which was slightly less than in previous years. Besides supras, issuers from France in particular provided fresh impetus in the ESG segment: a total of EUR 17.5bn was successfully placed on the market across ten bonds. At EUR 86.1bn, the aggregated order books were not even half the size of those generated by supras. German issuers only issued seven new ESG bonds worth EUR 9.3bn in H1/2025 with order books totalling EUR 45.4bn in this case.





Source: Bloomberg, NORD/LB Floor Research

# Overview of the Top 5 benchmark issuers\* by ESG category and EUR volume

	Green		Social		Sustainability
Issuer	(EURbn)	Issuer	(EURbn)	Issuer	(EURbn)
EIB	17.0	CADES	5.0	IDAWBG	5.0
KFW	4.0	UNEDIC	4.0	AGFRNC	3.5
HESSE	1.5	BPIFRA	3.0	IBRD	3.0
RENTEN	1.0	NRWBK	1.0	ANDAL	1.5
IDFMOB	1.0	AFDB	1.0	NRW	1.3

<sup>\*</sup> For reasons of simplicity, other issuers with identical issuance volumes are not included here. Source: Bloomberg, NORD/LB Floor Research

# Few major players dominate issuance activities

Having now looked at primary market activity principally from a bird's eye perspective, we wish to focus on individual issuers and their issuance activities in the following sections. The EIB, which we have mentioned previously, stands out, having issued a total of EUR 17.0bn spread across four ISINs, making it the most active issuer in the ESG segment in the first half of the year. The bonds are exclusively from the green category. Order books amounted to EUR 166.9bn — with an average oversubscription ratio of 10.2x. After the EIB, IDAWBG, part of the World Bank Group, was most frequently active in ESG format with three new benchmarks. The multilateral development bank issued exclusively sustainability bonds with a total volume of EUR 5.0bn. IBRD, as a "sister bank", raised EUR 3.0bn in a sustainable format from a single transaction. Issuance activity in the social category is, however, dominated by the French jurisdiction: three French agencies account for EUR 11.0bn of the EUR 16.0bn placed in total. In addition to CADES, which we have already mentioned, UNEDIC and BPIFRA each approached investors with two social bonds, issuing EUR 4.0bn and EUR 3.0bn respectively.

# Taps of previously issued ESG bonds

Taps are not included in the large dataset to this point since we consciously differentiate between new issues and taps. In H1/2025, 28 taps were carried out in our SSA universe, with five registered taps of ESG bonds: both the <u>EU</u> and <u>WALLOO</u> increased the volume of two bonds (EU: green; WALLOO: social). <u>KFW</u> also tapped its green 2050 bond. The aggregated tap volume totalled EUR 18.3bn.



# Sub-sovereigns, supranationals and agencies as issuers of European green bonds

As already mentioned above, the official validity date of the EUGBS marked a milestone in the development of the (European) ESG segment. At the end of January, we took this as an opportunity to report on the market developments observable at that time in our weekly publication dated 29 January. The first European green bond (EuGB) in our SSA coverage was issued on 27 January by the French agency <u>IDFMOB</u> with a volume of EUR 1.0bn and a term to maturity of 20 years at OAT +19bp (corresponds to approximately ms +128bp). The final order book amounted to EUR 5.9bn, underlining, in our opinion, the tremendous investor interest in this deal. Then, at the beginning of April, EIB from the supranational segment, approached investors with a EuGB in the form of an in-house Climate Awareness Bond (CAB) with a volume of EUR 3.0bn and a term of 12 years. The bond was priced at a reoffer spread of ms +53bp and the order book filled to a remarkable EUR 40bn. With a supranational and an agency having successfully launched their first pilot projects, it was now up to a sub-sovereign to complete the missing "S" in our SSA universe: the Spanish autonomous community of MADRID stepped up to the plate and raised EUR 500m in the five-year maturity segment at SPGB +7bp at the beginning of June, which equated to approximately ms +28bp at the time of issue. Now that one issuer from each of our subsegments has been active on the market with a EuGB, we can draw an initial positive conclusion at the end of the first half year. In our opinion, the transactions completed to date have shown that the new format is likely to appeal to more than just a few big names. The EuGB issuance volume in H1/2025 totalled EUR 4.5bn. Our forecast in the ESG update was for new issues totalling EUR 10-15bn across 2025 as a whole, with activities here likely to increase in the coming years as the EUGBS becomes more established.

