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

Floor analysts:

Dr Frederik Kunze
Covered Bonds
frederik.kunze@nordlb.de

Dr Norman Rudschuck, CIIA
SSA/Public Issuers
norman.rudschuck@nordlb.de

Henning Walten, CIIA
Covered Bonds
henning.walten@nordlb.de

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Market overview
Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

Primary market: two new deals to kick off the week

After last week's edition contained a multitude of new issues at this point, the past five trading days have been much quieter. In fact, it was only at the beginning of the current week that two banks, namely DZ HYP and Société Générale SFH, appeared on the market offering EUR benchmarks. The former, which was last active on the market for EUR benchmarks at the end of October 2020, opted to place a mortgage Pfandbrief worth EUR 1.0bn with a term of long nine years. After the transaction went into the marketing phase at ms +4bp area, the bond was ultimately priced three basis points tighter at ms +1bp on the market. With an order book totalling EUR 2.0bn, the deal was twice oversubscribed, while the yield of -0.250% puts it in the bottom half of EUR benchmarks brought to market so far this year. Investors from the DACH region (47%) were strongly represented in this deal, along with the UK/Ireland and the Nordics, which each claimed a share of 17%. In terms of investor type, banks (49%) took the lion's share of the allocation. This was followed by Central Banks/OI (25%) and Asset Managers & Funds with a share of 24%. Also on Monday, after an absence of nearly one year (29 Jan 2020: EUR 1.0bn; 10y), Société Générale returned to its investors to offer a new EUR benchmark. The bank came right out of the starting blocks with a volume of EUR 750m, while guidance was stated at ms +6bp area. Based on a final order book of EUR 2.1bn, the pricing tightened by five basis points to also stand at ms +1bp. However, at -0.215%, the yield on the soft bullet bond was marginally higher than the DZ HYP deal, for which the term to maturity offered was approximately 12 months shorter. Here, too, buyers from the DACH region dominated proceedings, albeit to a lesser extent (36%). Other noteworthy allocations went to the domestic market of France (19%), with the UK/Ireland accounting for a share of 15% and Scandinavia taking 14%. At 44%, Banks were the most important buyers for this deal, with Asset Managers (29%) and Central Banks/OI (27%) snapping up the remainder of the SocGen benchmark. A total of 16 EUR benchmarks with an overall volume of EUR 12.75bn has therefore been placed on the market so far this year. By way of comparison: in January 2020, a total of 31 deals with an overall volume of EUR 28.25bn was issued, while in 2019 the equivalent figures were even as high as 44 deals worth EUR 37.25bn. We will subsequently examine to what extent this represents an unusual, albeit anticipated, start to the new year in a separate article. We will also take a brief look at the importance and role of ECB in this article. In the first two weeks of the new year, the ECB made net bond purchases totalling approximately EUR 1.0bn under the CBPP3, before reporting a decline in the CBPP3 volume of EUR 1.12bn as at the most recent reference date (22 January). We would put these developments down to the traditionally high levels of covered bond redemptions seen in January, the effect of which can probably also be seen in the CBPP3 portfolio, as well as low supply of eurozone deals (10 from 16; EUR 8.0bn from a total of EUR 12.75bn).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Société Générale SFH	FR	25.01.	FR0014001QL5	10.0y	0.75bn	ms +1bp	AAA / Aaa / -	-
DZ HYP	DE	25.01.	DE000A3H2TK9	9.2y	1.00bn	ms +1bp	- / - / AAA	-

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

ECB opts only to adjust wording

At the first Council meeting in the 2021 calendar year, the European Central Bank opted, as expected, not to set any new monetary policy impulses. In this context, interest rates, purchasing activities and the TLTRO III programme were all left untouched. The only development to really highlight is the fact that the official press release explicitly indicates for the first time that the PEPP volume does not necessarily need to be fully utilised. At the same time, the President of the ECB, Christine Lagarde, confirmed that the central bankers are certainly keeping the option of increasing the PEPP volume on the table in order to maintain "favourable financing conditions" and thereby mitigate the negative impacts of the pandemic. From our perspective, these options were already implicitly provided for in the tool kit at the disposal of the ECB, for which reason we do not identify any change of course from the ECB's supplementary comments. As we approach the end of the month, the ECB is likely to publish the latest data on the composition of the PEPP, which we will once again undertake to assess for you as part of our established PEPP reporting section (cf. Covered Bond & SSA from 09 December 2020, among others).

