Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

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Investment strategy recommendation and marketing communication
(see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

Two new issuers in the EUR benchmark segment

With a total of four deals amounting to an overall volume of EUR 2.6bn, the volume of EUR benchmarks issued so far this year has increased to EUR 83.45bn. Last Wednesday, the APAC region drew the attention of investors in particular after another issuer in the form of the Sumitomo Mitsui Trust Bank entered the market for EUR benchmarks. This inaugural deal, which had been in the pipeline for quite some time, was placed in the form of a bond worth EUR 850m with a term to maturity of seven years by what is just the second Japanese bank to join the EUR benchmark segment. At ms +30bp, pricing was three basis points tighter than the published guidance in the area of ms +33bp. With an order book of EUR 1.0bn, the deal was less in demand than previous EUR benchmarks, although this can, among other factors, be attributed to the fact that the bond is neither an ECB-eligible security, nor can it be used as HQLA within the framework of LCR management. For this reason, the deal was somewhat less in demand from investors motivated by regulatory considerations. Moreover, at -0.043%, the yield had slipped into negative territory. We provided information on the bank and the particularities regarding the structure of its programme in an article in last week's edition of this publication. My Money Bank also approached its investors last Wednesday. This bank was previously active with two deals on the market (Sept. 2019 and Oct. 2018). The most recent transaction (EUR 500m; 10y) tightened significantly during the book-building. Following guidance in the area of ms +24bp, pricing was fixed at ms +18bp. With an order book of EUR 2.35bn, the bond, which offered an issuing yield of -0.270%, was subject to strong demand and was nearly five times oversubscribed. At the start of the current trading week, another French issuer then got in on the action: CAFFIL. This latest deal was the bank's fifth EUR benchmark of 2020, increasing its funding volume 2020 by EUR 750m to EUR 5.0bn in the process. Another striking aspect of this deal is that with a term of 15 years being chosen for this new issuance, CAFFIL has now opted for five different maturities for its 2020 deals (5y, 7.4y, 10y, 15y and 20y). The deal was priced at ms +7bp (guidance: ms +11bp area) and was approximately twice oversubscribed with an issuing yield of +0.027%. Yesterday, Wüstenrot Bausparkasse then made a surprise debut in the EUR benchmark segment. Upon book opening, the deal was initially marketed as a sub-benchmark transaction. Based on an order book of EUR 1.5bn, however, the bank changed its mind at short notice to place a bond with a volume of EUR 500m at ms + 7bp (guidance: ms + 11bp area) and a term to maturity of seven years (issuing yield: -0.305%) instead. The former sub-benchmark issuer (two outstanding subbenchmarks) has therefore been promoted to the EUR benchmark segment and has also edged ahead of Bausparkasse Schwäbisch Hall, which had been keen to become the first German building society to enter the EUR benchmark segment with a transaction pencilled in for Q4 2020.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
Wüstenrot Bausparkasse	DE	13:10.	DE000WBP0A79	7.0y	0.50bn	ms +7bp	-/-/AAA
CAFFIL	FR	12:10.	FR00140006K7	15.0y	0.75bn	ms +7bp	- / Aaa / AA+
My Money Bank	FR	07:10.	FR00140004Q9	10.0y	0.50bn	ms +18bp	-/-/AAA
Sumitomo Mitsui Trust Bank	JP	07:10.	XS2240511076	7.0y	0.85bn	ms +30bp	- / Aaa / -

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

European Parliament keen to accelerate European Secured Notes process

The Committee on Economic and Monetary Affairs of the European Parliament (ECON) recently announced in a press release that MEPs have adopted a resolution on the enforced implementation of the European Capital Markets Union. In this context, the acceleration of a draft law for European Secured Notes (ESN) as a new dual recourse instrument was once again stressed, with the benefits of ESNs with regard to SME financing accordingly highlighted in particular. The current timetable, which is also defined in the EU covered bond market harmonisation package, stipulates that the European Commission must present a draft bill for ESNs to the European Parliament by 08 July 2024. In the context of the appeal from MEPs in Brussels, Scope analysts outlined their position on 06 October 2020, coming to the conclusion, among other things, that ESNs certainly can exist as a new successful dual recourse product alongside "traditional" covered bonds and can make a contribution to the capital market union and SME financing. However, in our view, the extent to which this appeal could result in a material acceleration of the legislative process cannot be reliably assessed at present.

Covered Bond market in Canada: no downgrades despite coronavirus crisis

The COVID-19 pandemic has left its mark on the Canadian covered bond market in particular (albeit far from exclusively). Canadian issuers therefore turned to FX issuances comparatively early on in the pandemic (in addition to EUR and USD, transactions were also recorded in CHF and AUD), with the aim of reacting to regulatory adjustments on the part of the OSFI and Bank of Canada over the further course of the crisis. The eligibility of CAD-denominated "own use" covered bonds as securities with the Bank of Canada as well as the selective adjustment of the OSFI funding limit associated with this led to a sharp increase in retained covered bond deals. The ratings experts at DBRS have recently evaluated these and other developments in connection with the structured finance segment as part of its half-year review for 2020. The analysts considered, among other aspects, the payment holidays for borrowers. While payment deferrals have certainly impacted cash flows, it is also clear that, alongside other government measures, these deferrals have led to fewer defaults. All in all, DBRS has not seen – and continues to not see – any need to downgrade covered bond ratings in the wake of the coronavirus crisis, with the result that all programmes have retained their AAA rating. While this risk assessment is certainly to be welcomed in and of itself, we are also keen to stress that both access to a wide range of funding currencies and the eligibility of CAD-denominated "own use" issues with the Bank of Canada are likely to have limited the EUR benchmark volume. However, at this juncture, it is important to highlight the temporary character of these crisis measures. Furthermore, the FX markets are, in our view, much less receptive than the EUR benchmark segment, meaning that we would potentially expect primary market activity on the part of Canadian issuers to pick up again in future, possibly at the start of 2021.

Market overview
SSA/Public Issuers

Analyst: Dr Norman Rudschuck, CIIA

ESG issues are becoming more and more ubiquitous

Börsen-Zeitung and PwC started a survey on the subject of "sustainability". As we all know, green and sustainable finance has long been a mainstream topic in the world of institutional investors and issuers. Currently, practically not a day goes by without somebody bringing a green, social or sustainable bond to the market. However, the topic is still a closed book for 57% of private investors. This will definitely come as a surprise to our regular readers with regard to social change in society. A further 27% were not quite so clueless. The remaining sixth were well-versed in ESG matters. Our regular readers will certainly be members of the final category.

World Bank webinar on World Food Day 2020

The climate is changing. Likewise, the way in which society deals with food, consumption and waste must also change. As early as 1945, the United Nations recognised food not as a privilege but as a right. For this reason, the organisation created World Food Day, which is marked each year on 16 October. This year, World Food Day turns 75. This day focuses on the issues of nutrition, waste, food insecurity and climate change. These are issues with which we are confronted on a daily basis throughout the world. In its invitation, the World Bank reminds us that it is better to be part of the solution than part of the problem. It has also commissioned a consortium to issue an awareness bond for food waste and waste in at least one Scandinavian currency for the IBRD. In the meantime, there will be one-on-one calls for interested investors. The International Bank for Reconstruction and Development (IBRD), which was founded in 1944, is the oldest and, in terms of its balance sheet total, largest of the five institutions that make up the World Bank Group. Having been originally established to rebuild Europe after the Second World War, the international development bank has focused on reducing poverty in middle-income countries and in credit-worthy low-income countries since the 1960s. The aim of the IBRD is to promote sustainable, equitable growth that creates jobs, to reduce poverty and to address concerns of regional and global significance. The IBRD offers its 189 member states finance, risk management products and other financial services, whereby only governments or government-guaranteed projects can receive IBRD funding. Lending and the provision of guarantees are limited to a maximum of the total of paid-in and callable capital, reserves and surplus funds. It is also generally recognised that the IBRD is a priority creditor. The IBRD's capital paid in by member states recently came to USD 16.5bn, with additional callable capital amounting to USD 258.3bn being available. In April 2018, a gradual capital increase of USD 52.6bn of callable capital and USD 7.5bn of paid-in capital was resolved. The aim of this capital increase is to increase annual credit capacity to USD 100bn by 2030. China's share is also to be expanded from 4.7% to 6% in the next few years.

EIB: resolution on projects worth EUR 12.6bn in September

The European Investment Bank (EIB) approved new financing of EUR 12.6bn for projects in Europe and other regions of the world in September. More than EUR 3.1bn was attributable to coronavirus-related investment. They are expected to reinforce public services and healthcare, and encourage corporate investment in sectors that have been particularly seriously affected by the pandemic. Since the beginning of the coronavirus crisis, the EIB has approved EUR 20.1bn to help public and private partners throughout the world overcome health-related, social and economic challenges more effectively. At the meeting – yet another video conference – the EIB's Board of Directors also approved investments in the agricultural, water, residential construction, telecommunications and urban development sectors in Europe, Africa, Asia and Latin America. Here are details of a typical project: train passengers travelling between Rome, Naples and Bari can look forward to shorter journey times, a faster, environmentally friendly alternative to the car and better connections from 2027. The Board of Directors of the EIB has approved a historic loan of EUR 2bn for the construction of a high-speed link, which will cut journey times between Naples and Bari by 100 minutes. More than 2,000 jobs are expected to be created in the construction phase, with another 200 jobs created when the high-speed link is complete. The infrastructure project will also promote social and economic development in southern Italy, increase the competitiveness of the rail transport sector and reduce CO_2 emissions. The newly adopted coronavirus financing initiatives will help companies in the Baltic countries, the Benelux countries, Cyprus, France, Italy, Spain, Ukraine, Moldova and Georgia as well as in East Africa, Morocco, the Middle East and the Pacific to overcome the crisis. The programmes aim to cushion economic shocks, mobilise new investments and provide financing for sectors that are particularly hard-hit by coronavirus-induced uncertainty. They will be managed by financing partners and local banks acting as intermediaries (EUR 3.6bn). Small, local climate protection projects in France, Italy and other EU countries will benefit from a further EUR 1.6bn. Experienced financing partners will manage these funds. Additional loans will promote the construction of new wind farms in Bosnia and off the Dutch coast, improved energy efficiency in Austria and Ukraine, the redevelopment of hydroelectric plants in Georgia, the introduction of smart meters in Lithuania and the modernisation of electricity networks in Madeira and Hungary. Thousands of families in Germany and France will benefit from substantial investments in social housing construction projects, for which financing programmes were also approved. The Board of Directors of the EIB has also approved funding for the New Slussen urban development project in Stockholm, which will change the face of the Swedish capital. In Belgium, the bank is contributing towards the construction of a regional hospital in Tournai and a national investment programme to modernise psychiatric establishments. A new programme for the financing of long-term investments in the health sector in regions of France where there is a shortage of medical services was also approved. Generally, all decisions are very much in line with the transformation of the EIB to an even more sustainable bank. By providing finance for new, network-independent solar facilities, the EIB is also encouraging an energy revolution – millions of people in Africa and Latin America will have a reliable supply of clean energy for the first time.

Primary market

We report in detail on the EU's RfP today in a later article. The trading week under consideration has again provided investors with many deals from German Bundeslaender since last Wednesday: BAYERN kicked off proceedings by offering EUR 1bn for more than 14 years at ms flat. The books were quoted at EUR 950m. The bond is currently the Free State of Bavaria's second largest outstanding transaction and one of only three benchmark bonds. We expect to see Bavaria on the capital market again in 2020 and the issuer still has a rarity value on the primary market, having been absent from the capital market for too long previously. Speaking of which, another rare visitor before the pandemic was SAXONY. It is another Free State and chose a seven-year maturity and an amount of EUR 500m. This deal came in at ms -6bp. Here, nothing is known about the books. It is Saxony's longest outstanding bond and, here too, further bonds are expected in response to the coronavirus pandemic. Saxony now has four benchmark securities outstanding. NIESA (Lower Saxony) joined the party with an eight-year bond, which was well-received and slightly oversubscribed. Demand of over EUR 1.1bn was therefore sufficient for a deal of EUR 750m at ms -3bp. Before we turn our backs on Germany, we should mention the successful deal by KfW: EUR 3bn for seven years was priced at ms -11bp. The guidance was ms -9bp, with the books more than three times oversubscribed. In France, social bonds are currently springing up everywhere: CADES has now been followed by UNEDIC with a social jumbo (its fourth in 2020) worth EUR 3bn. Until the EU catches up, the French will continue to lead the field here for the moment. The order volume even exceeded that for the KfW bond, reaching almost EUR 10bn. The pickup was OAT +19bp and therefore higher than our expectations for the upcoming EU transaction(s) (SURE = also social). In contrast, the Development Bank of Japan (- / A1 / A), which had to accept pricing of ms +29bp for four years for its sustainability bond, is an exceedingly rare visitor. This was a move of seven basis points compared with the guidance. Despite the fact that the order books totalled EUR 5.85bn, only EUR 700m was printed. Here, investors' appetite was clearly greater than the cake on offer. The bond issued by the Ville de Paris (another infrequent visitor) is also sustainable: a maturity of 25 years was chosen for the VDP's sub-benchmark (EUR 300m), which was more than twice over-subscribed. An attractive pickup of OAT +21bp or ms +8.5bp was on offer here. It now has 49 bonds outstanding, of which none reaches benchmark format. The bonds are all denominated in EUR and their maturities extend to 2060. The EIB has issued invitations for a "credit and funding call" for 26 October. France's AFD (ticker: AGFRNC) has also mandated banks for a sustainability bond (7-10 years). BADWUR also mandated banks for another bond (EUR 1bn WNG). The four-year FRN is likely to be priced as early as today.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
KFW	DE	13.10.	DE000A289F29	7.2y	3.00bn	ms -11bp	- / Aaa / AAA
NIESA	DE	12.10.	DE000A3H24E1	8.3y	0.75bn	ms -3bp	AAA / - / -
UNEDIC	FR	08.10.	FR0014000667	8.1y	3.00bn	ms +8.5bp	AA / Aa2 / -
SAXONY	DE	08.10.	DE0001789295	7.0y	0.50bn	ms -6bp	- / - / AAA
DBJJP	Other	07.10.	XS2243052490	4.0y	0.70bn	ms +29bp	- / A1 / A
BAYERN	DE	07.10	DE0001053593	14.3y	1.00bn	ms flat	- / - / AAA

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

Covered Bonds
Spain: Issuer consolidation ahead?

Author: Dr Frederik Kunze

Bank mergers in Spain gaining momentum

The Spanish banking market is on a consolidation course. This development, which has been repeatedly suggested by the regulatory authorities not only in respect of Spain, also affects the country's covered bond market. The decision to merge the covered bond issuers Bankia and CaixaBank was announced as early as mid-September (cf. Bankia press release of 18 September 2020, among others). The merged entities, which will operate under the CaixaBank brand, will not only form the largest institution in the country, but also one of the most important covered bond issuers in the single currency area. Moreover, both Bankia (Bloomberg Ticker: BKIASM) and CaixaBank (CABKSM) have outstanding EUR benchmarks at present. Following the failure of talks on the merger of Liberbank and Unicaja Banco in 2019, the institutions, which also both operate covered bond programmes, confirmed at the beginning of October that negotiations for a cooperation had been resumed and that advisors had been mandated accordingly. While Unicaja Banco (UCAJLN) is not an active EUR benchmark issuer, Liberbank (LBKSM) is certainly active in this market segment and last approached its investors in September 2019 with a benchmark (LBKSM 0 1/4 09/25/29). Mergers have also been reported recently with regard to the EUR benchmark issuers Banco Sabadell (SABSM), Kutxabank (KUTXAB) and BBVA (Banco Bilbao Vizcaya Argentaria; BBVASM), without any official statements being available, to our knowledge. We are using the reporting situation on the consolidation plans to provide a brief overview of the Spanish covered bond market and, in addition to legislation, to focus in particular on the EUR benchmark segment.

Legal framework: Covered bond legislation in Spain will be significantly influenced by EU harmonisation

The Spanish legal framework for covered bonds provides in particular for a division between mortgage-backed bonds (Cédulas Hipotecarias) and public sector covered bonds (Cédulas Territoriales). While many of the country's issuers use both types of cover pools – in addition to some issues covered by export financing – the EUR benchmark segment in Spain is currently composed exclusively of Cédulas Hipotecarias. In the context of assessing the legal framework, it is important to note that the resolved harmonisation of the European covered bond market will without doubt lead to far-reaching adjustments to Spanish legislation. For example, the introduction of a 180-day liquidity buffer, as has long been customary in some other jurisdictions, is just as necessary as adjustments with regard to the specification or segregation of cover assets and public supervision. In addition, changes in the repayment structure are to be expected – at present, Spanish institutions only issue hard bullet bonds, without the option of deferring maturities.

Spain: Legislative framework – an overview

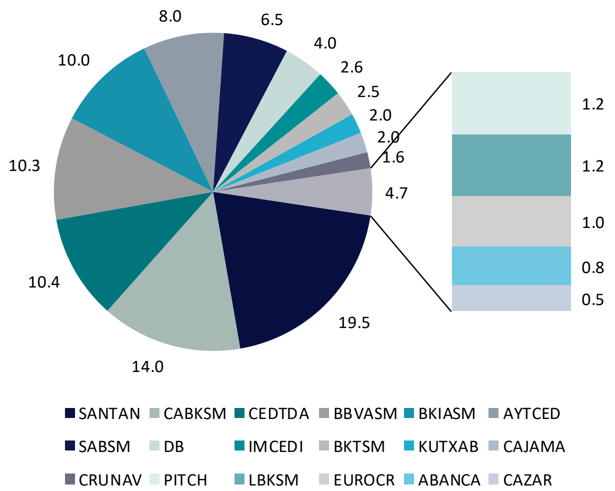
Designation	Cédulas Hipotecarias	Cédulas Territoriales
Short form	CH	CT
Special covered bond law	Yes	
Cover assets (incl. substitute cover)	Mortgage loans	Public sector loans
Owner of assets	Issuer	
Specialist bank principle	No	
Geographical scope	EU	EEA
Loan to value - Mortgage loans	Residential: 80%; Commercial: 60%	-
Preferential claim by law	Yes	
Cover register	Yes	
Derivatives as cover assets	Yes	No
Substitute assets	Yes	No
Limit of substitute assets	5%	-
Minimum OC	25% nominal value	43% nominal value
Asset encumbrance	8% (cover pool limit)	-
UCITS compliant / CRD compliant	Yes / Yes	
ECB eligible	Yes	

Source: National laws, ECBC, NORD/LB Markets Strategy & Floor Research

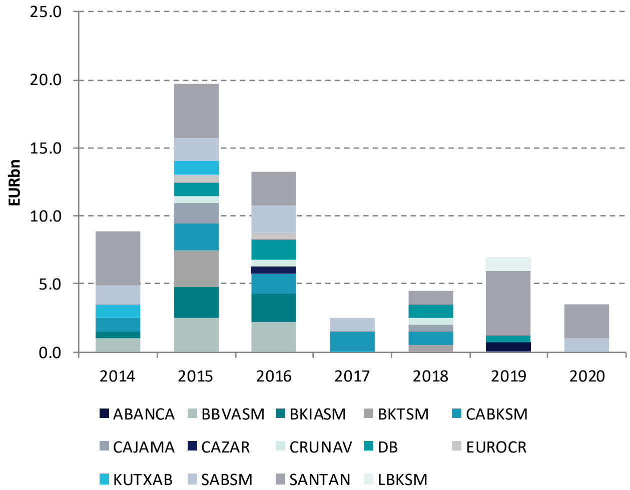
EUR benchmarks: Spain ranks third for volume/primary market activity restrained

With an outstanding volume of EUR 99bn (share: 10.3%), the Spanish covered bond market ranks third in the EUR benchmark segment behind France (EUR 228bn; 24%) and Germany (EUR 153bn; 16%). Of the total of 40 benchmark issues, at least three bonds can be classified as ESG issues. The last EUR benchmark issue from Spain dates back to February this year. Banco Santander approached investors on 20 February 2020 with a dual tranche (EUR 1.25bn for 5y; EUR 1.25bn for 12y). Banco de Sabadell also appeared in January 2020 with a covered bond for EUR 1.0bn and a term of eight years. All in all, this restrained primary market activity is certainly also a consequence of the COVID-19 pandemic and the economic uncertainties it has caused. In this context, the influence of the ECB's monetary policy stance and related instruments (TLTRO-III) and frameworks (use of "own-use" covered bonds under the ECB's collateral framework) should not be ignored. Nevertheless, a comparison with previous years also shows a clear reluctance on the part of Spanish issuers in the EUR benchmark segment – at least when compared with the years 2014 to 2015. Looking ahead to the rest of the year, we expect at most one or two appearances by Spanish issuers in the EUR benchmark segment. We would initially justify this on the grounds that the bulk of the refinancing for 2020 has been completed, so that emissions in the current year would tend to be pre-funding. In addition, regulatory requirements (in particular the MREL quotas recently set by the Spanish regulators) must be met, especially for the smaller issuers. Overall, we then expect the issuance volume in 2020 to be close to EUR 5bn - a figure that falls well short of our original forecast of EUR 9bn and indicates an even more pronounced negative net supply for Spain.