# **Conclusion and outlook**

The market for ESG bonds in our SSA definition continues to be significantly influenced by individual issuers. Unsurprisingly, this impression is strengthened by a review period of less than one year. Nevertheless, H1/2025 provided a fair amount of material for discussion, as the previous pages emphasise. The volume of new issues rose again to an aggregated value of EUR 66.5bn compared with the same period last year (EUR 59.9bn), returning to a level last seen in H1/2022. With 45 new bonds, more ESG bonds were issued than in the previous year (H1/2024: 43 bonds). The proportion of ESG bonds in all new issues over the first half year (143 bonds) was therefore around 30%. This figure is below the equivalent values from H1/2024 (33%) and H1/2023 (41%). Despite this, in our view, the data definitely justifies talk of a strong first half-year in the EUR ESG segment. Without doubt, there is still headroom in terms of the diversity of EUR issues, since it has not yet even been possible to list the top 10 issuers of social bonds. Of course, this situation will automatically adjust over the course of the year when other issuers break cover. We shall also follow further developments in the context of the EUGBS with interest. We would definitely welcome additional new issues in European green bond format in order to further advance the overarching ESG segment.

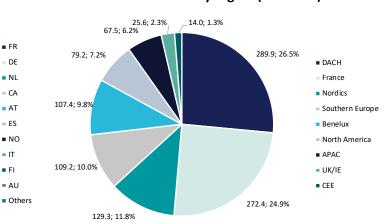


# Charts & Figures **Covered Bonds**

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

# 145.2; 13.3% 272.4; 24.9% 33.3; 3.0% 40.8; 3.7% 49.1; 4.5% 52.0; 4.8% 53.2; 4.9% 224.3; 20.5% 60.6; 5.5% 79.2: 7.2% 84.5; 7.7%

# 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	272.4	264	34	0.97	9.1	4.5	1.68
2	DE	224.3	313	49	0.67	7.7	3.6	1.70
3	NL	84.5	85	4	0.93	10.3	5.3	1.48
4	CA	79.2	59	1	1.32	5.5	2.3	1.60
5	AT	60.6	100	5	0.60	8.0	3.7	1.65
6	ES	53.2	46	5	1.05	10.1	3.4	2.24
7	NO	52.0	63	11	0.83	7.0	3.2	1.37
8	IT	49.1	64	6	0.74	8.2	3.7	2.13
9	FI	40.8	47	5	0.85	6.6	2.9	1.84
10	AU	33.3	33	0	1.01	7.2	3.4	1.92

= DE

■ NL

= CA

AT

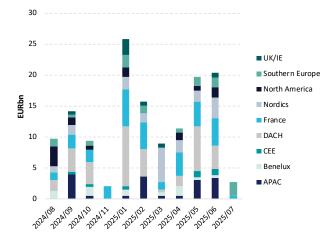
= ES

■ NO

= IT

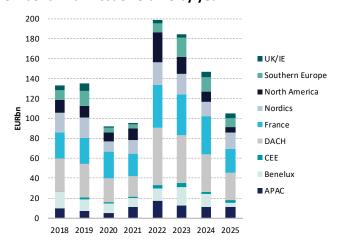
■ FI

# EUR benchmark issue volume by month



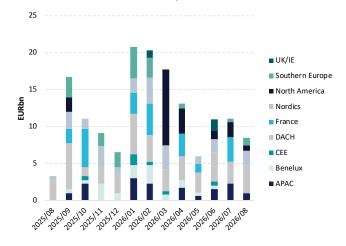
# Source: Market data, Bloomberg, NORD/LB Floor Research