Belgium: Argenta Spaarbank NV announces covered bond debut

The issuer Argenta Spaarbank has been conducting a roadshow since Tuesday. Following the virtual investor briefings, the bank has set its sights on an inaugural covered bond in benchmark format (cf. current investor presentation). The mortgage-backed bond is likely to feature a term to maturity of 7-10 years and a soft bullet structure. In regulatory terms, the covered bonds, which have been awarded a preliminary AAA rating from S&P, stand to benefit from a 10% risk weighting and, in our view, a Level 1 classification as part of LCR management. As Belgian issuances, the bonds are also eligible for purchase under the PEPP and CBPP3 and are suitable as eligible assets that can be deposited with the ECB. We certainly welcome the Argenta Spaarbank debut. This is not least due to the fact that the last EUR benchmark from Belgium dates back to 27 May 2020. Over half a year ago now, KBC placed a covered bond worth EUR 1.0bn with a term to maturity of 5.5 years. The deal at this time generated a bid-to-cover ratio of 3.6x and an order book of EUR 3.6bn. In view of the acute lack of supply of EUR benchmarks, Argenta Spaarbank should certainly expect to meet lively investor interest – depending, of course, on the general market environment prevailing at the time of issuance.

Market overview
SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

Our house view on ECB – a retrospective analysis

As generally expected, the European Central Bank made no changes to its monetary policy last Thursday. Interest rates for its main refinancing operations (0.00%), deposit facility (-0.50%) and its marginal lending facility (0.25%) remained unchanged in any case. Elements of the package of measures adopted in December were also confirmed. Accordingly, the planned total amount of the pandemic emergency purchase programme (PEPP) remains at EUR 1,850bn and the programme is expected to run until at least the end of March 2022. The expectation that its expansionary monetary policy will also be maintained for a longer period was confirmed once more with the forward guidance. Christine Lagarde had pointed to the possibility that the volume does not necessarily have to be completely utilised. However, the Council's position is symmetrical to this since the ECB is equally ready to expand the PEPP once more if necessary. However, no amendments and resolutions are pending here for the next few months, with the programme offering the required degree of freedom for gradual enhancements (front loading etc.) anyway. The economic data reported since then indicate that the European economy was somewhat more resilient in the final quarter than had been feared when the last ECB forecasts had been presented. In particular, the relative strength in the industrial sector is likely to have been maintained until the end of the year and to have contributed to the fact that the negative effects of the lockdown measures were compensated for in part at least in the eurozone. Not least for this reason, economic output in Germany remained more or less at the level of the previous quarter. Nevertheless, a fall in economic output in the fourth quarter is as good as certain for the eurozone and our Chief Economist also expects growth in GDP to be very subdued in Q1 2021. The ECB is still supporting economic development with extraordinary crisis measures. In particular, in the event of the situation deteriorating once again, it is prepared to adjust all its instruments accordingly. At present, there are no signs that this will be required. Lagarde described the start of vaccinations as an important milestone but the all-clear cannot be given yet. At the current moment, specific discussions about exiting the crisis measures once the pandemic has been overcome would be entirely premature. In view of the very dynamic developments in the coronavirus crisis, the ECB is proceeding very cautiously; we do not expect any major adjustments in the coming months.

European Commission examined German coronavirus aid in (more) depth

The European Commission recently announced that it had approved the coronavirus aid given by the German government (EUR 12bn) to compensate companies for consequences resulting from the pandemic last year. The Commission monitors governments to ensure that companies are not helped unfairly to attain competitive advantages. The German arrangement is a "proportionate" response and is in line with the provisions governing EU aid. In the past, well-known European banks have also had contact with the European Commission in this context.