Spain: Outstanding EUR benchmarks (EUR bn)



Spain: EUR benchmark issues: 2014 – 2020 ytd

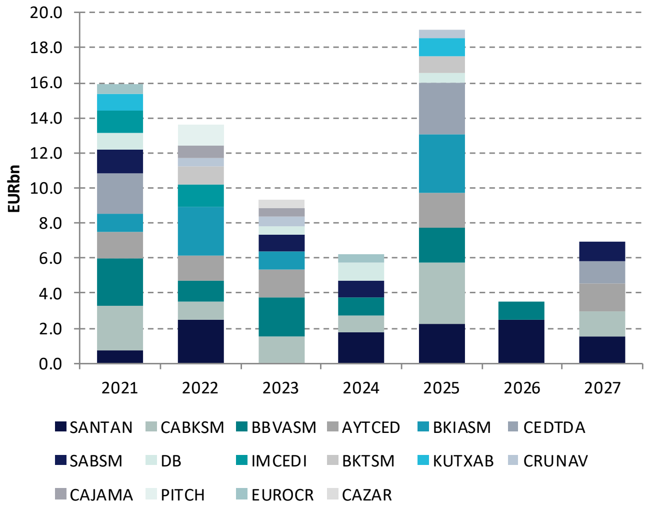


Source: Market data, NORD/LB Markets Strategy & Floor Research

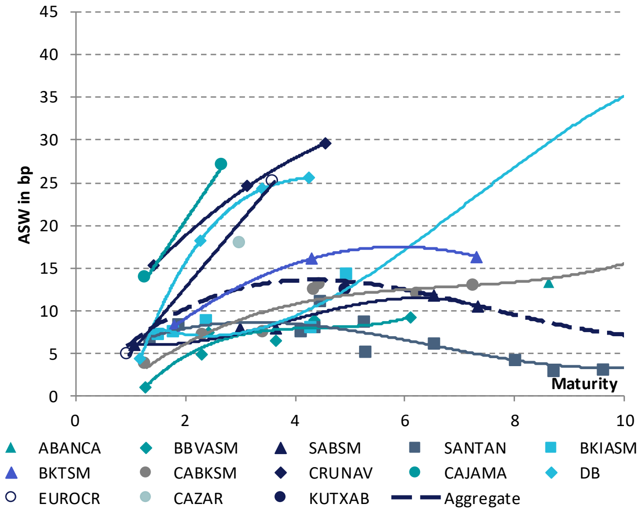
Bank mergers with implications for risk assessment and spread development

The merger of CaixaBank and Bankia, both of which have outstanding covered bonds in the EUR benchmark segment, was generally viewed positively by rating agencies in terms of risk assessment for issuers. For example, the rating experts at Moody's, who also expect CaixaBank to take over Bankia's cover pool, see continued solid credit quality with regard to the new issuer and an improved cover pool in terms of credit quality, with a correspondingly lower collateral score. In this context, the risk experts also emphasise the merger experience, which suggests that successful integration can also be expected for the comparatively large cover pools of the institutions. The agencies Fitch, S&P, DBRS and Scope also arrive at comparable assessments with regard to Bankia's issuer or covered bond ratings. As regards the spread development for the outstanding bonds, we would assume that the merger of the institutions is already largely reflected in the current screen prices, although secondary market prices should be viewed with some caution in terms of their relevance, especially given the sluggish primary market activity in Spain. In addition, other potential mergers of Spanish banks have the potential to leverage synergies that could generate credit improvements through consolidation efforts and closely related opportunities. However, possible mergers of the EUR benchmark issuers Banco Sabadell, BBVA and Kutxabank must also take into account the different business models and geographical concentrations. For example, the first two have more of an international focus, while Kutxabank's business is concentrated in Spain. In our view, an expected merger would also indicate an improvement in credit quality and trigger a convergence of secondary market spreads moving forwards. The merger candidates Liberbank and Unicaja also have active covered bond programmes, although only Liberbank ranks among the currently active EUR benchmark issuers.

Spain: EUR benchmark maturities: 2021 - 2027



Spread overview Spain (EUR benchmarks)



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

EUR benchmarks originate exclusively from mortgage programmes

The following table compares the Spanish covered bond programmes with EUR benchmark placements. The NORD/LB Issuer Guide Covered Bonds 2020 serves as a database, which provides further key figures on the EUR benchmark cover pools shown here, details of the cover pools of issuers without reference to a benchmark (in particular those secured by Cédulas Territoriales and export financing) and information on the issuers themselves. The EUR benchmarks from Spain are exclusively mortgage covered bonds. An initial classification of the potential weight shifts in the Spanish EUR benchmark segment can be made on the basis of the new cover pool sizes. Based on the data used, a merger of the cover pools of Bankia and CaixaBank (without taking consolidation effects into account) would result in a volume in the order of EUR 152bn. If the cover pools of Banco de Sabadell, BBVA and Kutxabank were merged in purely mathematical terms, the cover assets would still add up to EUR 128bn. On the basis of Unicaja's current HTT, the issuer has a cover pool with a volume of EUR 18.8bn and outstanding covered bonds totalling EUR 3.5bn. The covered bond rating is indicated by Moody's as Aa1, while the Moody's collateral score is 11.5%. The cover assets come exclusively from Spain and are mainly located in Andalusia (55.1%). Together with the benchmark issuer Liberbank, this would result in a cover pool with a theoretical mathematical volume of EUR 34.9bn. However, in addition to possible synergy effects or consolidation developments, it should be noted that the implementation of the covered bond harmonisation will have a strong influence on the cover pool volumes with regard to changing OC requirements and the adjustment of the loans remaining on the bank balance sheets, which is customary in Spain. As a result of these changes, the very high overcollateralisation rates that can currently be observed by international comparison, for example, are likely to decline significantly.

Spanish overview: EUR Benchmark Cover Pools

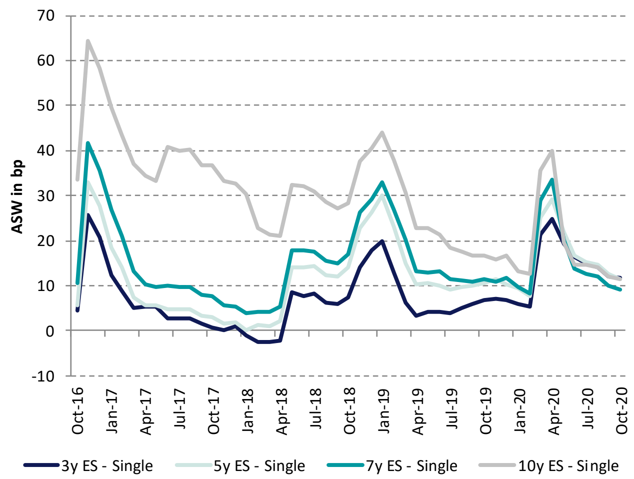
Benchmark Pools (link to cover pools)	**Cover pool** (mEUR)	**Amount outst.** (mEUR)	**OC** in %	**Loans in arrears** in %	**Main region**	**CB-Rating** (Fitch / Moody's/ S&P / DBRS)	**LCR level / risk weight** in %	**Moody's collateral score** in %
ABANCA	15,906	2,340	579.8	1.9	48% Galicia	- / Aa1 / -AA+/ -	1/10	13.0
Banco de Sabadell	42,725	22,284	91.7	3.0	37% Catalonia	- / Aa1 / - / AAA	1/10	19.1
Banco Santander	82,639	44,949	83.8	8.3	27% Madrid	AA / Aa1 / - / -	1/10	16.4
Bankia	66,162	23,588	180.5	3.4	28% Madrid	A+ / Aa1 / AA / AAA	1/10	10.3
Bankinter	26,506	11,254	135.5	1.6	35% Madrid	- / Aa1 / AA+ / -	1/10	11.1
BBVA	62,083	32,260	92.4	1.8	37% Catalonia	- / Aa1 / AA+ / AAA	1/10	11.9
CaixaBank	86,000	49,652	73.2	3.2	29% Catalonia	- / Aa1 / AA / AAA	1/10	13.3
Cajamar Caja Rural	13,281	5,250	153.0	9.1	33% Andalusia	BBB+ / - / AA / AH	1[2A]/10[20]*	-
Caja Rural de Navarra	4,834	1,850	161.3	1.3	46% Navarre	- / Aa1 / - / -	1/10	13.0
Deutsche Bank S.A.E.	7,729	5,400	43.1	2.0	28% Barcelona	- / Aa1 / - / -	1/10	6.3
Eurocaja	820	500	167.4	1.9	58% Castilla La Man.	- / Aa1 / - / -	1/10	10.5
Ibercaja Banco	19,332	5,525	249.9	3.8	27% Aragon	- / A1 / AA / -	2A/20	12.6
Kutxabank	23,375	2,497	836.2	3.3	51% Basque Country	- / Aa1 / AA+ / -	1/10	9.4
Liberbank	16,083	6,935	131.9	3.5	25% Madrid	- / Aa2 / - / -	1/10	10.5

Source: Issuers, rating agencies, NORD/LB Markets Strategy & Floor Research; * different rating information at bond level leads to deviations in the CQS derivation and hence to different LCR levels and risk weights

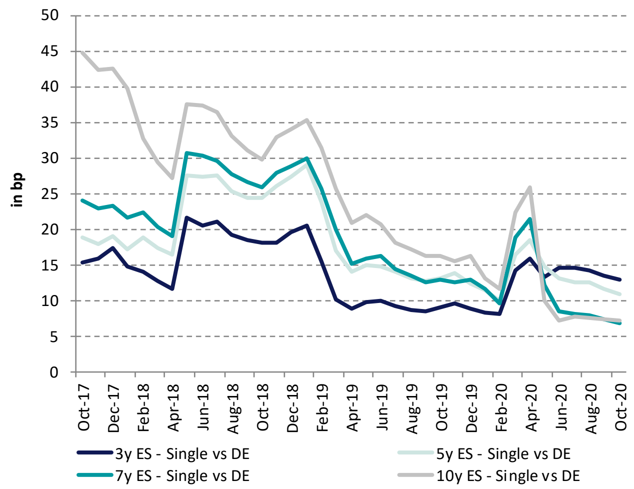
Spread development in Spain: ECB's monetary policy remains the determining factor

The influence of regulatory factors and ECB monetary policy outlined previously with regard to the issuance behaviour of Spanish benchmark issuers results in a reduced supply of covered bonds. We also see the consolidation efforts in the Spanish banking market as an additional dampening factor on issuance behaviour. On the demand side, the focus remains on the ECB's purchasing behaviour, so in general the tightening seen on the secondary market are not surprising. Here, too, the limited relevance of secondary market prices must be taken into account. Irrespective of this, in view of the situation on the supply and demand side outlined above, we see hardly any arguments supporting a noticeable widening of ASW spreads.

Spread development Spain (RTM >1y)



Spread difference Spain vs. Germany (RTM >1y)



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

Conclusion

The Spanish covered bond market is facing far-reaching changes for several reasons. While the need for adjustment in the course of the harmonisation of the European covered bond market is high, we do not see this as a trigger for market distortions due to existing grandfathering regulations and adequate implementation periods. The bank mergers that have been announced or are planned or envisaged have the potential to improve the credit quality of issuers and cover pools. As a result of issuer mergers and the integration of cover pools, the market is likely to lose complexity, but as a consequence also diversity. For the remaining months of the current year, we think only isolated transactions are likely, primarily with the aim of pre-funding. For 2021 the forecast is made more difficult due to the uncertainties in relation to the further course of the COVID-19 pandemic. Moreover, in our view, the main question relates to the future course of the ECB's monetary policy. It can be assumed that a significant proportion of the supply will continue to be absorbed by the purchasing activity. We also believe that it is definitely conceivable that new and/or improved TLTRO tenders may additionally restrict supply. Overall, there is likely to be less spread differentiation in Spain in the future, which would be due both to possible consolidations and to technical market considerations. Significant and sustainable widening trends would, in this context, appear to be rather unlikely.

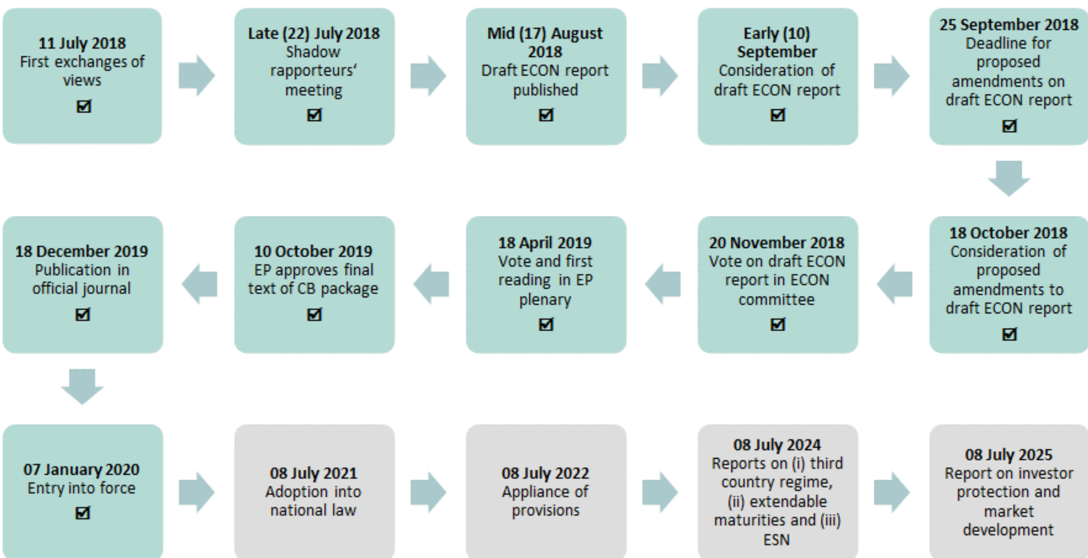
Covered Bonds
PfandBG to include extendable maturity structures

Author: Henning Walten, CIIA

Draft bill for implementing the requirements of the Covered Bond Directive now available

As we already reported in the market overview section of the Covered Bond & SSA View of 7 October, the German Federal Ministry of Finance (BMF) recently published a draft amendment to the Pfandbrief Act (PfandBG) (available only in German). The main purpose of the draft is the national implementation of the requirements resulting from the Covered Bond Directive ((EU) 2019/2162), which must be transposed into national law by Member States by 8 July 2021. After a further period of twelve months, the amended legal requirements must then be applied from 8 July 2022 at the latest, as the amendments from the Covered Bond Regulation ((EU) 2019/2160), which represent the second part of the harmonisation initiative (cf. Issuer Guide Covered Bonds 2020 from page 564), are also valid on this date. In our view, the most important adjustment to the PfandBG relates to Article 17 ("Conditions for extendable maturity structures") of the Covered Bond Directive, although we should emphasise at this point that the possibility of deferring maturities under the PfandBG has already been the subject of discussion in Germany for some time and that the current development is therefore not merely a reaction on the part of the German legislator to the Covered Bond Directive. This is also supported by the fact that while the adjustments to implement the requirements of the Covered Bond Directive (Articles 2 to 4 and 9 of the draft) will not come into force in the PfandBG until 8 July 2022, adjustments relating to maturity deferral will take effect as soon as the Act amending the Pfandbrief Act comes into force, i.e. at the end of the legislative process, which must be completed by no later than 8 July 2021.

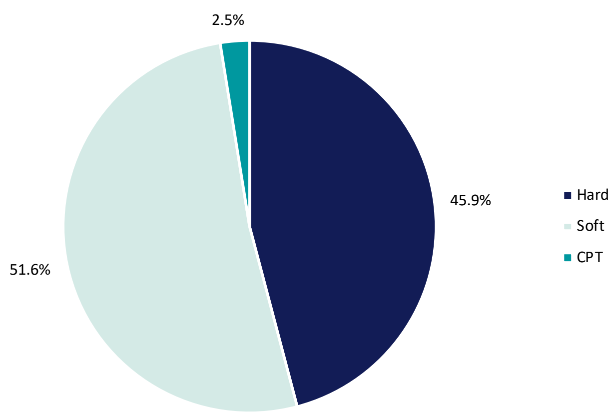
Timetable for harmonisation efforts



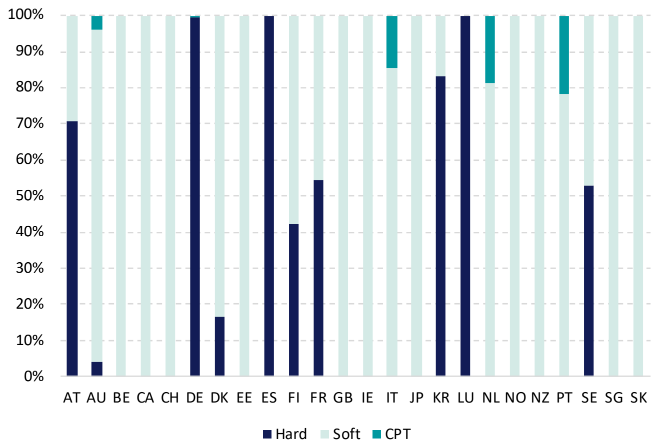
Source: European Commission, NORD/LB Markets Strategy & Floor Research

Directive specifications with regard to maturity extension structures
According to the Covered Bond Directive, the requirements in Article 17 provide for conditions for extendable maturity structures and allow national legislators to decide on the establishment of a legal basis with regard to maturity extension structures for covered bonds. In this context, legal regulations must ensure that maturity deferrals are only triggered by specific legal triggers, so that issuers can under no circumstances trigger the maturity deferral at their own discretion. Furthermore, the corresponding triggers for extending maturity must be defined in the contractual terms of the issued covered bonds and the information provided on the maturity structure must be sufficient for a risk assessment. It must also be regulated by law that the date of final maturity can be determined at any time. Furthermore, it must be ensured that there is no change in the hierarchy of covered bond investors or sequence, while structural properties with regard to the dual right of recourse or insolvency remoteness must also not be impacted.

iBoxx EUR Covered volume by structure



Repayment structures by jurisdiction



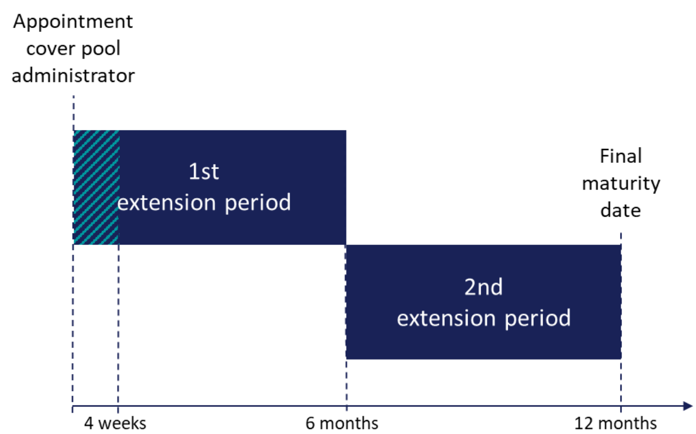
Source: Market data, NORD/LB Markets Strategy & Floor Research

Repayment structures on the covered bond market
Based on the iBoxx EUR Covered (excl. Multi-Cédulas) in its October composition, it is clear that soft bullet bonds now account for more than half of the volume of bonds with an explicit maturity structure. A glance at the prevalence of the three common structures at national level also reveals the now prevailing dominance of EUR benchmark bonds with an option for maturity extensions. It should be borne in mind that a possible maturity extension is currently resolved mainly at contractual level, in many cases allowing the coexistence of several maturity structures. On the other hand, implementation of the requirements of Article 17 of the Covered Bond Directive provides for a legal regulation which, in our view, will lead to hard bullet bonds becoming soft bullet bonds by law in those jurisdictions where bonds are equipped with as well as without maturity-prolonging structures, since, according to Article 17, a maturity extension must not affect the hierarchy of investors or the sequence of the original maturity schedule. For a more detailed overview of the design of maturity extension structures, please refer to our Issuer Guide Covered Bonds from page 555.