# EUR benchmark issue volume by year

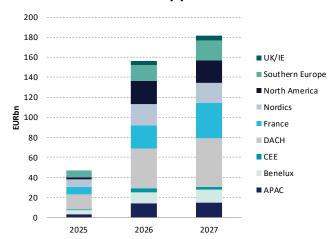




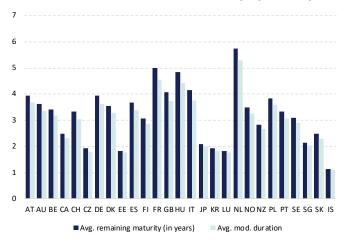
# **EUR benchmark maturities by month**



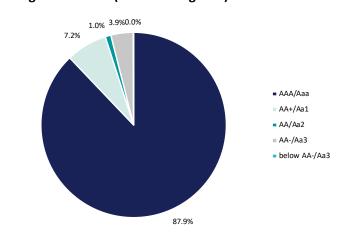
# EUR benchmark maturities by year



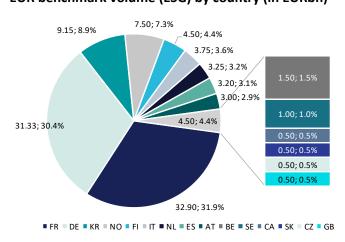
# Modified duration and time to maturity by country



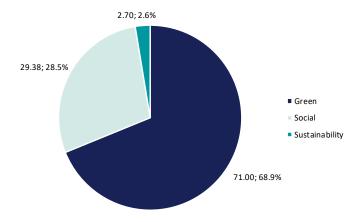
Rating distribution (volume weighted)



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



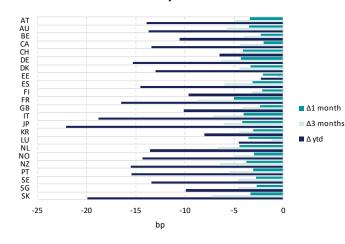
# EUR benchmark volume (ESG) by type (in EURbn)



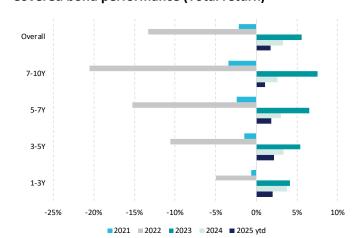
Source: Market data, Bloomberg, NORD/LB Floor Research



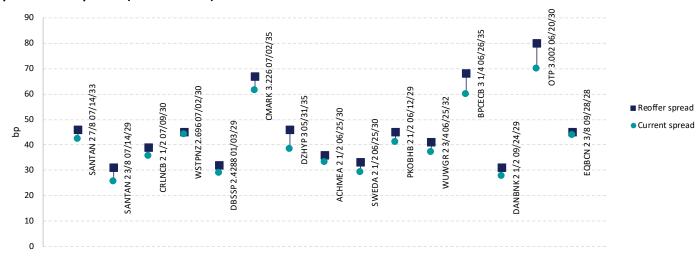
# **EUR benchmark emission pattern**



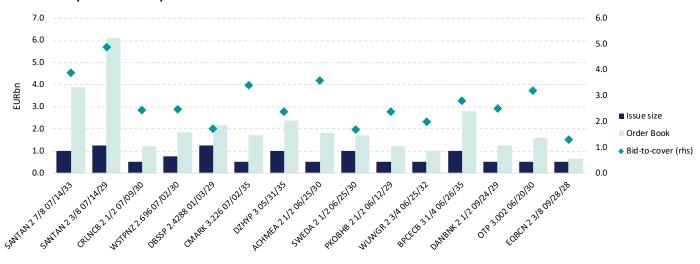
# **Covered bond performance (Total return)**