KfW: negative interest rates for local authorities possible

Research by the Börsen-Zeitung (BöZ) has revealed that from now on, KfW will grant loans to local authorities at negative rates. For the cheapest alternative (financing over ten years), the bank will charge a rate of -0.34%. It will therefore pay interest to the local authorities according to the overview of terms and conditions imposed by the bank, which is owned by the German government (Bund) and federal states (Laender). Loans at negative rates have only been offered recently and are envisaged for projects such as kindergartens and schools, broadband networks and transport infrastructure, hospitals as well as accommodation for refugees but not for short-term loans ('Kassenkredite') or debt restructuring. KfW has not issued its own press release regarding this. Interest rates are based on conditions on the capital market and vary from day to day. According to BöZ, negative interest rates were made possible by a technical change: the bank's systems could now calculate negative rates, which was previously not possible. According to BöZ, KfW had originally specified the final quarter of 2020 as the approximate period for the introduction of negative interest rates. The bank justified the postponement with the coronavirus crisis, in particular, and the associated financial aid.

KfW energy transition barometer

The goal of becoming carbon neutral requires a change of thinking in the transport sector too. Besides the electrification of transport, the avoidance and displacement of journeys can also contribute to achieving climate targets. This gives rise to necessity and complexity at the same time. A special analysis by the KfW energy transition barometer shows the conflicting priorities here: while a clear majority of German households (66.4%) express their general support for focusing more on traffic prevention, specific measures such as a congestion charge in cities or higher parking charges enjoy far less support. Only 22.9% (congestion charge) and 26.4% (parking charges) of German households would support the introduction of these two measures. However, it is clear from the results that consent for specific measures increases perceptibly in line with the perceived burden caused by traffic. Here, it becomes interesting and diverse at the same time: consent for a congestion charge is almost three times as high, at 42.4%, in households that feel severely affected by pollutants as in households that do not feel affected (14.9%). The fact that consent for measures in cities that are on average more severely affected by traffic is greater than in the country is also consistent with this pattern. In the case of households that are affected by harmful emissions and live in a large city, almost one in two households supports the introduction of a congestion charge (48.5%). Consent for higher parking charges and more areas with 30 kph speed limits is also well above average among affected households.

KfW IPEX-Bank: first financing for hydrogen infrastructure

According to the German government's national hydrogen strategy, the transport, distribution and storage of hydrogen is essentially incumbent upon the well-developed system of gas networks and gas storage facilities that are to be converted and expanded for this purpose. "For the long-term success of the energy transition, we need alternatives to fossil fuels – hydrogen will play a key role here," explains Markus Scheer, a member of the executive management of KfW IPEX-Bank. "The infrastructure needed is a key component here, which we are very happy to support with our first financing in this segment." In our opinion, however, the loan of EUR 40m should represent only the start of things to come. We will continue to focus on these forward-looking ESG topics and plan an update of our ESG study in the first quarter of 2021.