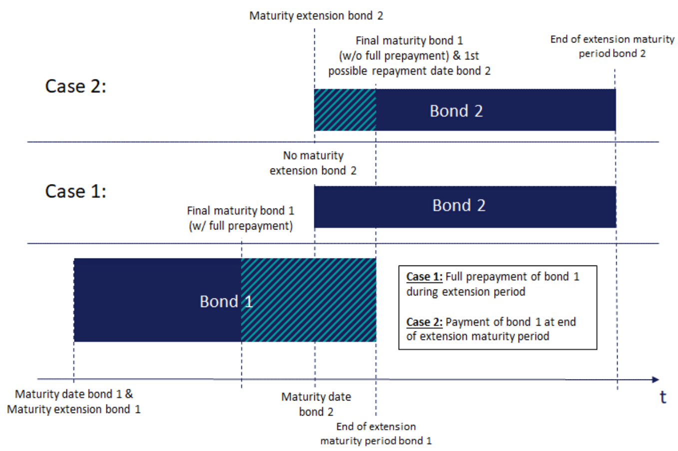
Possibility of maturity extension for up to twelve months

As follows from the draft bill of the Federal Ministry of Finance, Section 30 PfandBG is to be adapted such that the cover pool administrator appointed in accordance with Sections 30 to 36 PfandBG in the event of a Pfandbrief bank becoming insolvent will be granted the right, by means of the new regulation, to extend Pfandbrief maturities by up to twelve months. In order to enable the cover pool administrators to make an adequate assessment of the situation after their appointment, they shall first be granted the right to suspend interest and principal payments of a type of Pfandbrief for four weeks after their appointment and to defer them uniformly to the end of this four-week period. At the end of this period, under clearly defined conditions, the principal payments (but not the interest payments) of the relevant Pfandbrief issues under the corresponding cover pool may then be deferred in full or in part for six months to begin with. If the cover pool administrator has exercised the possible deferral of four weeks, these shall be counted towards the first extension period. During the deferral period the sequence of investor claims referred to in Article 17 of the Covered Bond Directive may not be changed. This means that maturities that fall within the deferral period must also be deferred, otherwise the sequence will change. This requirement also applies to a possible second extension period (for a further six months), which may take place at the end of the first six months. We do not believe that a decision on a further extension will be taken on the basis of the specifications, but it should be made sufficiently in advance, especially in view of the necessary publication requirements regarding the deferment or "early" redemption. A second extension of the maturity by six months thus presupposes the first extension, even if possibly only separated by a legal second. As we understand it, the legal requirements relate in each case to the processes within one type of cover pool, since investors have recourse to these in the event of insolvency, which means that potential maturity deferrals must also be decided individually for each type of Pfandbrief, and the ranking order in the servicing of investor claims must also be ensured only within one Pfandbrief category.

Possible deferral periods under the PfandBG



Expiry during deferral period



Source: Draft bill, NORD/LB Markets Strategy & Floor Research

Three cumulative conditions for maturity deferral

In addition to the basic possibility of a maturity deferral in the event of insolvency, Section 30 also defines the three conditions which must be met for the cover pool administrator to be allowed to initiate a deferral at all. Thus, the deferral of maturity must be necessary to maintain the solvency of the Pfandbrief bank (with limited business activities) i.e. to prevent the Pfandbrief bank (with limited business activities) becoming insolvent. In addition, the Pfandbrief bank (with limited business activities) must not be over-indebted at the time of the maturity deferral. Lastly, the cover pool administrator must have reason to assume that the Pfandbrief bank will be able to service the liabilities that are then due after the end of the maximum possible deferral period, i.e. after a total of twelve months. If, on the other hand, one of these three conditions is not met, the maturity may not be deferred. The law therefore tightly defines the possibility of maturity deferrals.

Legal change affects all Pfandbrief issues

The proposed amendments will introduce legal requirements for maturity deferral. Accordingly, in the event of a Pfandbrief bank becoming insolvent, the cover pool administrator appointed for the respective cover pool may, under certain conditions, defer maturities by up to twelve months, spread over two separate six-month periods. It is important to bear in mind that, in our view, a deferral of maturities is based on the type of Pfandbrief in question and does not apply to all of an issuer's Pfandbriefe. If there is a deferral, the redemption can only be made uniformly, but in full or proportionately, which gives the cover pool administrator the possibility of early servicing. Deferral of other maturities falling within the deferral period is not automatically postponed, but only at the point in time at which compliance with the sequence would no longer be ensured with regard to servicing investors. While the cover pool administrator can initially defer interest and principal payments by four weeks after their appointment, the maturity deferral in the two six-month periods only refers to principal payments. Interest payments are therefore not affected in these periods and must continue to be serviced. For this purpose, for example, deviating provisions may be made with regard to the interest rate in this period based on current market standards for soft bullet bonds, for which variable interest rates will apply in the majority of cases during the deferral period. All in all, with the entry into force of the amendments to the Pfandbrief Act, which will take legal effect by 8 July 2021 at the latest, all outstanding Pfandbrief issues should be given the option of deferring their maturity.

German Pfandbriefe as "soft bullet bonds"

The changes to the PfandBG described above will bring the era of hard bullet bonds to an end in Germany and herald the beginning of an era in which bond maturities can be deferred. Although the PfandBG does not use the term soft bullet bond or structure, we will classify Pfandbriefe as such in future, since covered bonds with the option of extending the maturity which do not represent a conditional pass-through structure (CPT) are soft bullet bonds. As we understand it, a differentiation from CPT structures is primarily based on the extension period, which in the case of CPT bonds is more than 30 years, whereas in the case of soft bullet bonds it is mostly twelve months, although in exceptional cases this has recently been increased to 24 months.

Conclusion

Even though the present amendments to the Pfandbrief Act are only a draft, we believe that the main features of the proposed implementation of a possible maturity deferral can be expected to find their way into the Pfandbrief Act, since the possibility of a maturity deferral for Pfandbriefe has been an issue for quite some time and is thus not exclusively driven by the requirements of the Covered Bond Directive. This means that one of the last bastions of hard bullet jurisdictions is likely to fall in the foreseeable future, which in our opinion is not a negative event in this case. In fact, the German covered bond market is one of the last markets to open itself up to a construct that has been established for years and, with the present draft, also creates a legal framework for maturity deferral of outstanding issues, which is still very unlikely in our view.

SSA/Public Issuers
The EU has big plans – "SURE" and "Next Generation EU"

Author: Dr Norman Rudschuck, CIIA

Update: global investor call on 7 October 2020
Last Wednesday, just after we went to press with our weekly publication, the European Union (Bloomberg ticker: EU) and the European Commission took the time to hold a global investor call, firstly to announce the long-awaited start of funding under the new SURE programme ("Support to mitigate Unemployment Risks in an Emergency" – postponed again, now to start in the second half of October), and secondly, to refer to its social bond framework in compliance with ICMA standards, which was published in the course of last Wednesday. The key points of the presentation given are summarised in the following article. The RfP for the imminent transaction was sent to market participants on Friday, 09 October.

Comments re SURE
The European Commission will issue bonds in the name of the European Union and will lend these amounts on the basis of the loan agreements concluded with the favoured Member States, known as back-to-back lending. The EU has drawn up an ICMA-compliant social bond framework for issues under the SURE programme. Newly issued bonds will have the same status as bonds issued previously. The programme will comprise a maximum of EUR 100bn and all bonds will be ESG-compliant. EU bonds are and will remain a direct, unconditional obligation. For SURE, the Member States have provided additional guarantees of EUR 25bn in favour of the European Commission to protect the EU budget. The considerable funding requirement for the SURE instrument will be met in accordance with the arrangements in the individual loan agreements with the Member States. Commitments to Member States will be serviced in tranches, i.e. not the full amounts at once and, especially, not all at the same time.

Consequences for the EU's 2020/21 funding target
Not surprisingly, the initiation of the SURE instrument means that the EU's capital market activities will increase substantially compared with its original planning for 2020 and 2021. For the remaining weeks up to Christmas, we are expecting an additional volume of EUR 20-30bn. Assuming that the second half of October will start on 16 October (Friday), it is conceivable that a concrete mandate for the first bond will actually be issued very promptly and that pricing will take place next week at the very latest. As reported, the RfP has already been sent. Currently, EUR 87.8bn of the maximum EUR 100bn has already been approved for 17 Member States. The maturities are expected to span 3-30 years. Maturities are not expected to exceed EUR 10bn in any year. This would still result in additional funding of EUR 70-80bn for the EU under the SURE programme for 2021. The presentation also says that the programme is to be funded and paid out by the end of 2021 due to the urgency involved. We would not be surprised if this were completed by the end of the 2021 summer break and therefore before the end of the third quarter – despite all hindrances at the beginning of the programme, which has already been postponed several times. The first deal must also be in place to demonstrate an ability to act. The new issue premium (NIP) could amount to between 6 and 11 basis points.

Financial support already approved in 17 Member States (EUR 87.8bn)

Belgium	EUR 7,800m	**Malta**	EUR 244m
Bulgaria	EUR 511m	**Poland**	EUR 11,200m
Croatia	EUR 1,000m	**Portugal**	EUR 5,900m
Cyprus	EUR 479m	**Romania**	EUR 4,000m
Czech Republic	EUR 2,000m	**Slovakia**	EUR 631m
Greece	EUR 2,700m	**Slovenia**	EUR 1,100m
Italy	EUR 27,400m	**Spain**	EUR 21,300m
Latvia	EUR 192m	**Hungary***	EUR 504m
Lithuania	EUR 602m		

* A decision will be made on Hungary over the next few weeks.
Source: European Commission, NORD/LB Markets Strategy & Floor Research

MFA and EFSM

In the meantime, the EU is pursuing various objectives, which range from development aid through business development to environmental protection. Activities were previously based on the EU budget, which is, however, unable to borrow to finance its deficit. However, there have always been three funding programmes that are refinanced via the capital market: the European Financial Stabilisation Mechanism (EFSM), the Balance of Payments (BoP) and the Macro-Financial Assistance (MFA). Aid of around EUR 46.8bn was given to Ireland and Portugal through the EFSM, while Hungary, Latvia and Romania received around EUR 13.4bn through the BoP programme. However, the majority of these have already been repaid. Up to EUR 50bn can be given to non-euro EU countries via the BoP programme, of which only EUR 200m is currently being used (Latvia). In contrast, loans under the MFA (EUR 4.63bn), which support existing IMF programmes for countries outside the EU, are far smaller. EU bonds are guaranteed via the EU budget. The European Parliament, the Council and the Commission ensure that the EU “has the funds available that allow it to comply with its legal obligations to third parties” (Article 323 of the Treaty on the Functioning of the European Union [TFEU]). Since the European Council is also explicitly mentioned here as the body in which the Heads of State and Heads of Government of EU Member States meet regularly, the Member States have an implicit obligation here in our opinion. We interpret this as an implicit guarantee in the form of a maintenance obligation on the part of EU Members, which is comparable with callable capital here. The EU is headquartered in Brussels.

Covid-19 MFA already approved (EUR 3bn)

Albania	EUR 180m	**Moldova**	EUR 100m
Bosnia and Herzegovina	EUR 250m	**Montenegro**	EUR 60m
Georgia	EUR 150m	**North Macedonia**	EUR 160m
Jordan	EUR 200m	**Tunisia**	EUR 600m
Kosovo	EUR 100m	**Ukraine**	EUR 1,200m

Source: European Commission, NORD/LB Markets Strategy & Floor Research

General information

Outstanding bond volume

EUR 51.7bn

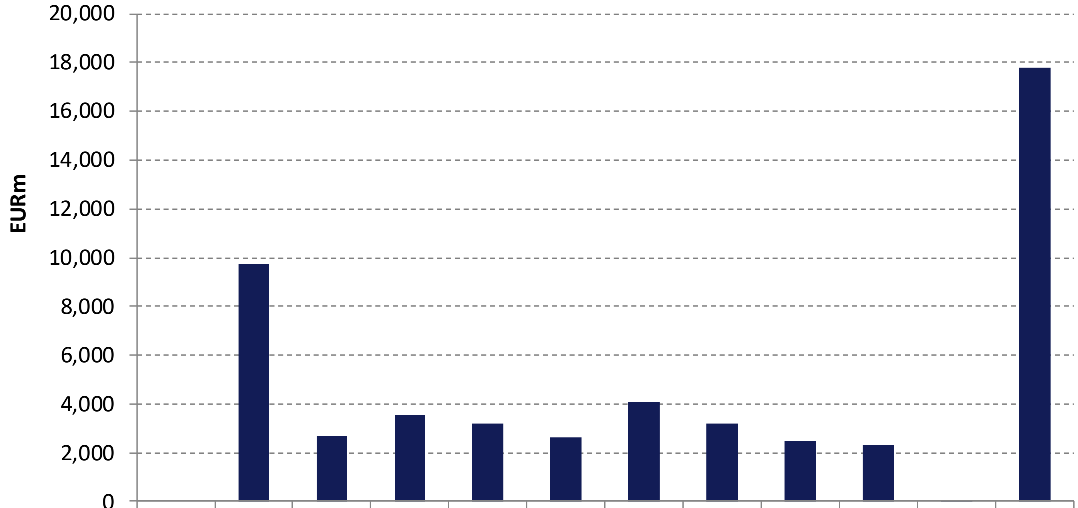
Of which EUR bonds

EUR 51.7bn

Bloomberg ticker

EU

Outstanding EU bonds



	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	>2030
EUR	0	9,754	2,700	3,550	3,200	2,620	4,072	3,172	2,472	2,317	52	17,775

Data retrieved on 13 October 2020.
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Outstanding bonds

The EU currently has EUR 51.7bn outstanding on the market in 39 bonds, which are all denominated in euro. There will be no change here, although the configuration of the bonds will become greener (approximately EUR 225bn) and more socially focused (minimum of EUR 100bn with the option of far higher volumes). Our understanding is that other currencies will not be introduced to the mix in future either. Any diversification will be effected via maturities, as the bonds can mature in three to 30 years. On average, 15 years will be achieved fairly precisely. This is why we consider a dual tranche possible as an initial transaction since the maturity profile reveals a gap in 2030. An additional bond with a 20-year maturity would go well in turn with a ten-year deal, since there is no bond maturing in 2040 either so far. There are further gaps in 2034, 2037, 2039, 2041 and every year from 2043 onwards. The longest outstanding bond at present is for EUR 3bn and will run until 2042. There is sufficient leeway for the desired maturities of a maximum of EUR 10bn per year in the relevant time frame from 2023 until 2051 at the latest. The dual tranche could consist of two bonds of EUR 5bn each or could potentially be over-weighted slightly in favour of the ten-year maturity. According to the presentation, the volumes within the framework of SURE will in principle amount to EUR 1-5bn. Exceptions confirm the rule; we too can only conceive of all bonds upwards of EUR 3bn. At present, there are 18 bonds outstanding with a minimum volume of EUR 1bn. Consequently, at least 20 new high-volume bonds will be added, probably even 40 to 50 bonds over time. Supranationals can be purchased at 50% (PSPP) by the Eurosystem under the purchase programmes. The ECB does not wish to show its hand in the PEPP. Supras appear in the adjusted capital key at 10%. This limit has not yet been reached under the PEPP (approx. 6.5%). New material would therefore be directly absorbed by the key player in the current market environment.

Assessment of the ratings

On 18 September, Moody's confirmed that the rating would be Aaa (outlook: stable). It praises the remarkably high level of commitment among EU Members to guaranteeing its finances remain sound and its significant capacity to do so given the substantial financial strength of the most highly rated EU Members. By ensuring that debt service is protected at multiple levels, including explicit recourse to extraordinary support, the Members have come up with the equivalent of a joint and several liability. S&P awards the EU an AA rating with a positive outlook. In the resolutions about the multiannual financial framework (MFR) and the joint repayment fund, S&P sees an indication of the EU's increased political significance, which is one of the rating agency's most important rating factors for supras. The EU's rating depends on the ability and willingness of the 11 most prosperous EU Members/net payers (including the UK, which must contribute to the EU budget until the end of the MFR 2014-2020).

Looking ahead: Next Generation EU

The proposed measures to stimulate economic activity will be mainly financed via a new temporary recovery instrument called "Next Generation EU" (NGEU) providing financial fire power of EUR 750bn. This is based on three pillars:

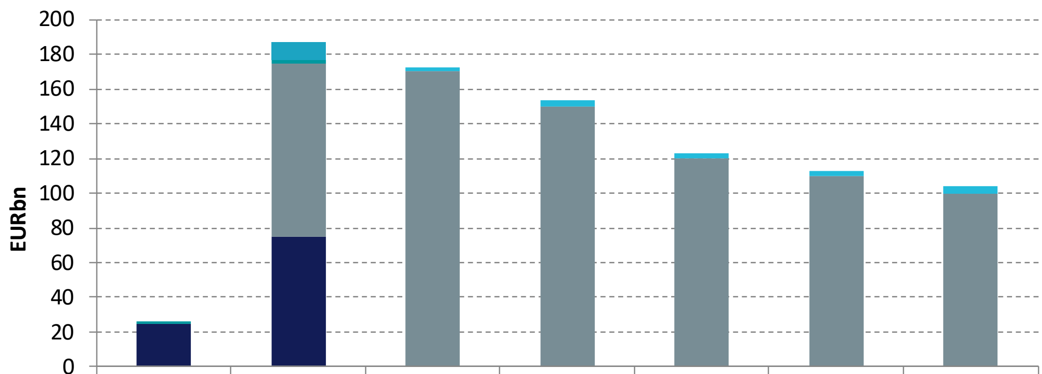
- Instruments to support efforts by Member States to recover, repair and emerge stronger from the crisis,
- Measures to boost private investment and to support ailing companies,
- Consequences of the crisis: the reinforcement of key EU programmes to make the single market stronger and more resilient and accelerate the twin green and digital transitions.

Pillar 1 (EUR 665bn) is by far the largest. It includes EUR 310bn of grants and EUR 250bn of loans for recovery and to improve resilience plus EUR 50bn for REACT-EU, EUR 15bn for rural development and EUR 30bn for the fund for a just transition. Pillar 2 provides a total of EUR 56bn for financial instruments, InvestEU and the Fund for Strategic Investments. The third pillar will be used to combat the consequences of the crisis: Health programme, rescEU, Horizon Europe, Neighbourhood, Development and International Cooperation as well as Humanitarian Aid for a total of just under EUR 39bn. A third (EUR 250bn) of this immense package consists, as described, of loans, the rest of grants (EUR 500bn). Of the total expenditure, EUR 225bn in total is to be issued in green bonds. By doing so, the EU will not only be catapulted into the first row of issuers of social bonds but will rapidly take first place; looking ahead, it will achieve the same result in the green bonds segment. For example, KfW has done a lot on the market for green bonds since 2014 and has issued several billions every year. Nonetheless, it "only" accounts for slightly under EUR 30bn of the outstanding volume at present. By "only", we mean in comparison to the EU's EUR 225bn. The EIB issued the world's first green bond in 2007 with its climate awareness bond (CAB). The EIB is the largest issuer of green bonds to date. Meanwhile, it has raised more than EUR 30.8bn via these securities, which are issued in eleven currencies (as at end of June 2020). In the first half of 2020, the bank issued green bonds worth the equivalent of EUR 3.9bn. The EIB brings green benchmarks to the market in EUR, USD and GBP, although it also issues climate awareness bonds in AUD, CAD and DKK for example. The EIB is boosting the liquidity, amount and scope of green issues, and it is gradually developing curves for green benchmarks. Nevertheless, it will soon be trumped by the EU.

What might happen to the EU's funding programme up to 2026?