# Spread development (last 15 issues)



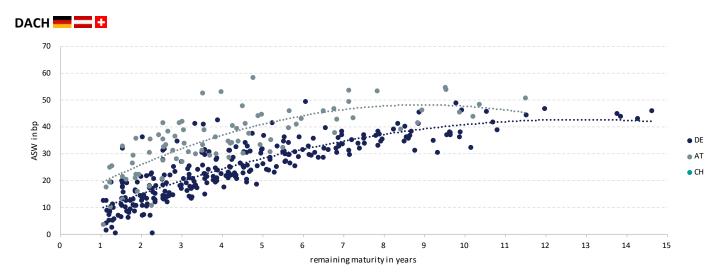
# Order books (last 15 issues)

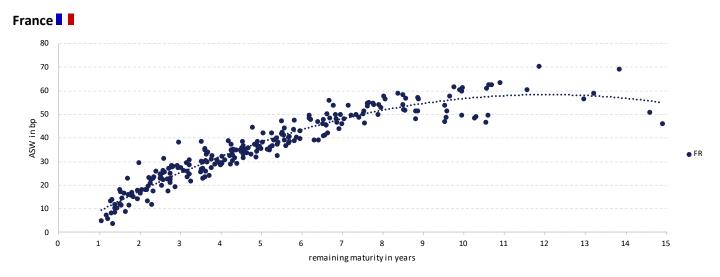


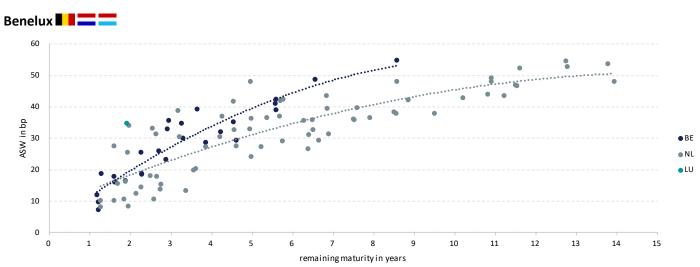
Source: Market data, Bloomberg, NORD/LB Floor Research



# Spread overview<sup>1</sup>

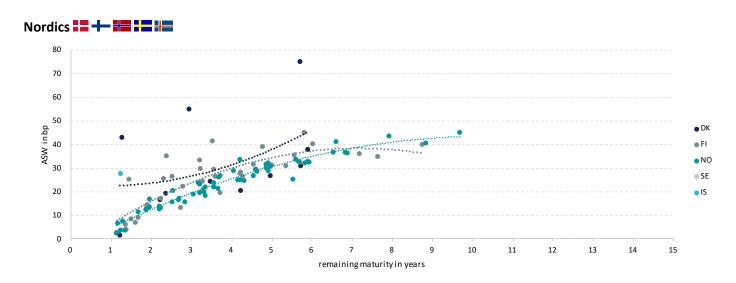


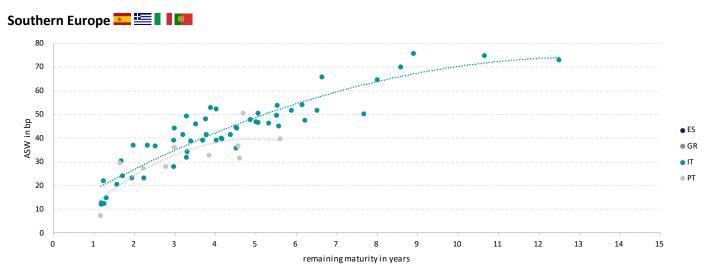


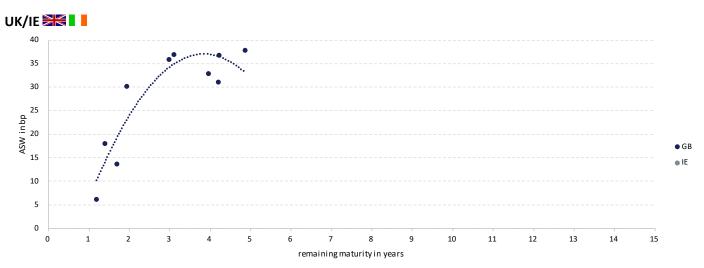


Source: Market data, Bloomberg, NORD/LB Floor Research  $^1$ Time to maturity  $1 \le y \le 15$ 