EUROFIMA: sustainable and responsible asset owner

EUROFIMA is an issuer that we very rarely see on the market and, accordingly, rarely mention here. However, its primary market transactions increased in 2020 and also became greener. Its latest press report was in keeping with this: since the official signing of the Principles for Responsible Investment supported by the United Nations in January 2020, EUROFIMA has, according to the press release, made a considerable effort to promote its presence as a sustainable and responsible asset owner. Its investment decision process is based on two key pillars: firstly, all investments must satisfy the principles of the United Nations Global Compact (UNGC). Secondly, the ESG risks for all investments are assessed on the basis of external data. EUROFIMA confirms that all investments satisfy the UNGC and no exposure is classified as serious in terms of the ESG risk. The weighted average ESG risk of all investments is also confirmed to be low. The initiative to include ESG aspects is an important component of EUROFIMA's commitment to sustainability. The concept of sustainability is the core of its organisation through its charitable mission to support the development of public rail passenger services in Europe, its financing model as a frequent issuer of green bonds on capital markets and finally as a sustainable and responsible asset owner. A "brown" bond (EUR 1bn) will mature in October. We therefore expect to mention the name more frequently in 2021. As a reminder: EUROFIMA is one of the smaller players on the European supranational market (EUR 11.5bn outstanding). In particular, we rate the very high level of collateralisation in the loan portfolio (indirectly through the bodies [national governments] responsible for the rail operators) as one of its strengths. In conjunction with its existing status as a preferential creditor, the risk is significantly minimised. We also rate positively the fact that capitalisation has improved significantly in recent years. The effects of the change in the statutes on newly issued bonds must be monitored in this connection. The leverage ratio is still slightly higher, which we regard as a weakness. The ratio of equity to total assets is rather low compared with other supranational issuers. We rate its continuing substantial exposure to the periphery as a weak point as there are certain concentration risks here. At the end of 2018, 33% of the loan volume was attributable to rail companies in the periphery states. However, this is largely compensated for in our opinion by the existing preferential creditor status and the loan collateralisation. We also view the fact that EUROFIMA securities cannot be recognised with a risk weighting of 0% according to the standard approach under CRR/Basel III as a downside, which also results in a lack of eligibility as liquid assets under the LCR and consequently limits the potential group of investors. Overall, however, we rate EUROFIMA as highly creditworthy.

CADES presents its funding plan

The French agency CADES expects to issue medium to long-term bonds worth EUR 35-40bn this year. This is far more than we expected and compares with EUR 23bn in the previous year. The figures were specified in greater detail in the annual Newsletter sent out yesterday: EUR benchmarks will be issued in the amount of EUR 15-20bn, EUR taps/linked bonds: EUR 3-8bn, USD benchmarks as EUR equivalents: EUR 14-18bn, other currency benchmarks in EUR equivalents: EUR 2-4bn, as well as other bonds or private placements: EUR 1-2bn.

Société du Grand Paris (SOGRPR)

The Supervisory Board of Société du Grand Paris (SGP) has authorised the issuer to place green bonds in the amount of EUR 10bn in 2021. Previously, this relatively new issuer had already placed eight green issues totalling EUR 15.5bn. The issuer will therefore continue to pursue these fundraising activities in an economic context that has been disturbed by the health crisis. Having started a “Green EMTN” programme in July 2018, the Supervisory Board agreed to increase the ceiling for the company’s borrowing to EUR 20bn. A new resolution by the Supervisory Board will increase this programme to EUR 30bn. Thierry Dallard commented: “We shall continue to implement this policy, which aims to exploit the exceptionally low interest rates. Financing conditions were outstanding at the end of 2020 and liquidity on the markets was greater than had been anticipated back in April. A proposal was therefore put to the Supervisory Board to continue on this path. Thanks to this resolution at the end of April, SGP can maintain an annual investment level of EUR 4-5bn up to 2023.”