The EU is ready to act, although not all it programmes are finally 'done and dusted'. As we have explained, agreement on the NGEU, in particular, could take until 2021 in individual parliaments, meaning that it will be delayed. Naturally, the issuer is not therefore providing any exact details as to how the funding volumes will be eked out over time. The following is already clear: SURE will start in 2020, however, a large part of the up to EUR 100bn will be funded in 2021. We have allocated a distribution of 25%/75% for 2020/21. NGEU will provide EUR 600-800bn, subject to how many funds are called in total. We estimate EUR 750bn with prefunding in 2022/23 but combined with political delay into 2021. Next year, however, the EU will have enough to do, with SURE and other bonds maturing under the EFSM (EUR 9.75bn). All other EU bonds maturing are usually refinanced 1:1, which we have included in our chart as "redemptions" up to 2026.

Possible EU funding volumes up to the end of 2026



	2020e	2021e	2022e	2023e	2024e	2025e	2026e
Redempt.	0	0	2.7	3.6	3.2	2.6	4.1
EFSM	0	10	0	0	0	0	0
MFA	1	2	0	0	0	0	0
NGEU	0	100	170	150	120	110	100
SURE	25	75	0	0	0	0	0

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

Interim conclusion

Should the EU still issue circa EUR 20-25bn this year, it would exceed the respective volumes of ESM and EFSF. Should we be roughly correct with approx. EUR 187bn for 2021, this would exceed the total of ESM, EFSF plus EIB. The same is true for the period 2023-2025. The EU will therefore become one of the largest issuers of EUR benchmarks within a short time – exact point forecasts notwithstanding. By way of comparison, even the KfW and EIB together would remain below the EU funding target in individual years. Even the entire covered bond primary market for EUR benchmarks would be smaller than the EU's funding alone in 2021-2023. Naturally, various market participants are therefore wondering whether spreads will move in the short and medium term and, if so, in which directions or whether asset classes will be cannibalised. We think that coexistence is definitely possible – solely on the basis of the risk structure and the different maturity bands. Should spreads increase in the short-term (in response to a very attractive first NIP among other things), these could fall back just as rapidly in response to the anticipated increase in the Eurosystem's purchase programme.

Strengths

+ Multi-level guarantee
+ Priority creditor
+ Borrowing limited
+ Future large-volume ESG benchmarks

Weaknesses

– High concentration
– Low quality loan portfolio
– Brexit still an ongoing issue

Comments

In response to the coronavirus, the EU is on the point of becoming one of the world's largest issuers of EUR benchmarks and tapping into new groups of investors with its ESG bonds (minimum of EUR 325bn up to 2026). This will shortly (from 2021) be the case for new issues per year and from 2023 at the latest, the EU will feature among the top three EUR volumes not only based on the primary market, but also on the basis of all outstanding volumes. Looking at the gaps in the maturity profile, we consider it possible that the issuer could approach the market with a dual tranche and select a ten-year maturity, among others. We have also identified a gap at 20 years, meaning that the target average maturity of 15 years would be met from the start. For the NIP, we could envisage an exceedingly comfortable premium of 6-11 basis points, to ensure that the SURE programme is guaranteed to take off. This would be approx. +15bp against OATs. Nothing would be worse than a damp squib at the beginning. We expect the SURE volume of maximum EUR 100bn to be met by late summer 2021. At the same time, in addition to a liquid curve at the points 5, 10, 15, 20, 25 and 30 years, EU bonds are likely to be extremely popular with the PSPP and PEPP in particular. In the PEPP especially, we see considerable catch-up potential for supras to comply with the capital key. It remains to be seen whether and to what extent SURE and NGEU will be fully utilised. Among others, Germany and France have not applied for any funds under the SURE programmes. Besides the SURE programme's social bonds (EUR 100bn), it is estimated that there will also be approximately EUR 225bn worth of green bonds for the remaining recovery package. This means that the EU will also act as a catalyst for European ESG bonds, aside from greenwashing. The current political decisions to combat the pandemic have not damaged the rating (AAA / Aaa / AA) and the previous ratings have already been confirmed by S&P (July) and Moody's (September). We do not expect any mark-down from Fitch either.

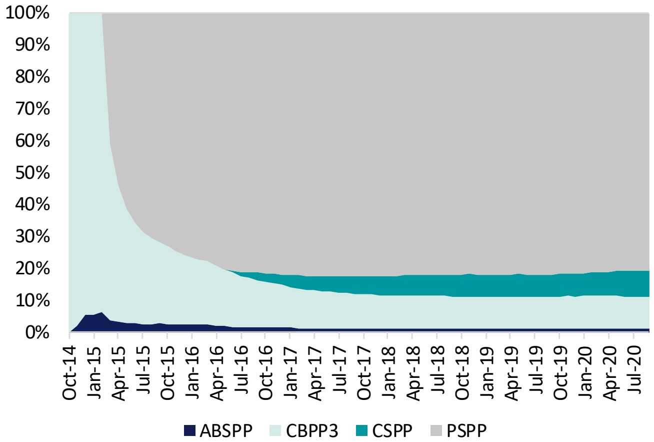
ECB tracker

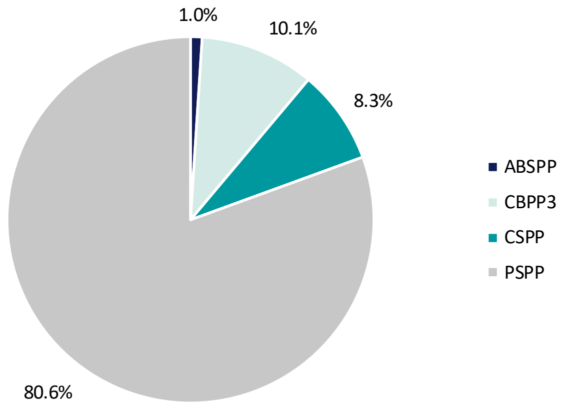
Asset Purchase Programme (APP)

Holdings (in EURm)

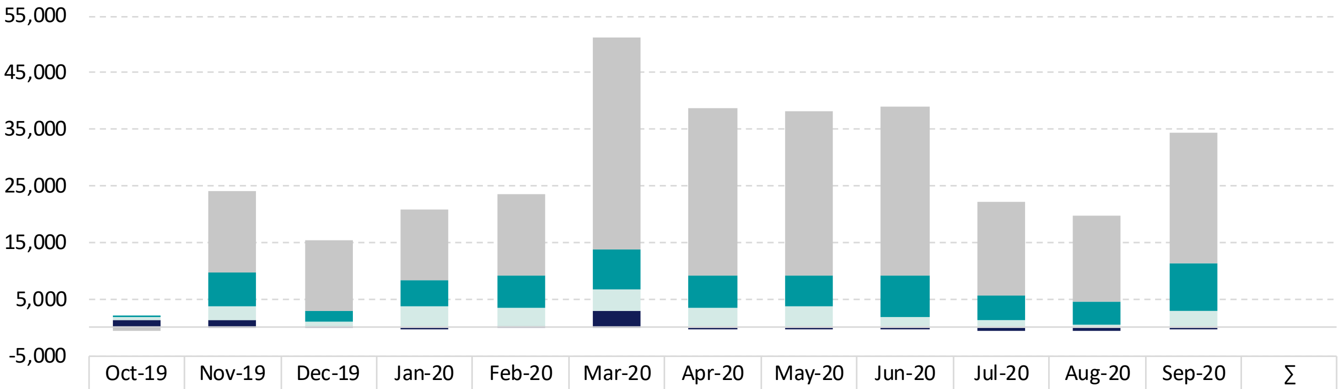
	ABSPP	CBPP3	CSPP	PSPP	APP
Aug-20	29,542	284,464	228,224	2,273,588	2,815,818
Sep-20	29,124	286,852	236,349	2,290,140	2,842,465
Δ	-418	+2,388	+8,125	+16,552	+26,647

Portfolio structure





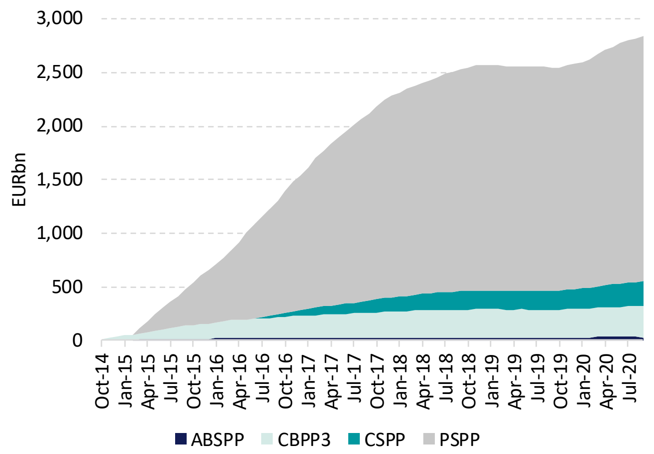
Monthly net purchases (in EURm)



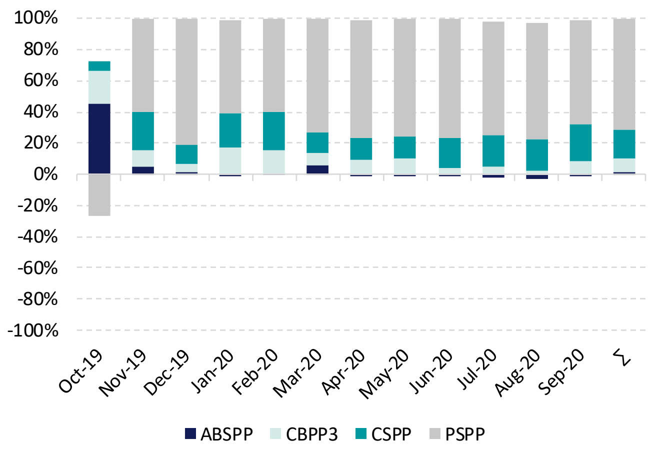
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
APP	1,180	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,025	325,712
PSPP	-698	14,478	12,515	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	233,168
CSPP	159	5,917	1,799	4,611	5,738	6,965	5,560	5,438	7,515	4,502	4,004	8,496	60,704
CBPP3	559	2,448	865	3,684	3,334	3,931	3,582	3,785	1,731	1,198	500	2,839	28,456
ABSPP	1,160	1,253	229	-328	221	2,923	-325	-14	-255	-541	-527	-412	3,384

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

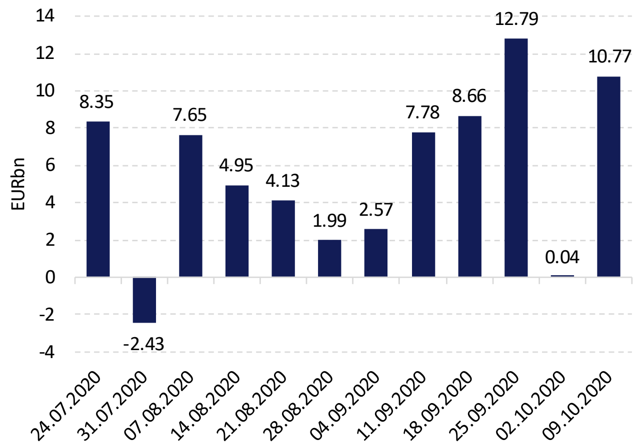
Portfolio development



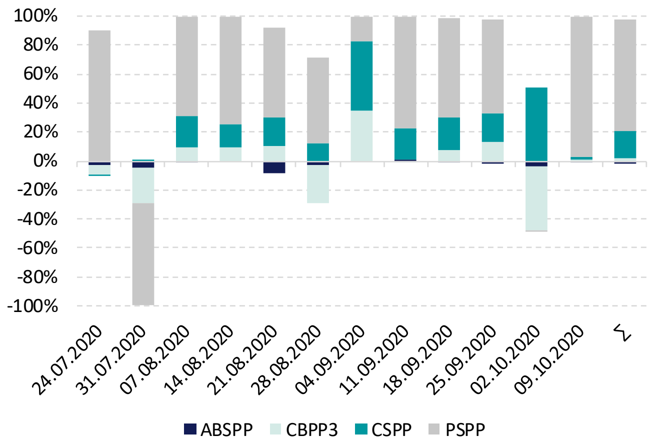
Distribution of monthly purchases



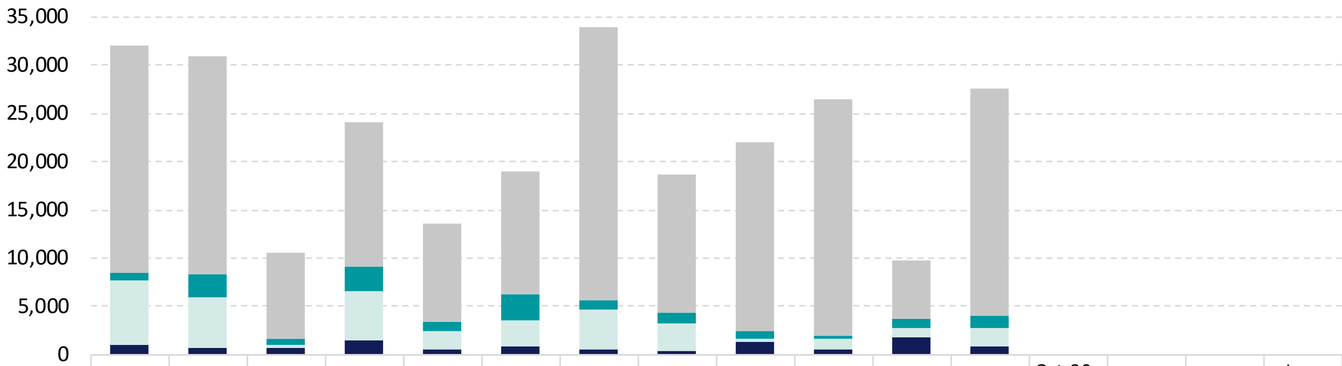
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

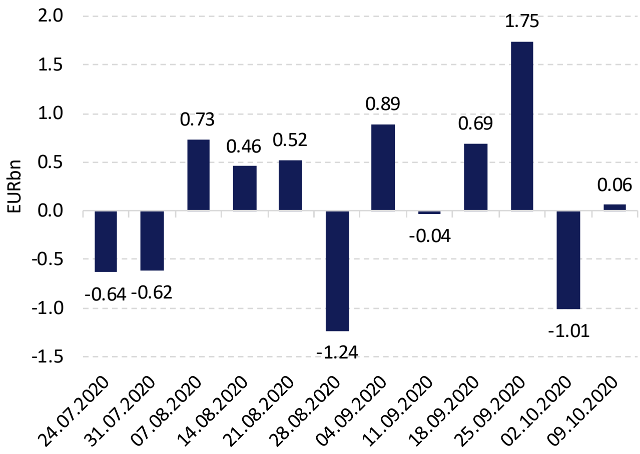


	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-20 - Sep-21	2019	2020	Jan - Sep-21
APP	32,140	30,889	10,544	24,169	13,584	18,989	34,029	18,754	21,971	26,496	9,726	27,590	268,881	204,542	260,115	195,308
PSPP	23,629	22,509	8,871	15,064	10,268	12,677	28,417	14,353	19,519	24,538	6,056	23,642	209,543	167,334	201,482	154,534
CSPP	875	2,431	701	2,589	846	2,730	981	1,144	773	331	966	1,276	15,643	7,070	16,313	11,636
CBPP3	6,568	5,281	302	5,092	2,002	2,759	4,047	2,840	356	1,116	962	1,772	33,097	21,948	33,219	20,946
ABSPP	1,068	668	670	1,424	468	823	584	417	1,323	511	1,742	900	10,598	8,190	9,101	8,192

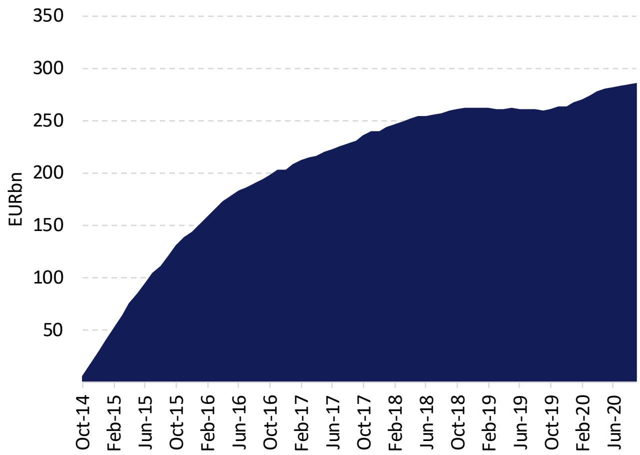
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

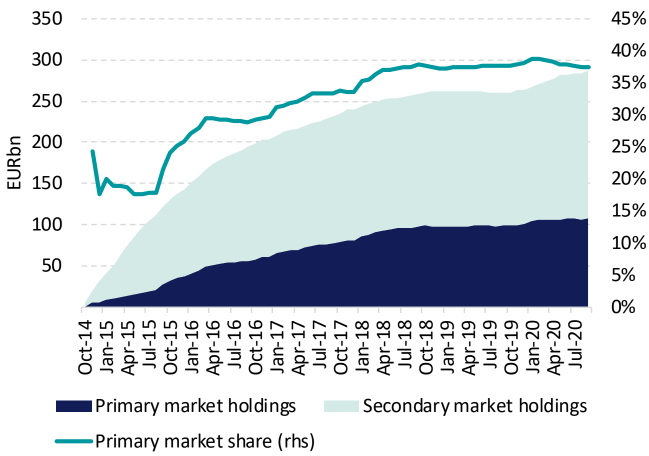
Weekly purchases



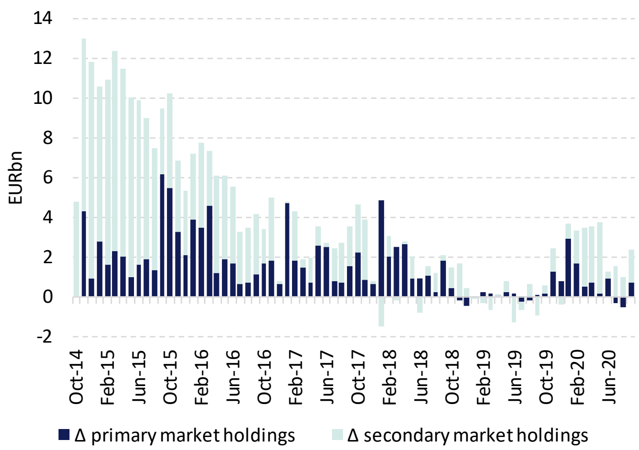
Development of CBPP3 volume



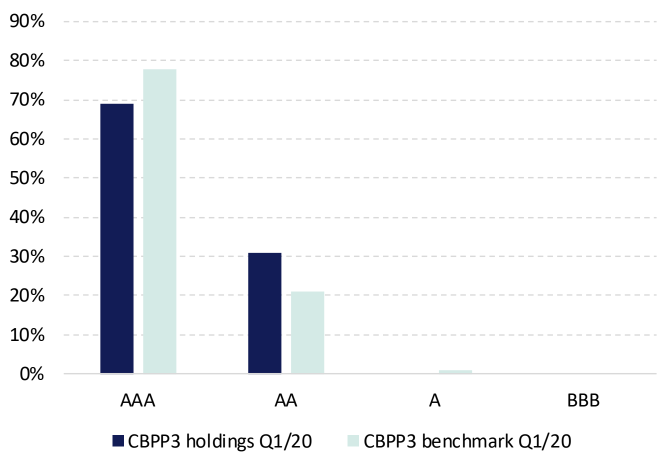
Primary and secondary market holdings



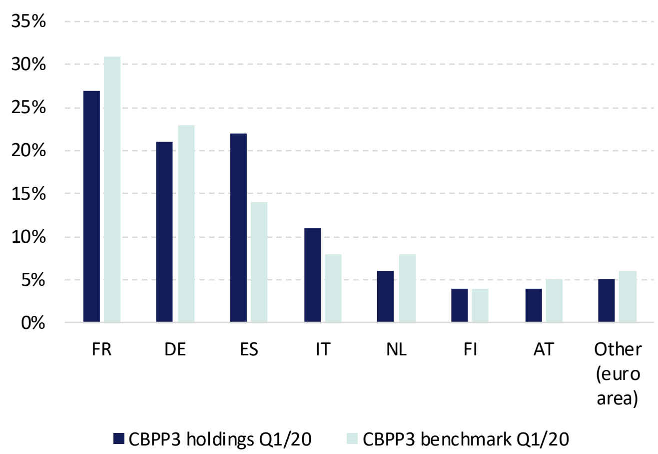
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