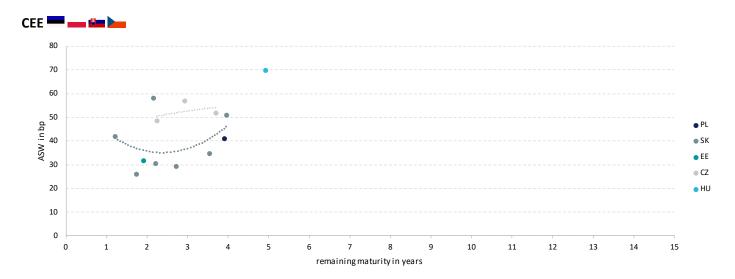


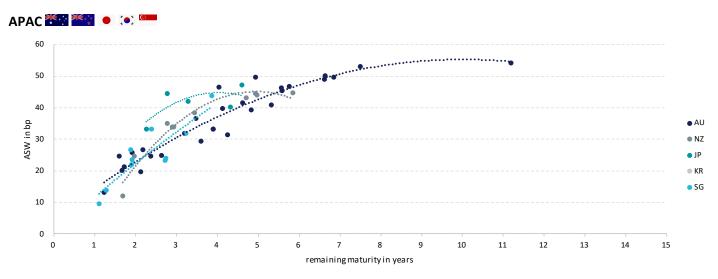


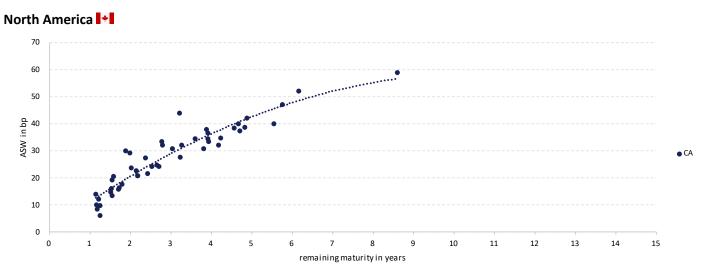


Source: Market data, Bloomberg, NORD/LB Floor Research







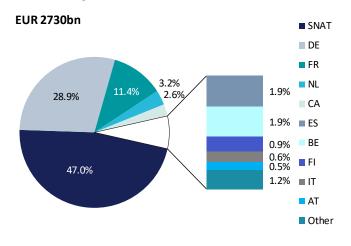


Source: Market data, Bloomberg, NORD/LB Floor Research



# 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	1,283.9	261	4.9	7.6
DE	789.3	596	1.3	5.9
FR	310.2	207	1.5	5.4
NL	86.2	68	1.3	6.1
CA	69.7	64	1.1	6.0
ES	52.1	75	0.7	4.9
BE	51.3	49	1.0	9.8
FI	25.0	26	1.0	4.2
IT	16.6	21	0.8	4.2
AT	14.5	20	0.7	4.7

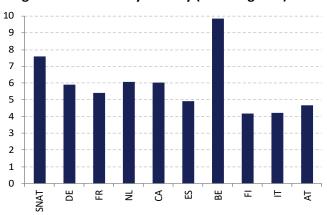
# Issue volume by year (bmk)



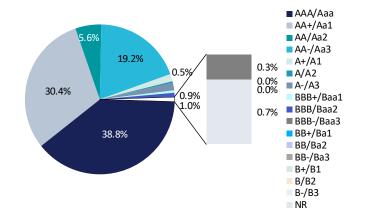
Maturities next 12 months (bmk)