Primary market

For once, rumours in the market were correct: the EU was said to be issuing EUR 10bn in a seven-year bond and EUR 4bn in a 30-year tranche, which was precisely what happened although the EU spokeswoman did not want to comment on this beforehand. We therefore start today’s section with the week’s heavyweight: the shorter of the two bonds came to ms -16bp with demand of EUR 83bn. The longer was a tap of the recent 2050 bond at ms +5bp (order book: EUR 49bn). Both bonds are part of the SURE programme and therefore fall into the “social” category under the ESG umbrella. To take account of this expanding field, we added an ESG column to the table below. However, the details or whether it is green, social or sustainable will only emerge when they are looked at in more detail. Having issued EUR 39.5bn in 2020 (of EUR 100bn), the EU now stands at EUR 53.5bn and is therefore more than halfway there with its SURE programme, which we expect the EU to conclude by Easter, since the funds are urgently needed in the member states. There were other deals from Brandenburg, Luxembourg and Düsseldorf during the week. BRABUR chose a 25-year maturity, which came in at ms +7bp. The EIB chose a floater (7y) and had to pay €STR +1bp. At around EUR 1bn, the books were sufficiently full. The State of NRW even went to 30 years and printed EUR 1.5bn at ms +15bp. The books reached almost EUR 3bn. This deal is not to be confused with that of NRWBK: the green bond came in at ms -1bp. This was also reflected in the guidance, while the books increased to EUR 620m. Mandates have also been issued for two further deals (CADES [social bond, 10y] and CAF [benchmark, 5-7y]) as well as the IPT for the Japanese JFM (green, ms +26bp area). We expect pricing to be concluded very promptly. All these deals are included in the figures for what has been a very busy January. The public sector accounts for a large share of the new issues, which may well even set a new record.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
EU	SNAT	26.01.	EU000A287074	7.3y	10.00bn	ms -16bp	AAA / Aaa / AA	X
NRWBK	DE	25.01.	DE000NWB0AL1	10.0y	0.50bn	ms -1bp	AAA / Aa1 / AA	X
NRW	DE	21.01.	DE000NRW0MQ7	30.0y	1.50bn	ms +15bp	AAA / Aa1 / AA	-
EIB	SNAT	20.01.	XS2292260960	7.0y	1.00bn	€STR +1bp	AAA / Aaa / AAA	-
BRABUR	DE	20.01.	DE000A289NP0	25.0y	0.50bn	ms +7bp	- / Aaa / -	-

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

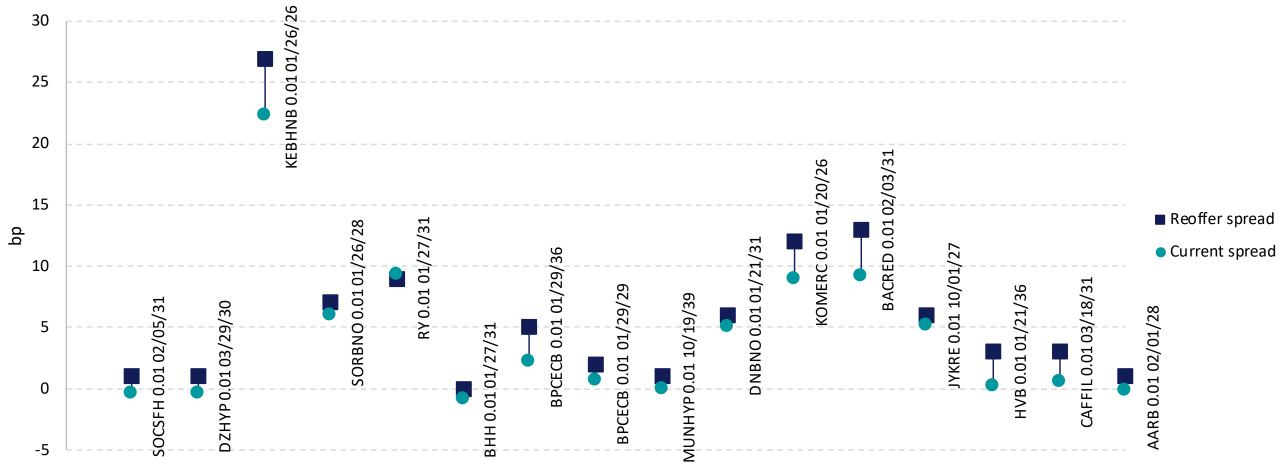
Covered Bonds
An unusual – albeit expected – start to the year?

Author: Dr Frederik Kunze

Primary market: late and relatively weak start to 2021

Even at the turn of the year, there could hardly have been any doubt that 2021, like 2020, would be unusual − and this also applies to the covered bond market. And indeed, the primary market was slow to get out of the starting blocks and has generally presented a rather muted picture in the first few weeks of the new year as regards new issuance activity. As expected, the new year is starting off slowly with an issuance volume of EUR 12.75bn split between 16 transactions. By this point in 2020, 26 bonds amounting to a total of EUR 27.75bn had already been issued (as per 31 January 2020: 31 bonds amounting to EUR 28.25bn). We propose to take this unusual, although not unexpected, start to the year as an opportunity to take a closer look at current market conditions and also formulate an assessment for the coming weeks.