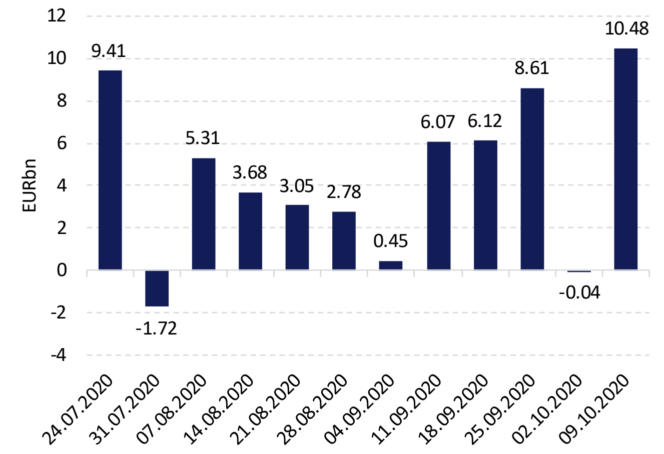
Distribution of CBPP3 by country of risk



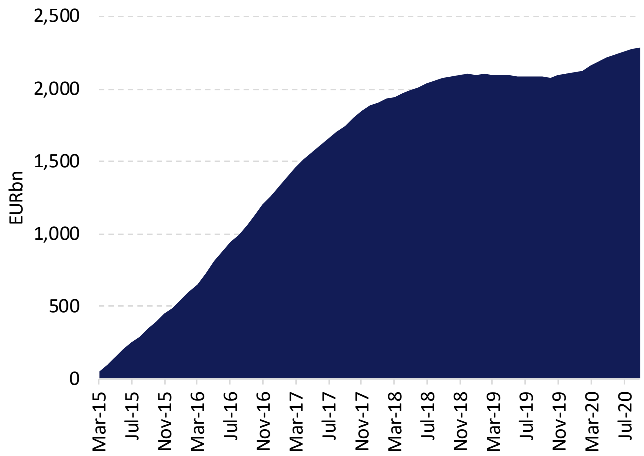
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



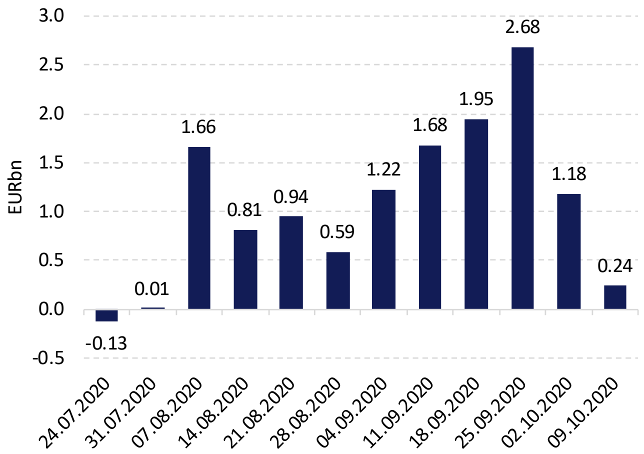
Overall distribution of PSPP buying at month-end

Country	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Average time to maturity in years	Market average in years[3]	Difference in years
AT	2.701%	66,079	64,956	1,123	7.85	7.53	0.3
BE	3.362%	84,096	80,854	3,242	8.40	9.77	-1.4
CY	0.199%	2,894	4,775	-1,881	10.12	9.26	0.9
DE	24.327%	554,810	585,035	-30,225	6.50	7.56	-111
EE	0.260%	224	6,252	-6,028	9.68	9.68	0.0
ES	11.004%	284,516	264,640	19,876	8.14	8.38	-0.2
FI	1.695%	34,173	40,765	-6,592	7.17	8.02	-0.8
FR	18.848%	482,382	453,273	29,109	7.04	8.16	-1.1
IE	1.563%	36,011	37,581	-1,570	8.63	9.95	-1.3
IT	15.677%	411,405	377,022	34,383	7.07	7.54	-0.5
LT	0.360%	4,298	8,648	-4,350	9.51	11.29	-1.8
LU	0.304%	2,646	7,310	-4,664	5.02	6.53	-1.5
LV	0.534%	2,789	12,844	-10,055	10.02	10.49	-0.5
MT	0.097%	1,203	2,328	-1,125	10.03	9.27	0.8
NL	5.408%	114,094	130,059	-15,965	7.52	8.56	-1.0
PT	2.160%	44,501	51,942	-7,441	7.19	7.44	-0.3
SI	0.444%	8,630	10,686	-2,056	9.36	9.39	0.0
SK	1.057%	13,527	25,416	-11,889	8.35	8.67	-0.3
GR	0.00%	0	0	0	0.00	15.95	0.0
SNAT	10.00%	254,597	240,487	14,110	7.23	8.23	-1.0
Total / Avg.	**100.0%**	**2,404,873**	**-**	**-**	**7.21**	**8.14**	**-0.9**

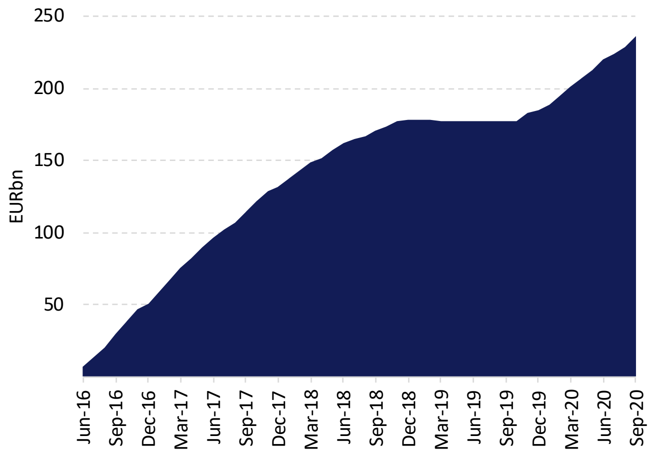
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

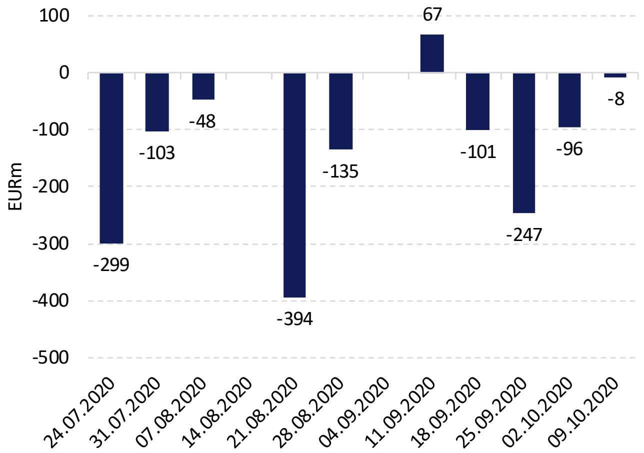


Development of CSPP volume

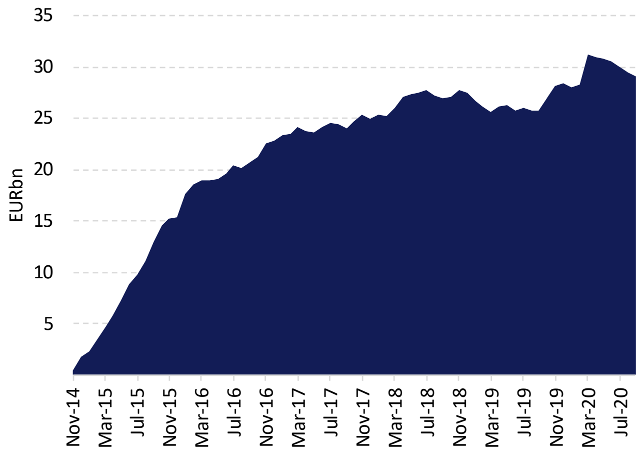


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



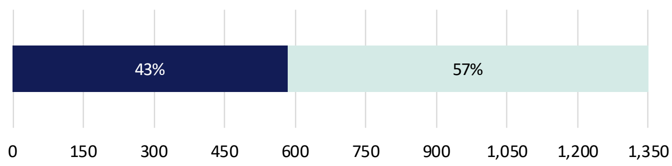
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Aug-20	499,876
Sep-20	567,183
Δ	+67,308

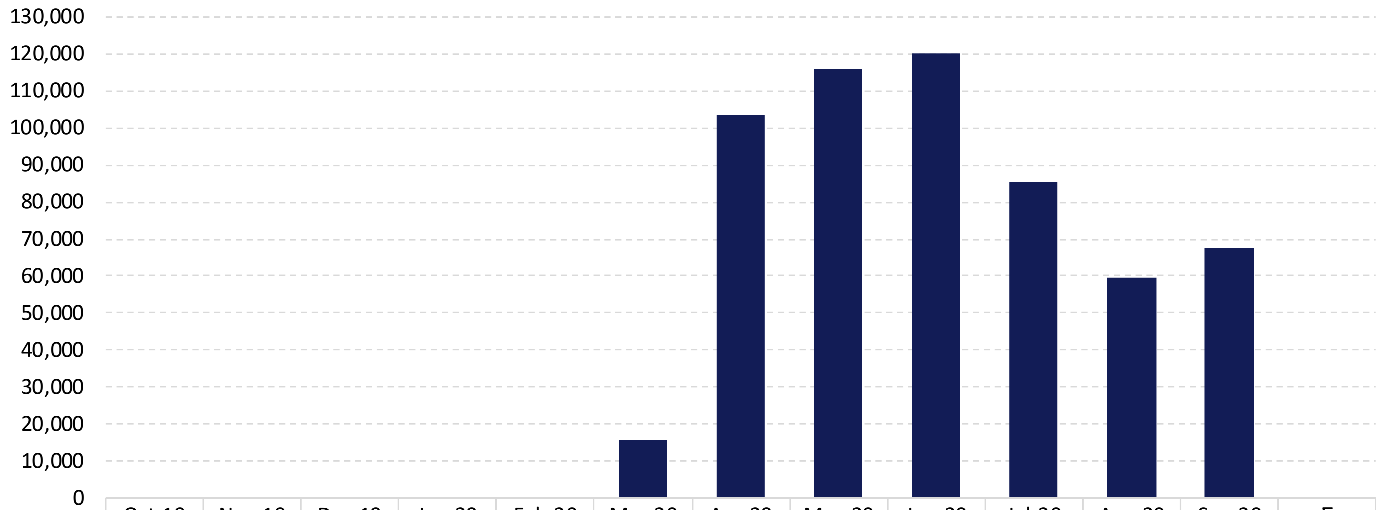
Volume already invested (in EURbn)



Estimated portfolio development

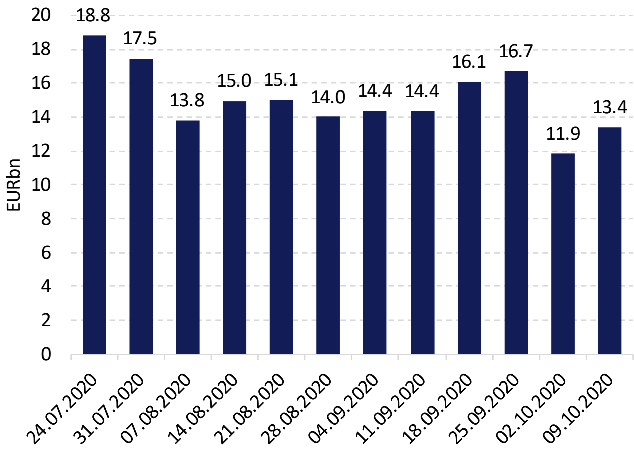
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 20.9bn	37 weeks (25.06.2021)

Monthly net purchases (in EURm)

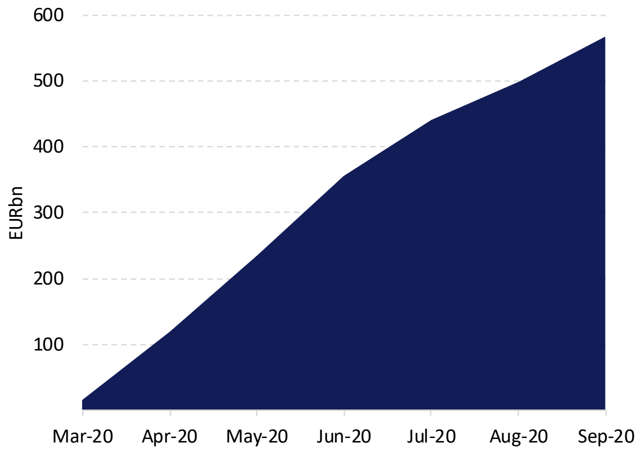


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
■ PEPP	0	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	567,183

Weekly purchases



Development of PEPP volume

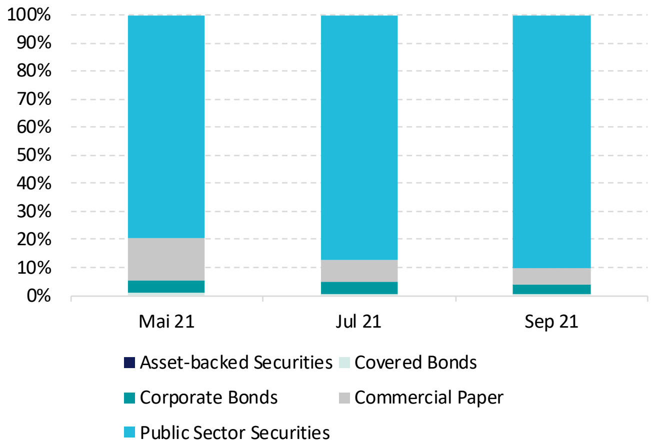


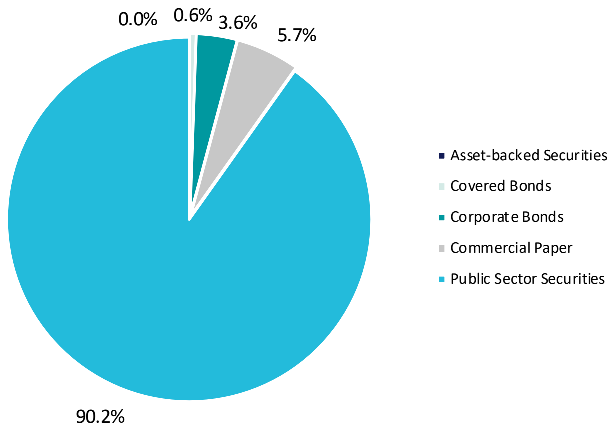
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

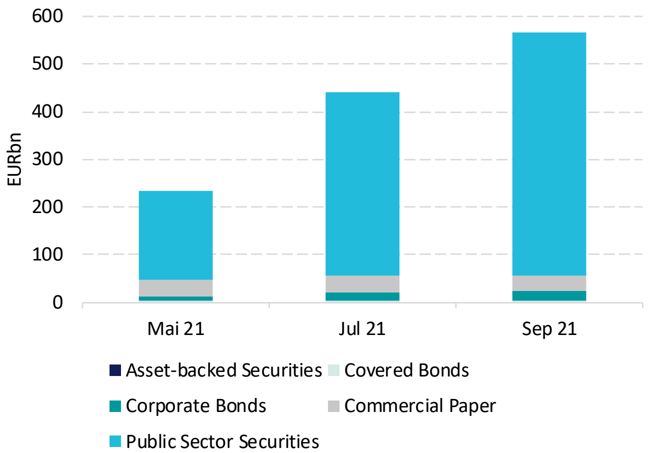
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Jul-20	0	3,128	17,620	34,845	384,464	440,057
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Δ	0	-5	+2,798	-2,857	+125,648	+125,584

Portfolio structure

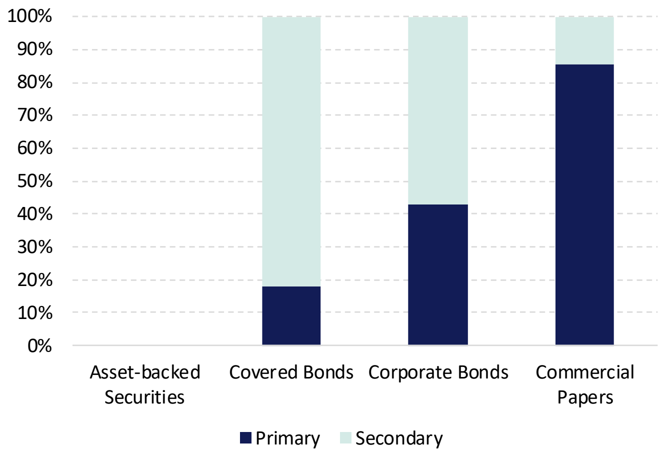




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP as of July 2020

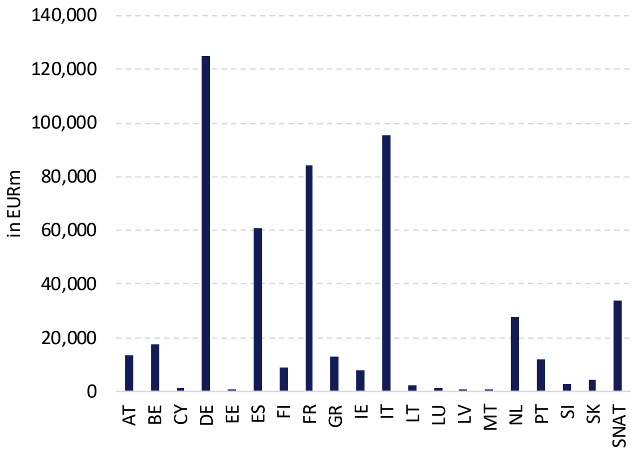
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	557	2,566	8,735	11,683	27,281	4,707
Share	0.0%	0.0%	17.8%	82.2%	42.8%	57.2%	85.3%	14.7%

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

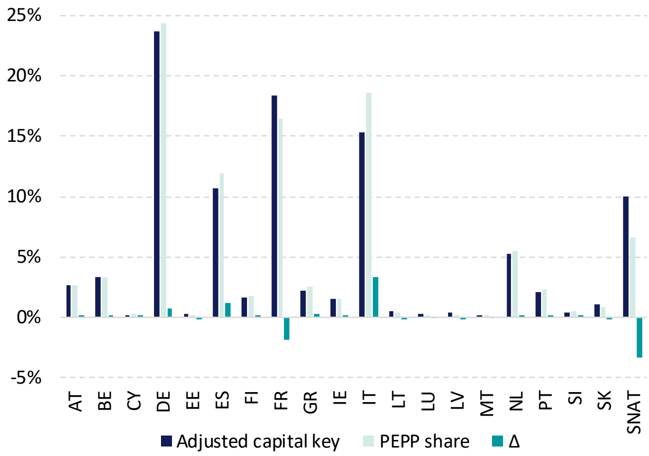
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	ø time to maturity (in years)	Market average[3] (in years)	Difference (in years)
AT	13,614	2.6%	2.7%	0.0%	10.9	7.2	3.8
BE	17,279	3.3%	3.4%	0.1%	5.9	9.4	-3.5
CY	1,194	0.2%	0.2%	0.0%	11.7	8.1	3.6
DE	125,048	23.7%	24.4%	0.7%	4.5	6.6	-2.1
EE	192	0.3%	0.0%	-0.2%	9.2	7.7	1.6
ES	61,030	10.7%	11.9%	1.2%	8.4	7.4	0.9
FI	8,688	1.7%	1.7%	0.0%	7.3	7.0	0.3
FR	84,237	18.4%	16.5%	-1.9%	9.0	7.4	1.7
GR	12,966	2.2%	2.5%	0.3%	8.3	9.1	-0.8
IE	8,028	1.5%	1.6%	0.0%	8.3	9.6	-1.3
IT	95,243	15.3%	18.6%	3.3%	7.0	6.8	0.2
LT	1,988	0.5%	0.4%	-0.1%	12.0	10.6	1.4
LU	994	0.3%	0.2%	-0.1%	6.4	6.4	0.0
LV	837	0.4%	0.2%	-0.2%	9.7	8.9	0.8
MT	238	0.1%	0.0%	0.0%	7.6	7.9	-0.4
NL	27,795	5.3%	5.4%	0.2%	3.9	7.2	-3.3
PT	11,649	2.1%	2.3%	0.2%	7.0	6.6	0.4
SI	2,481	0.4%	0.5%	0.1%	7.0	8.6	-1.5
SK	4,338	1.0%	0.8%	-0.2%	6.8	8.1	-1.3
SNAT	33,811	10.0%	6.6%	-3.4%	8.1	7.2	0.8
Total / Avg.	**511,650**	**100.0%**	**100.0%**	**-**	**6.9**	**7.2**	**-0.3**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