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

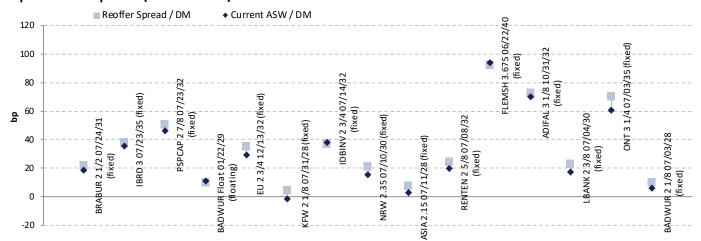


Rating distribution (vol. weighted)





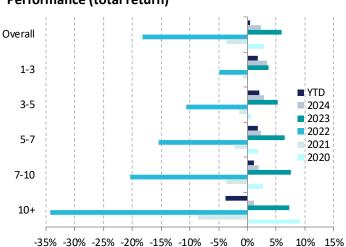
# Spread development (last 15 issues)



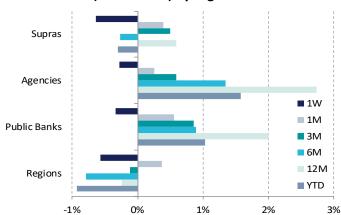
# Spread development by country



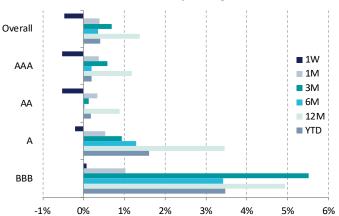
# Performance (total return)



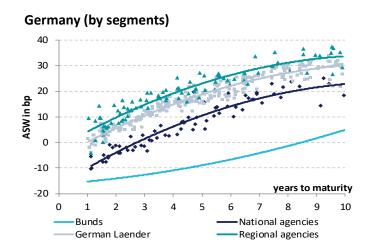
# Performance (total return) by segments