2021: spread trend

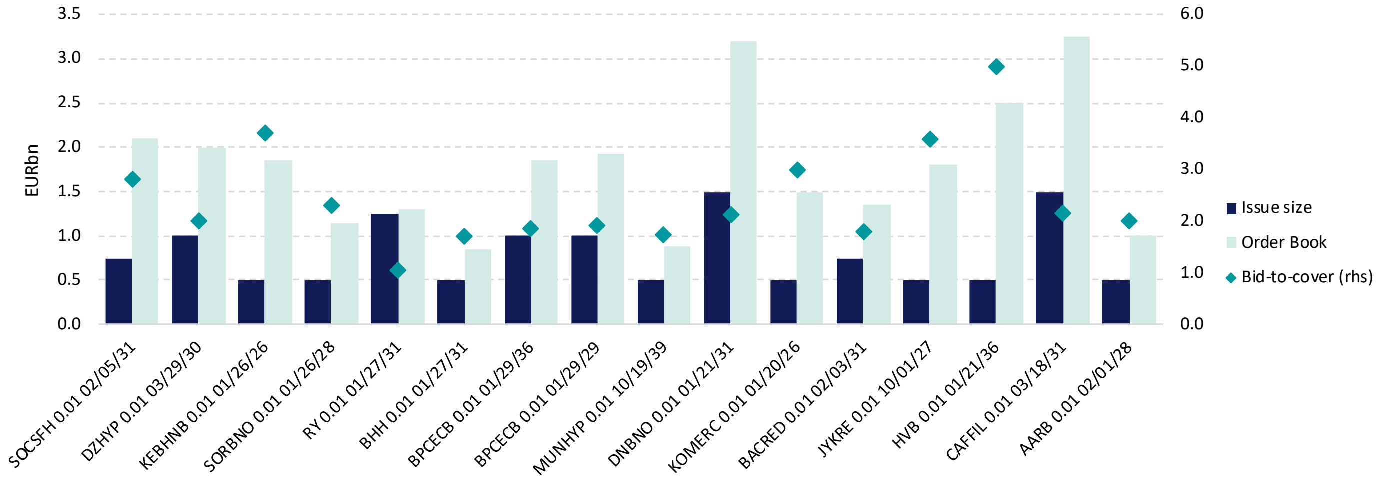


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Substantial order books and stable secondary market performance

Even though two first-time issuers − Hana Bank and Komercni Banka − stood out from the crowd, as did Jyske Realkredit, market activity has been dominated by core EMU jurisdictions. Argenta Spaarbank from the core countries (cf. Market Overview) has also made its debut on the market. The fact that Spanish issuers in particular have held back is a phenomenon that, in our view, is likely to continue for the rest of the year. As was the case during similar market phases in the past, a lower supply in the primary market is leading to a dwindling of new issues and to inflated order books. In addition, there is still evidence of a subtle tightening of spreads for new bonds in the secondary market almost across the board. It is therefore also clear, both in terms of placement and in relation to secondary-market performance, that the high SSA supply in the primary market has not led to the necessary spread concessions on the covered bond front.