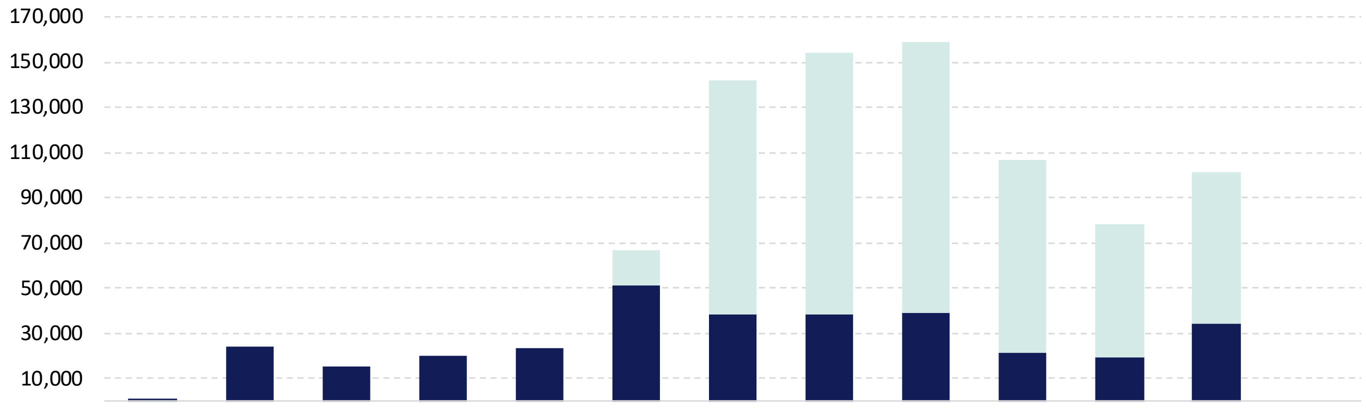
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

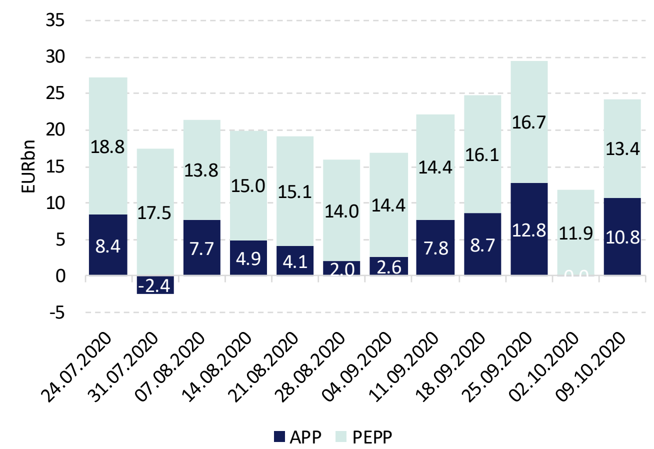
	APP	PEPP	APP & PEPP
Aug-20	2,815,818	499,876	3,315,694
Sep-20	2,842,465	567,183	3,409,648
Δ	+26,647	+67,308	+93,955

Monthly net purchases (in EURm)

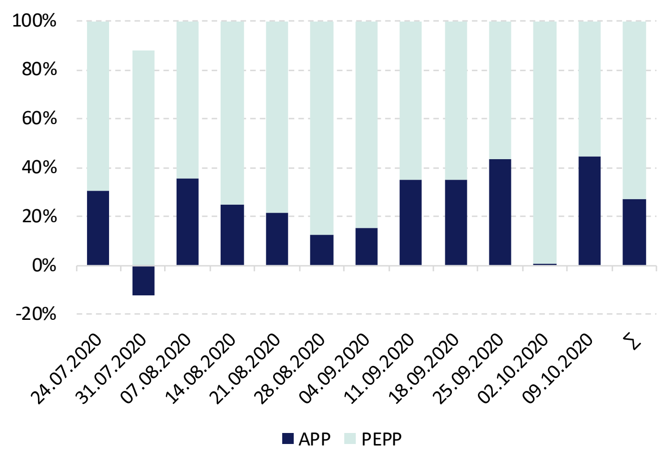


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
∑	1,180	24,096	15,408	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,333	892,895
PEPP	0	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	567,183
APP	1,180	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,025	325,712

Weekly purchases



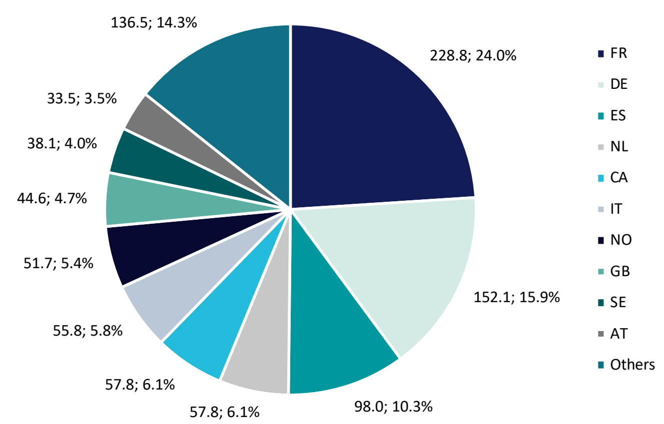
Distribution of weekly purchases



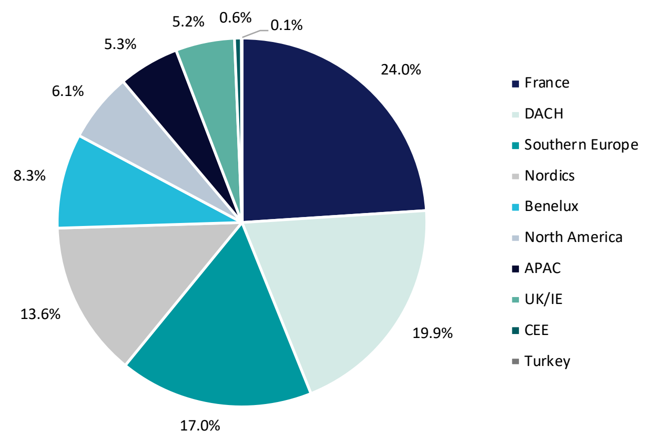
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



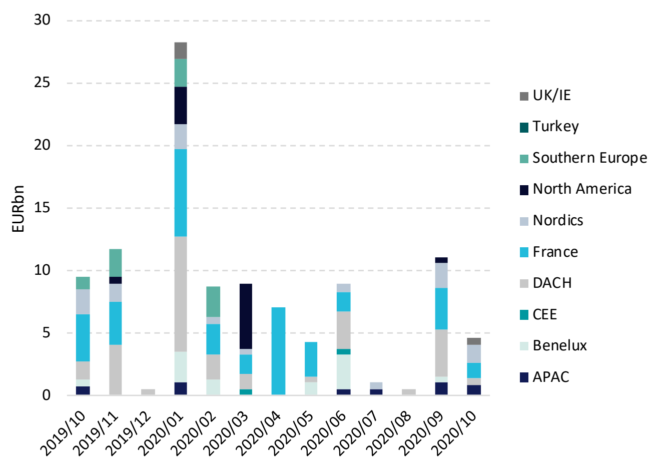
EUR benchmark volume by region (in EURbn)



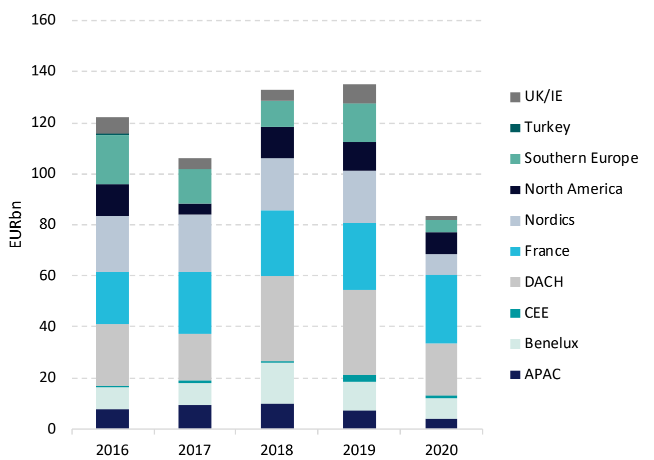
Top-10 jurisdictions

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	228.8	207	7	0.97	10.0	5.5	1.29
2	DE	152.1	226	12	0.61	8.1	4.6	0.52
3	ES	98.0	79	3	1.14	11.1	3.9	1.84
4	NL	57.8	56	0	0.98	10.8	7.0	1.02
5	CA	57.8	49	0	1.15	5.9	3.0	0.32
6	IT	55.8	64	0	0.84	8.8	4.2	1.58
7	NO	51.7	58	6	0.89	7.1	3.7	0.62
8	GB	44.6	47	0	0.96	8.3	3.1	1.29
9	SE	38.1	43	0	0.88	7.3	3.2	0.63
10	AT	33.5	60	0	0.56	9.2	5.6	0.85

EUR benchmark issue volume by month

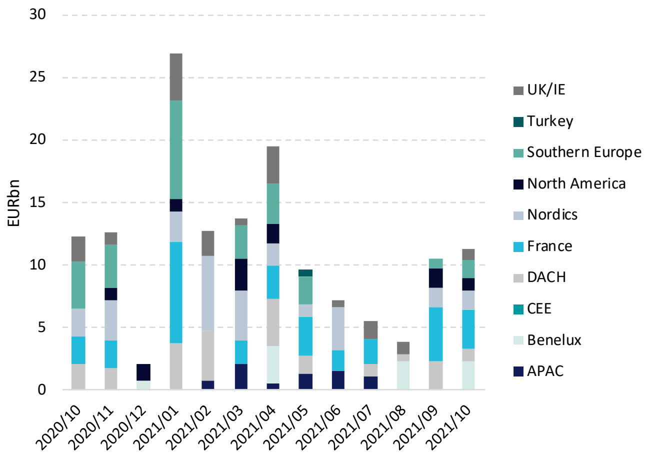


EUR benchmark issue volume by year

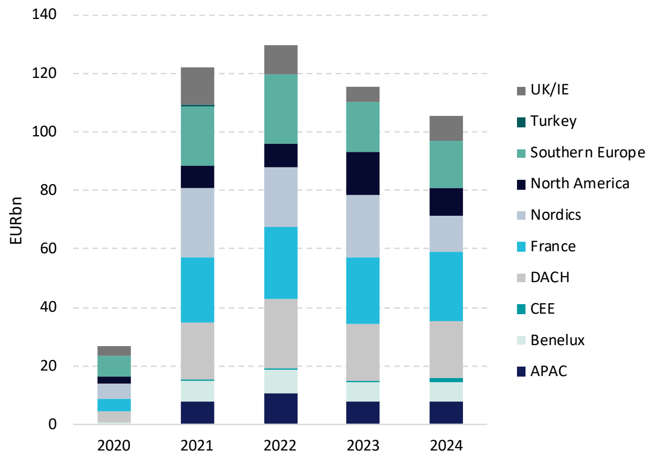


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

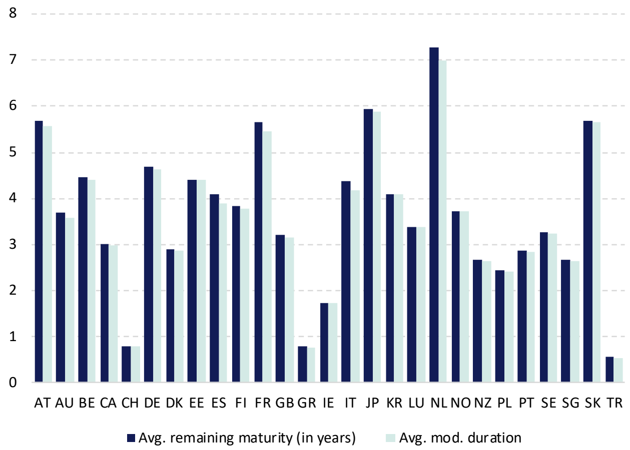
EUR benchmark maturities by month



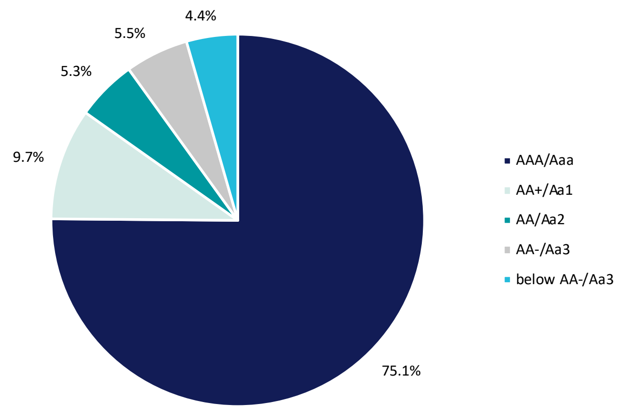
EUR benchmark maturities by year



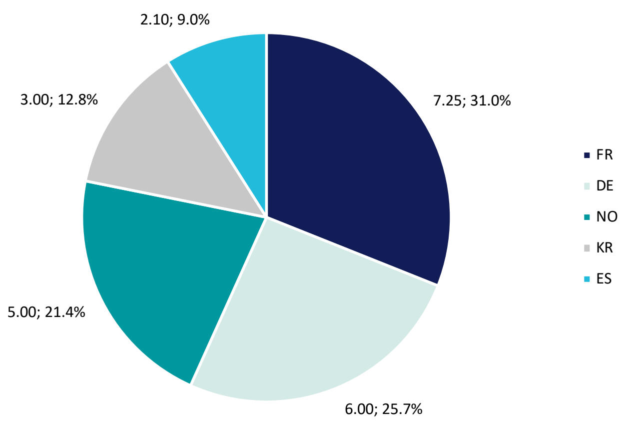
Modified duration and time to maturity by country



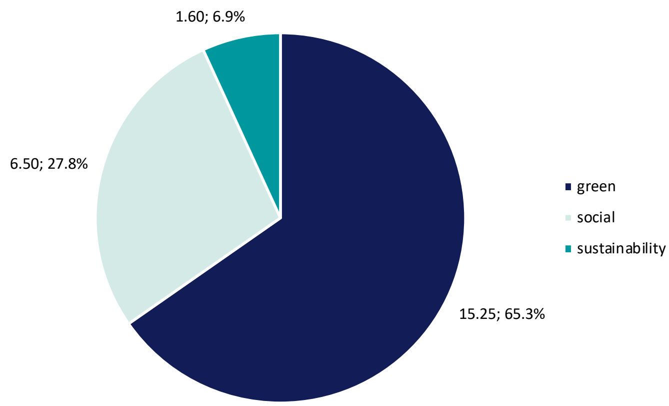
Rating distribution (volume weighted)



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

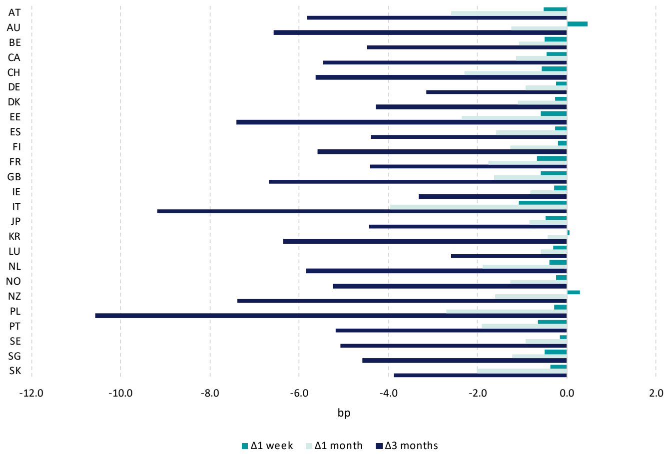


EUR benchmark volume (ESG) by type (in EURbn)

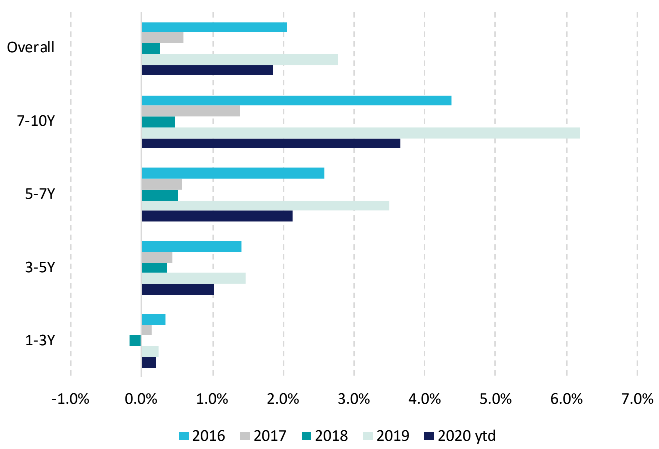


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

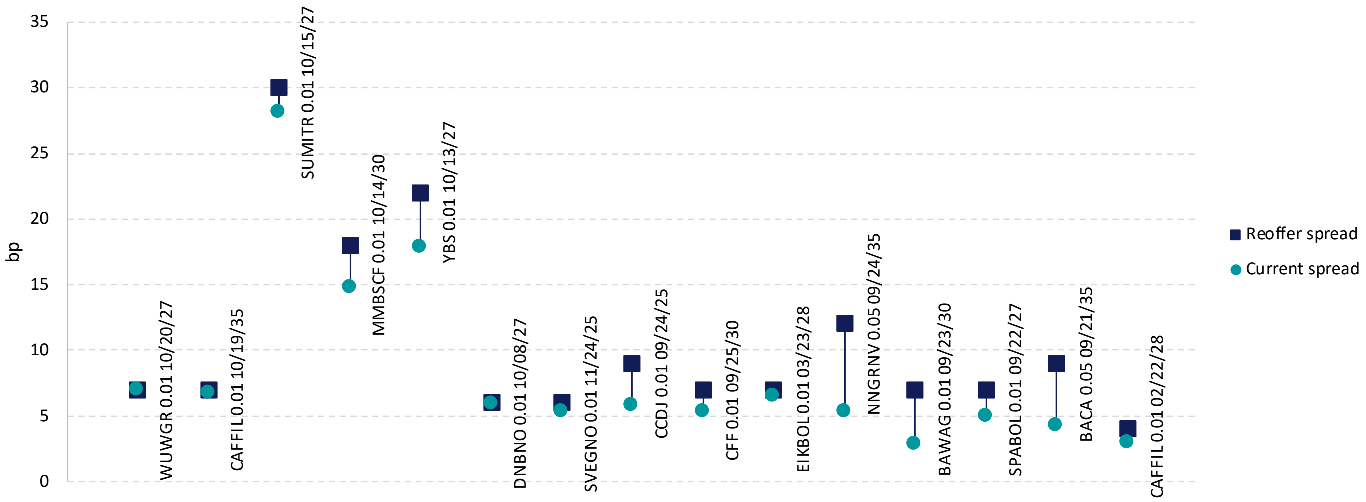
Spread development by country



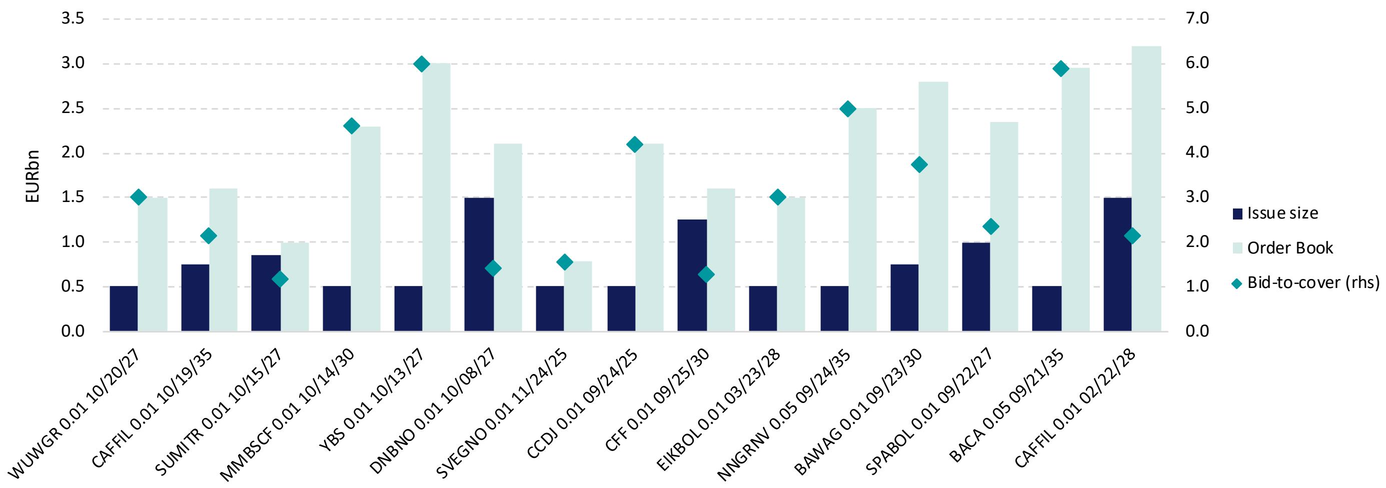
Covered bond performance (Total return)