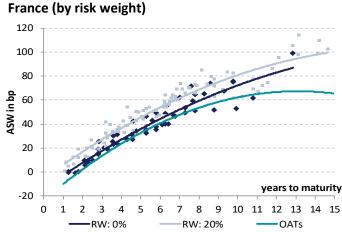


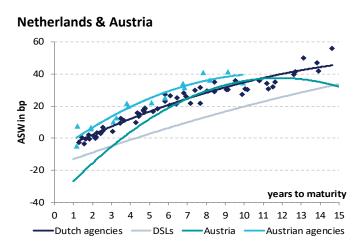


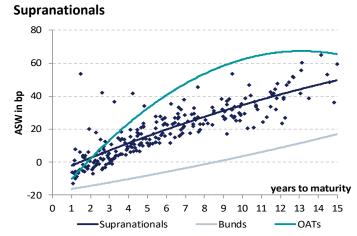


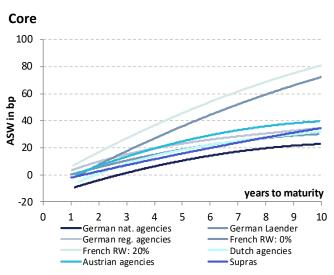


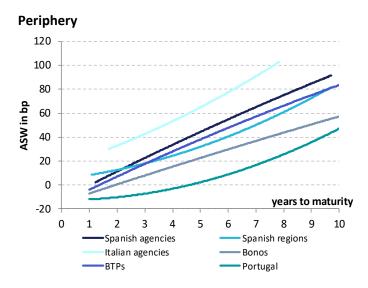










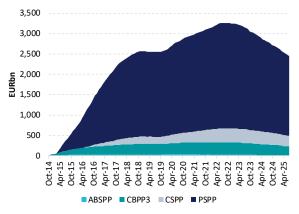




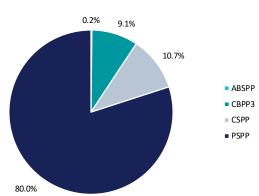
# Charts & Figures ECB tracker

# **Asset Purchase Programme (APP)**

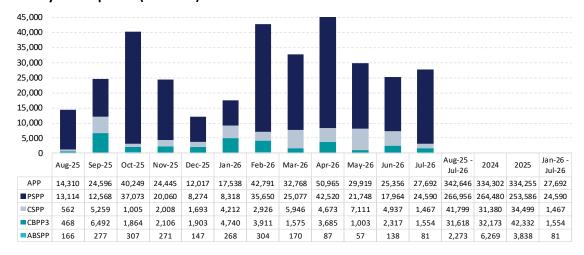
**APP: Portfolio development** 



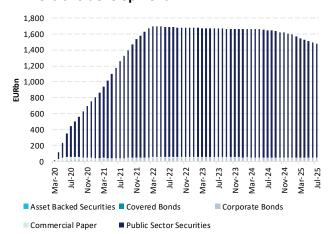
**APP: Portfolio structure** 



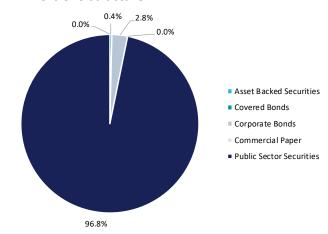
# **Expected monthly redemptions (in EURm)**



# **PEPP: Portfolio development**



# **PEPP: Portfolio structure**

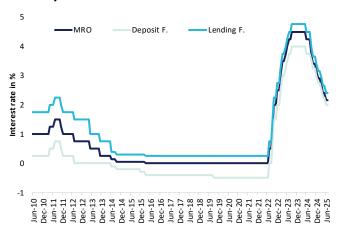


Source: ECB, NORD/LB Floor Research



# Charts & Figures Cross Asset

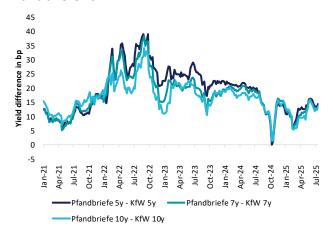
# **ECB** key interest rates



# **Bund-swap-spread**

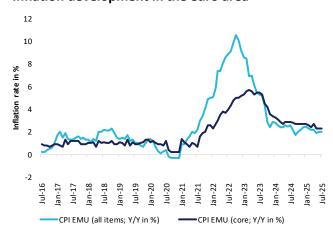


# Pfandbriefe vs. KfW

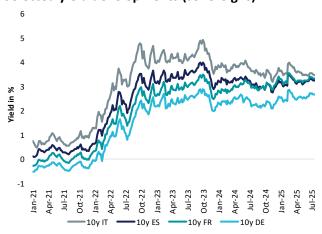


Source: ECB, Bloomberg, NORD/LB Floor Research

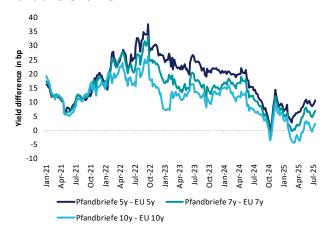
# Inflation development in the euro area