Spread development (last 15 issues)



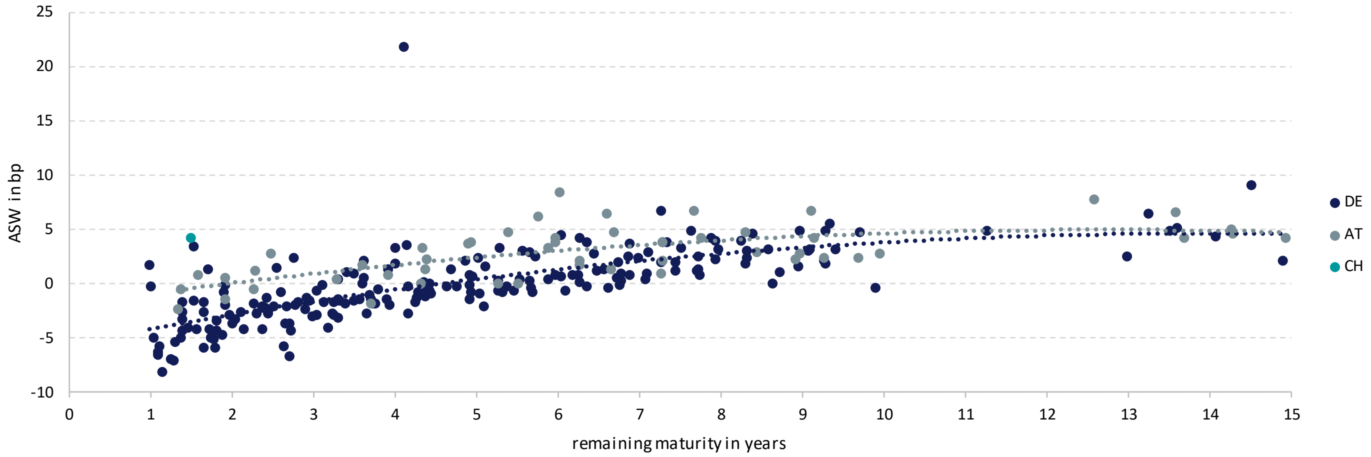
Order books (last 15 issues)



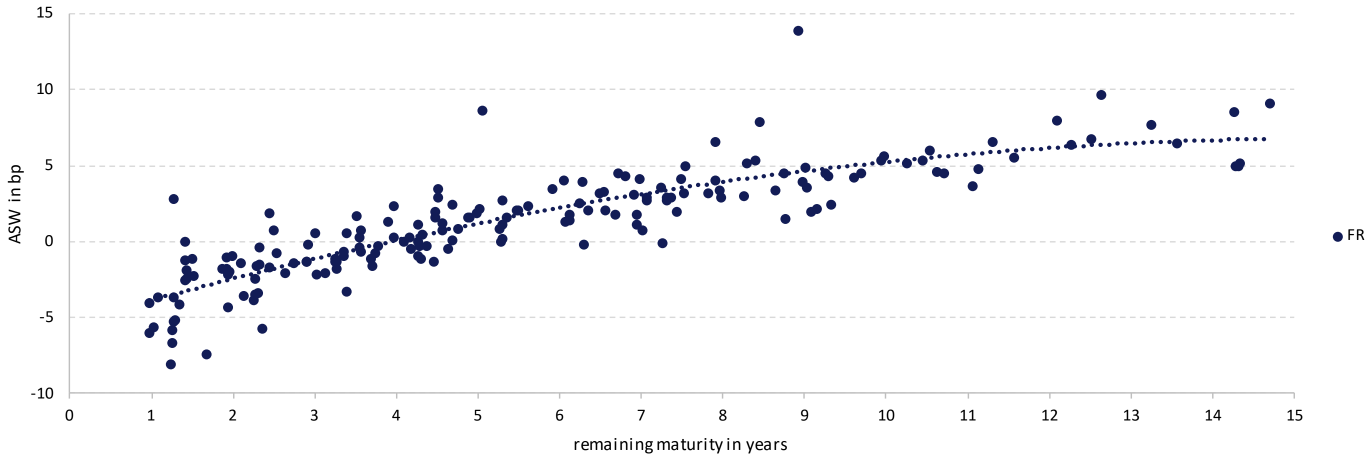
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

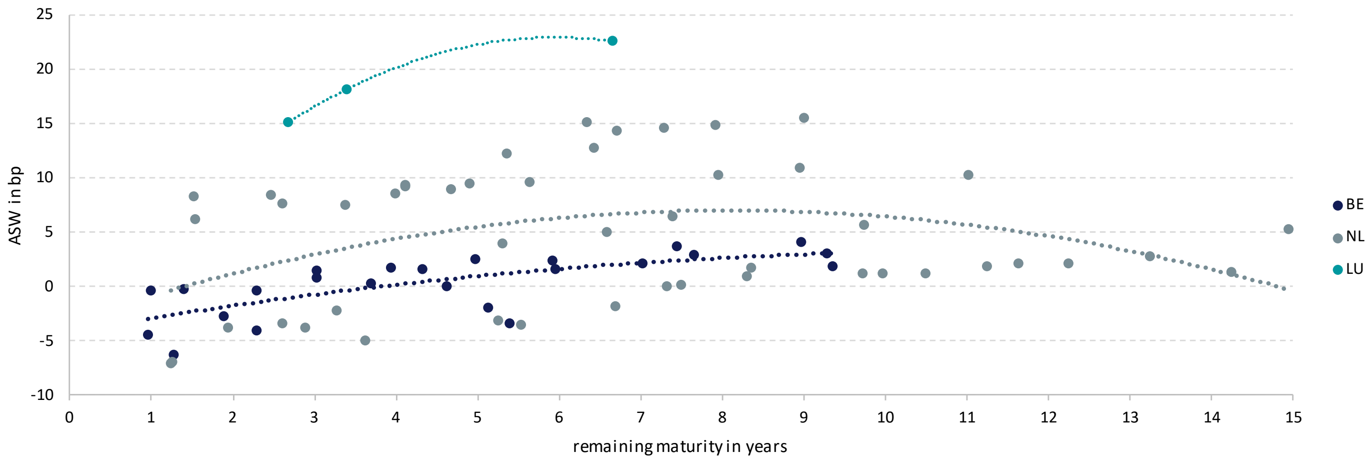
DACH



France

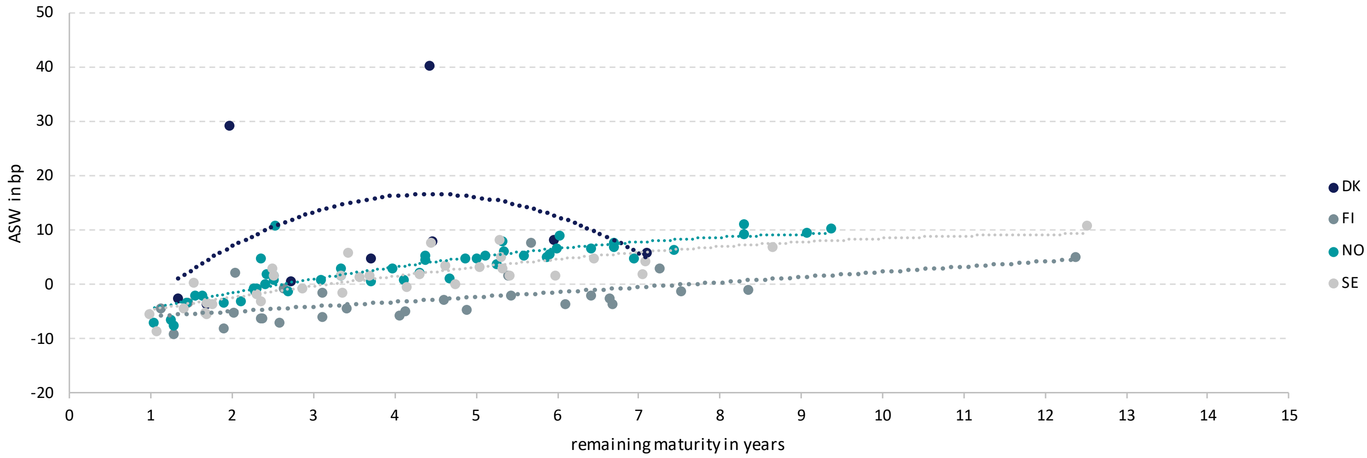


Benelux

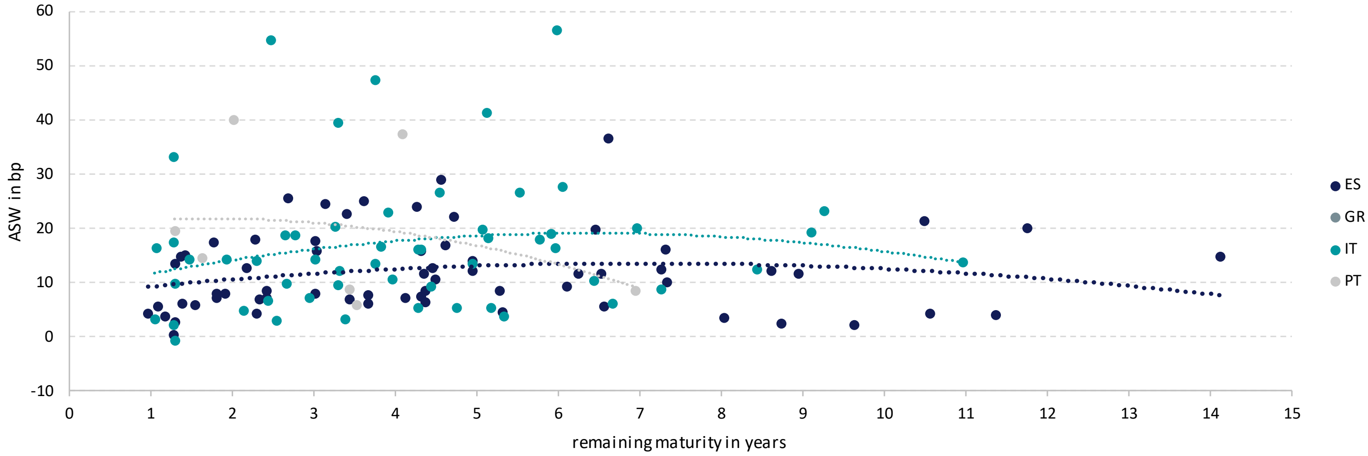


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

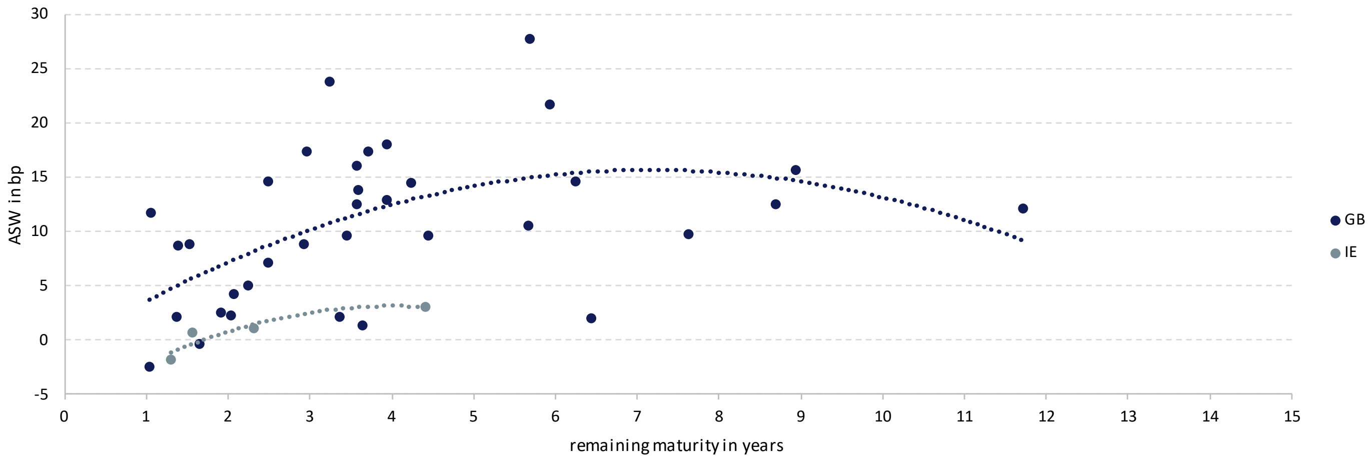
Nordics



Southern Europe

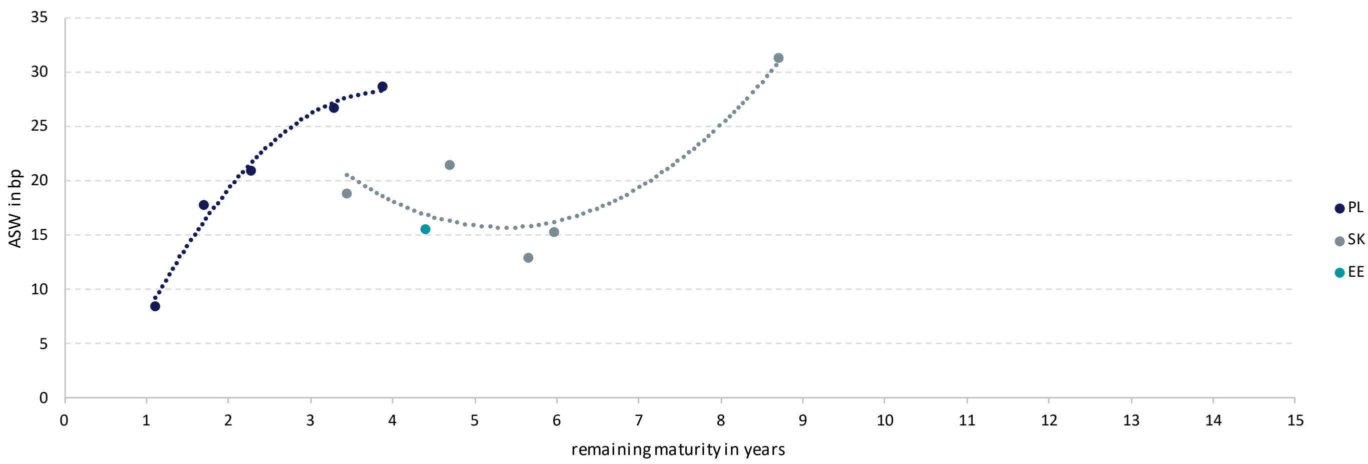


UK/IE

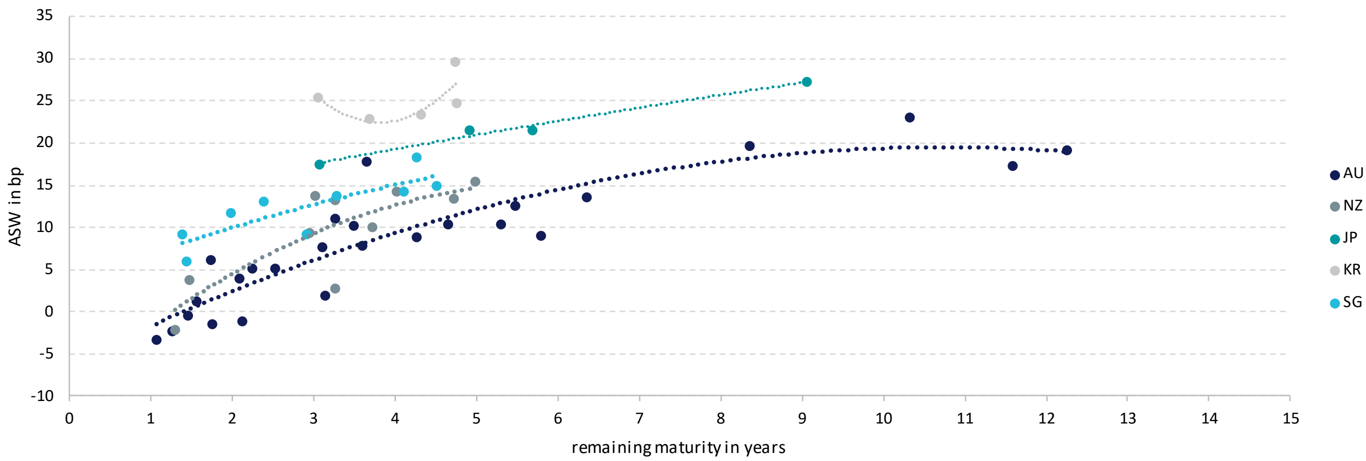


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

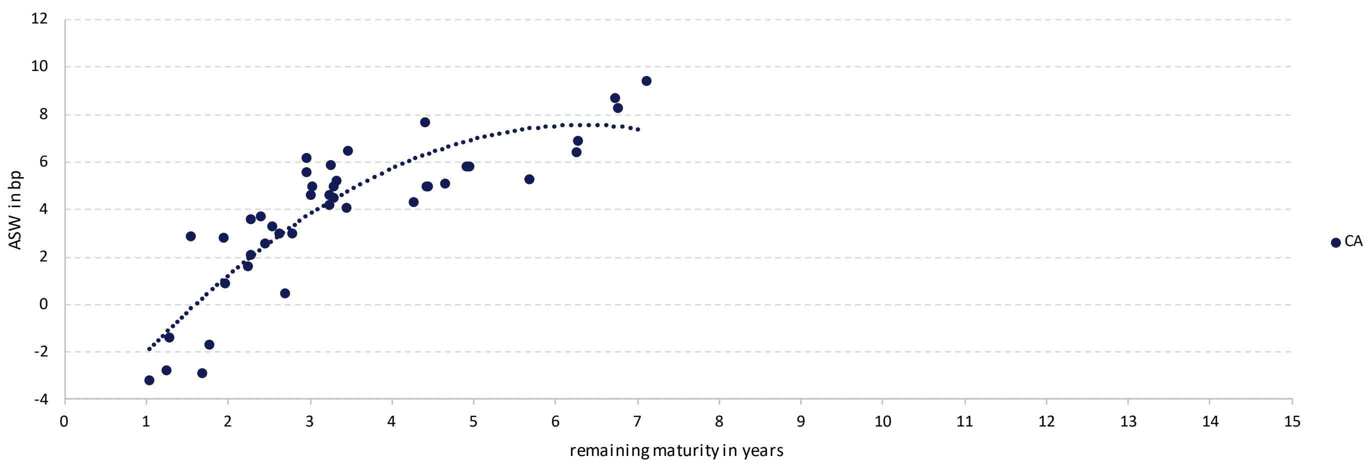
CEE



APAC



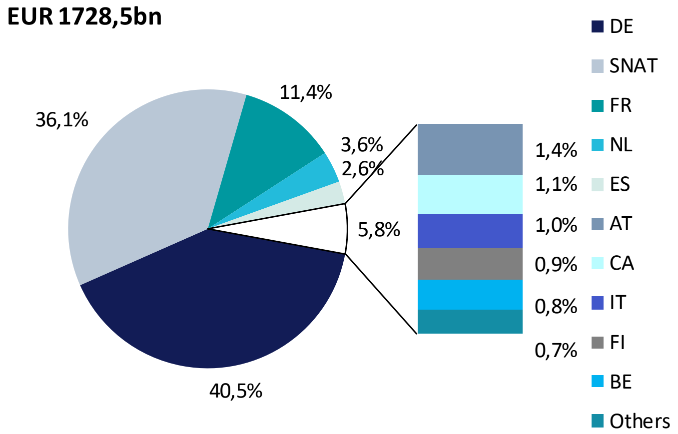
North America



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

Charts & Figures
SSA/Public Issuers

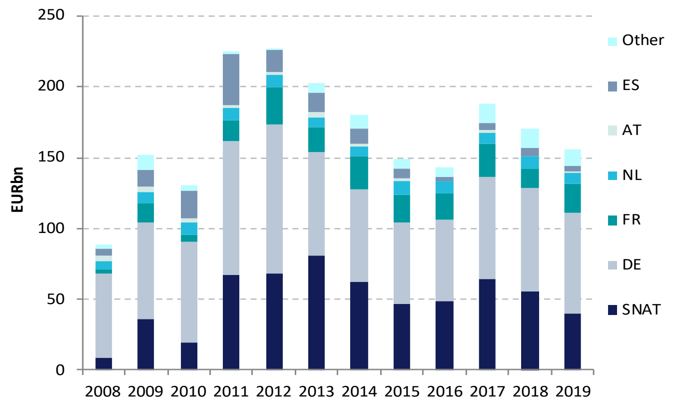
Outstanding volume (bmk)