# Selected yield developments (sovereigns)



# Pfandbriefe vs. EU





# **Appendix**

# Overview of latest Covered Bond & SSA View editions

Publication	Topics			
26/2025 ♦ 06 August	Repayment structures on the covered bond market: an update			
	<ul> <li>Teaser: Issuer Guide – German Agencies 2025</li> </ul>			
25/2025 ♦ 09 July	The covered bond universe of Moody's: an overview			
	<ul> <li>Spotlight on the EU as a mega issuer</li> </ul>			
24/2025 ♦ 02 July	Covereds: Half-year review and outlook for second half of 2025			
	SSA half-year review 2025 and outlook			
23/2025 ♦ 25 June	■ The ratings approach of Scope			
	<ul> <li>Classification of Supranationals and Agencies under Solvency II</li> </ul>			
22/2025 ♦ 18 June	The UK covered bond market			
	<ul> <li>Stability Council convenes for 31st meeting</li> </ul>			
21/2025 ♦ 11 June	Moody's: rating approach Covered Bonds			
	■ Teaser: Issuer Guide – Austrian Agencies 2025			
20/2025 ♦ 28 May	<ul> <li>Cross Asset // Teaser: ESG update 2025 – Focus on greenium and socium+</li> </ul>			
19/2025 ♦ 21 May	Development of the German property market (vdp index)			
	■ Teaser: Issuer Guide – Nordic Agencies 2025			
18/2025 ♦ 14 May	■ Transparency requirements §28 PfandBG Q1/2025			
	<ul> <li>Current LCR classification for our SSA coverage</li> </ul>			
17/2025 ♦ 07 May	Fitch: rating approach covered bonds			
	<ul> <li>Credit authorisations of the German Laender for 2025</li> </ul>			
16/2025 ♦ 30 April	Special report on LCR classification and risk weights: a (regulatory) look at the EUR benchmark segment			
	■ Teaser: Issuer Guide – Dutch Agencies 2025			
15/2025 ♦ 16 April	Cross Asset: Relative value – What is the state of play?			
14/2025 ♦ 09 April	The covered bond universe of Moody's: an overview			
	SSA review: EUR-ESG benchmarks in Q1/2025			
13/2025 ♦ 02 April	Review of the first quarter in the covered bond segment			
	<ul> <li>A review of Q1/2025 in the SSA segment</li> </ul>			
12/2025 ♦ 26 March	A look at the Danish covered bond market			
	<ul> <li>Teaser: Issuer Guide – Non-European Supras (MDBs) 2025</li> </ul>			
11/2025 ♦ 19 March	<ul> <li>Eligibility of covered bonds for repo transactions</li> </ul>			
	<ul> <li>Current risk weight of supranationals &amp; agencies</li> </ul>			
10/2025 ♦ 12 March	<ul> <li>Covereds vs. sovereign bonds: A question of attractiveness</li> </ul>			
	■ NGEU: Green Bond Dashboard			
09/2025 • 05 March	■ Transparency requirements §28 PfandBG			
	■ Teaser: Issuer Guide – Non-European Agencies 2025			
08/2025 ♦ 26 February	Overseas Covered Bonds – A Brave New Spread World?			
	<ul> <li>Update: Joint Laender – Laender jumbos</li> </ul>			
NORD/LB:	NORD/LB: NORD/LB: Bloomberg:			
Floor Research	Covered Bond Research SSA/Public Issuers Research Weekly: DS NDB <go></go>			



# Appendix Publication overview

# **Covered Bonds:**

<u>Issuer Guide – Covered Bonds 2024</u>

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

Transparency requirements §28 PfandBG Q1/2025 (quarterly update)

Transparency requirements §28 PfandBG Q1/2025 Sparkassen (quarterly update)

Covered bonds as eligible collateral for central banks

# **SSA/Public Issuers:**

<u>Issuer Guide – German Laender 2024</u>

Issuer Guide - Canadian Provinces & Territories 2024

Issuer Guide – Down Under 2024

Issuer Guide – European Supranationals 2024

<u>Issuer Guide – Non-European Supranationals (MDBs) 2025</u>

<u>Issuer Guide – German Agencies 2025</u>

<u>Issuer Guide – French Agencies 2024</u>

<u>Issuer Guide – Nordic Agencies 2025</u>

<u>Issuer Guide – Dutch Agencies 2025</u>

<u>Issuer Guide – Austrian Agencies 2025</u>

**Beyond Bundeslaender: Belgium** 

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

**Beyond Bundeslaender: Spanish regions** 

# **Fixed Income Specials:**

ESG-Update 2025

Summer break: Just a deep breath or ECB running out of steam?

NORD/LB: NORD/LB: Bloomberg:

Floor Research Covered Bond Research SSA/Public Issuers Research Weekly: DS NDB <GO>



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