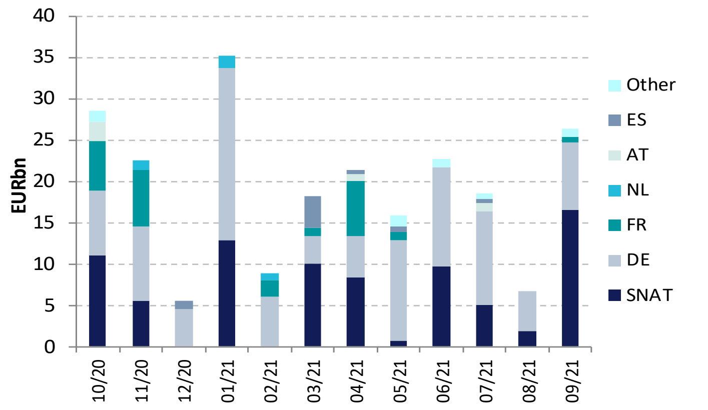
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	695,5	538	1,3	6,2
SNAT	624,3	168	3,7	6,7
FR	195,5	134	1,5	5,0
NL	63,0	66	1,0	6,3
ES	45,0	52	0,9	4,5
AT	24,3	25	1,0	4,9
CA	18,2	14	1,3	4,9
IT	16,5	21	0,8	5,9
FI	15,5	20	0,8	6,2
BE	14,4	17	0,8	13,9

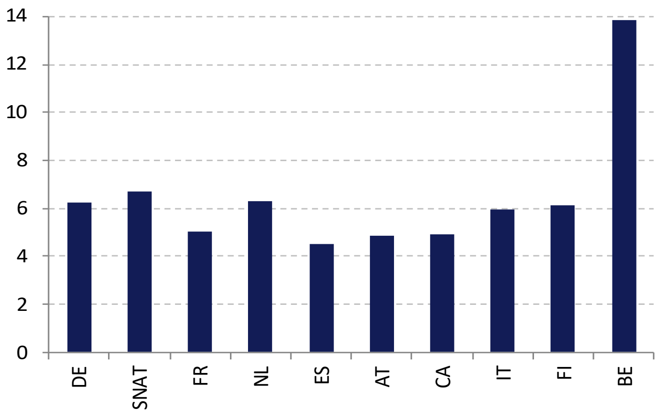
Issue volume by year (bmk)



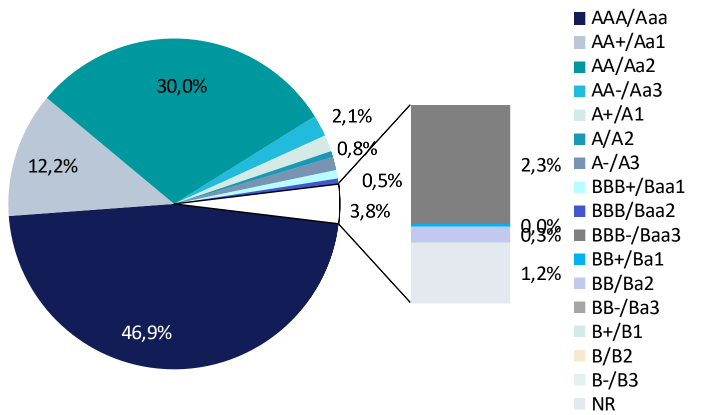
Maturities next 12 months (bmk)



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

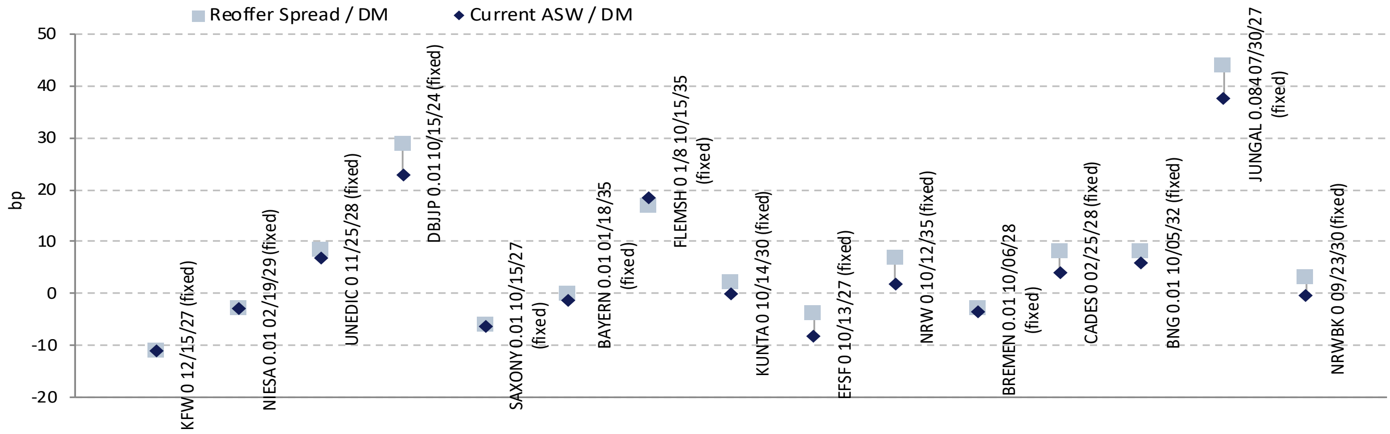


Rating distribution (vol. weighted)

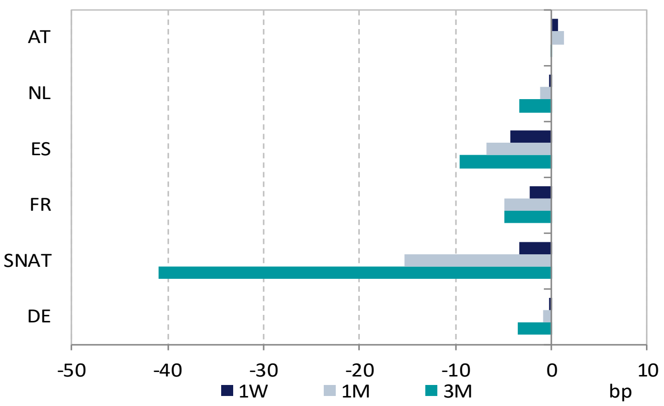


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

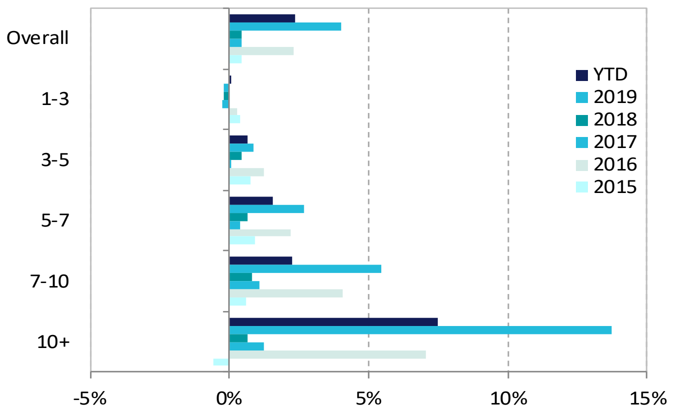
Spread development (last 15 issues)



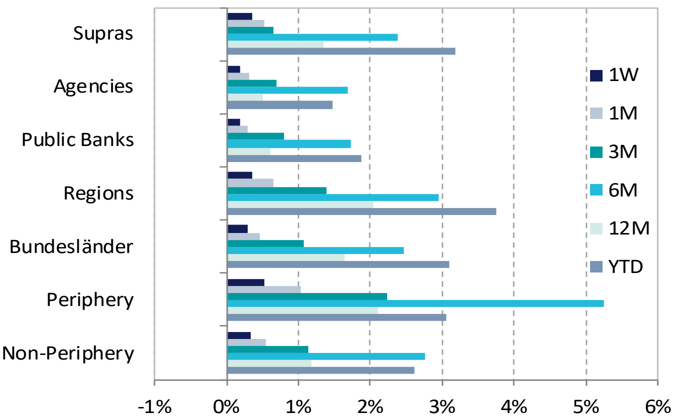
Spread development by country



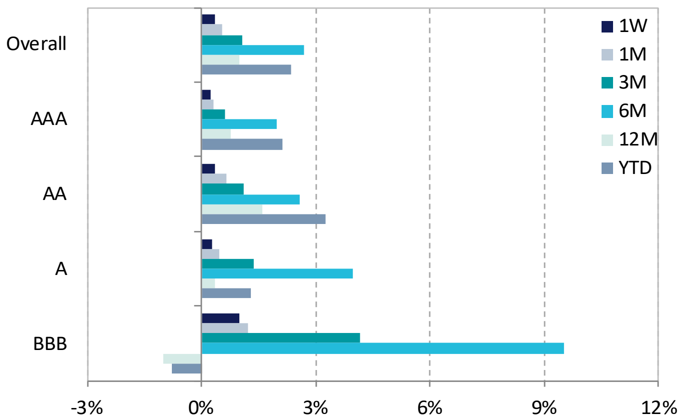
Performance (total return)



Performance (total return) by regions

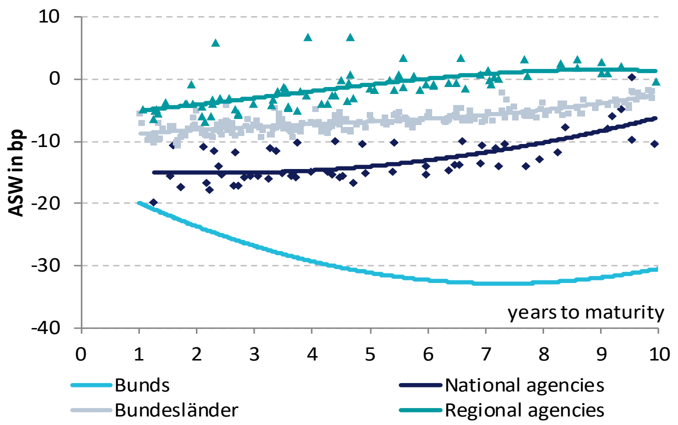


Performance (total return) by rating

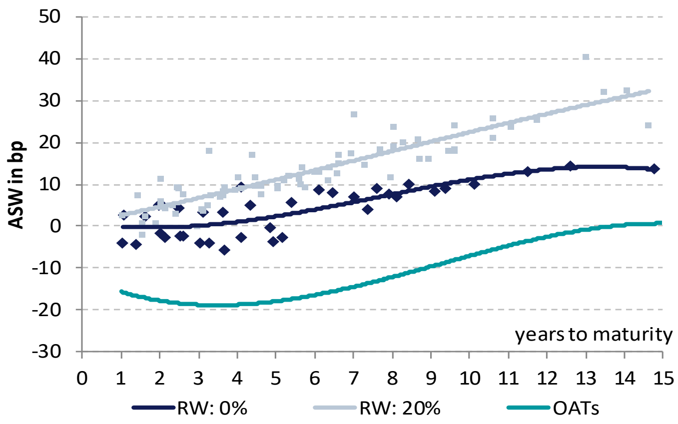


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

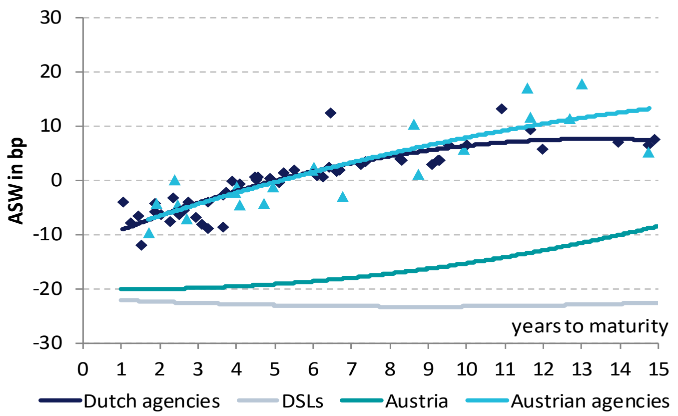
Germany (by segments)



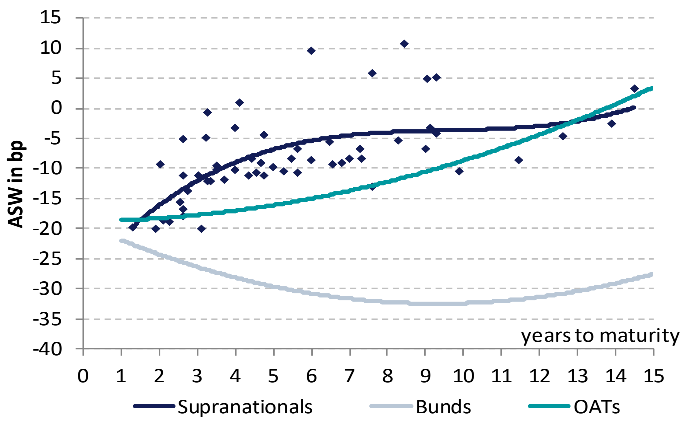
France (by risk weight)



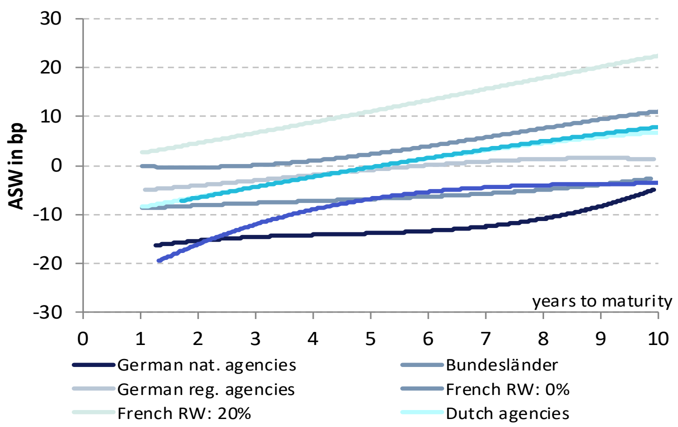
Netherlands & Austria



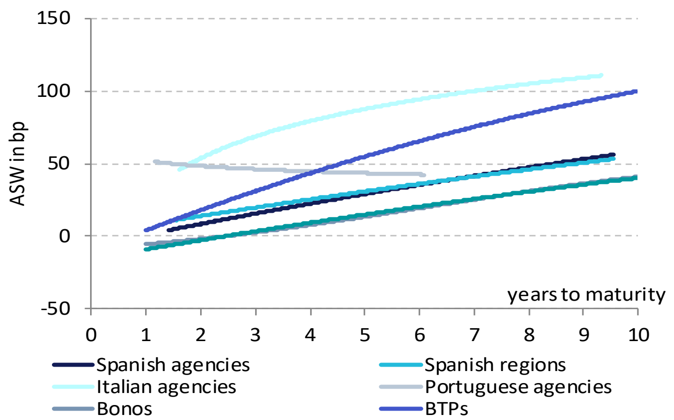
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
38/2020 ♦ 07 October	▪ New issuer from Japan – Sumitomo Mitsui Trust Bank places inaugural EUR benchmark bond ▪ PEPP – taking stock six months on
37/2020 ♦ 30 September	▪ Cover pool characteristics – international comparison
36/2020 ♦ 23 September	▪ Bausparkasse Schwäbisch Hall plans inaugural EUR benchmark ▪ Update: Auckland Council – Investment alternative in Down Under
35/2020 ♦ 16 September	▪ Moody's covered bond universe: an overview ▪ Update Down Under: Victoria (TCV)
34/2020 ♦ 26 August	▪ Covered bonds as central bank-eligible collateral – European Central Bank presents Q2 2020 figures ▪ Update: New South Wales (NSWTC)
33/2020 ♦ 19 August	▪ German Pfandbrief savings banks in Q2 2020 ▪ ECBC publishes annual statistics for 2019
32/2020 ♦ 12 August	▪ Transparency requirements §28 PfandBG in Q2 2020 ▪ Development of the German property market ▪ European Atomic Energy Community (Euratom)
31/2020 ♦ 05 August	▪ PEPP: Second round of reporting again provides valuable insights
30/2020 ♦ 29 July	▪ LCR levels and risk weights of EUR benchmarks ▪ Update: Funding of German Bundeslaender (ytd)
29/2020 ♦ 22 July	▪ iBoxx Covered indices: current status and criteria ▪ Update: Joint Laender jumbos (LANDER)
28/2020 ♦ 15 July	▪ Repayment structures on the covered bond market ▪ 21st meeting of the Stability Council
27/2020 ♦ 08 July	▪ Sparebanken Vest issues first EUR benchmark in ESG format ▪ Second issuer from South Korea: Kookmin Bank to shortly make its debut in the EUR benchmark segment ▪ KfW reduces 2020 funding target to EUR 65bn
26/2020 ♦ 01 July	▪ Half-year review and outlook for the second half of 2020 ▪ The German debt brake in 2020
25/2020 ♦ 24 June	▪ EUR benchmark covered bonds in ESG format – an overview ▪ BULABO falling due – R.I.P.
24/2020 ♦ 17 June	▪ TLTRO-III.4 vs. covered bonds: are bond repurchases worth it? ▪ TLTRO-III now of increased interest for promotional banks too?
23/2020 ♦ 10 June	▪ The adjustment follows the reporting: insights into the PEPP
22/2020 ♦ 03 June	▪ Moody's covered bond universe – an overview
21/2020 ♦ 27 May	▪ BPCE issues inaugural green covered bond ▪ France: retained issuances and benchmark deals ▪ The federal financial equalisation system (LFA)

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2020

Risk weights and LCR levels of covered bonds

Transparency requirements §28 PfandBG

Transparenzvorschrift §28 PfandBG Sparkassen (German only)

SSA/Public Issuers:

Issuer Guide – Supranationals & Agencies 2019

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – German Bundeslaender 2020

Issuer Guide – Down Under 2019

Fixed Income:

ESG update

Analysis of ESG reporting

ECB launches corona pandemic emergency

ECB responds to corona risks

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

Trading

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

Origination & Syndicate

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

Corporate Sales

Schiffe/Flugzeuge	+49 511 9818-9440
Immobilien/Strukturierte Finanzierung	+49 511 9818-8150
Firmenkunden 1	+49 511 9818-4006
Firmenkunden 2	+49 511 9818-4003

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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Additional information
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None

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Breakdown of recommendations (12 months)

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Neutral:	52%
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Issuer / security	Date	Recommendation	Bond type	Cause