2021: order books

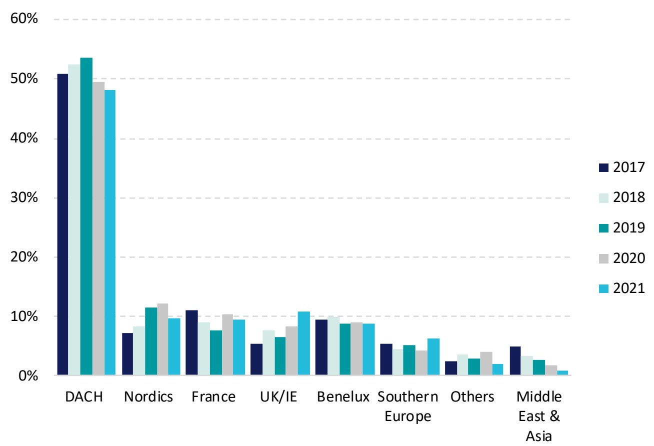


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

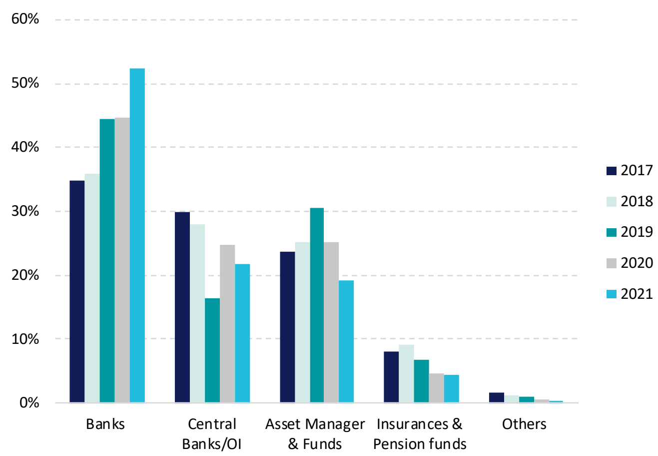
High allocation for banks, but…

The allocation of these new issues shows the usual regional breakdown at the beginning of 2021 with the DACH region accounting for a large share. Moreover, there do not seem to be any major shifts in relation to the other regions either. The same cannot be said for investor groups based on deal sheets available so far. Banks account for an especially high share of over 50%. However, this figure should be put into perspective, bearing in mind the fact that now, even more so than in the past, initial allocations are unlikely to correspond to where the issues actually end up. We believe it is highly likely that more than just a fraction of this allocation will be passed on to the Eurosystem in the secondary market. On balance, there is a clear crowding-out of real money investors either way – a fact related not least to prevailing yield levels.

Primary market: regional breakdown (EUR BMK)



Primary market: investor breakdown (EUR BMK)



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

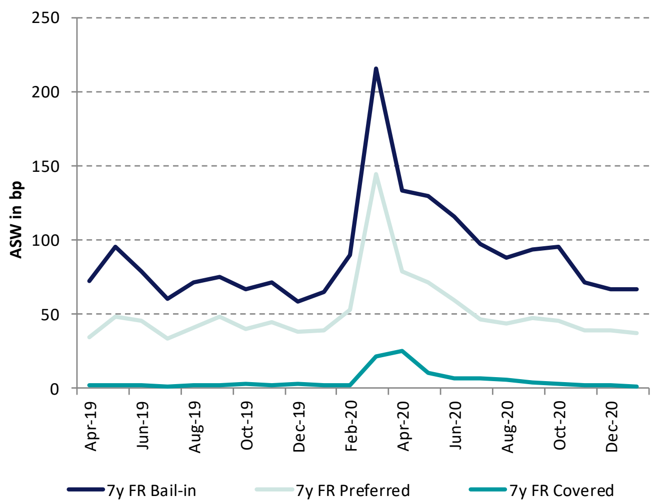
Ongoing impact of monetary policy on covered bond market events

In our preview of the next few weeks and months, we will have to take another look at the ECB and therefore at both the Eurosystem's purchasing activities and key indicators for liquidity supply (especially TLTRO III) along with measures put in place to mitigate the impact of negative interest rates (under the heading of tiering). In reality, we do not expect any dramatic adjustment in these key indicators, especially in the first half; it is more likely in our view that the ECB will continue on its present course – as it did at its previous meeting. This is likely to be illustrated by an ongoing presence in the primary and secondary market, but also by persistent pressure on the supply side.

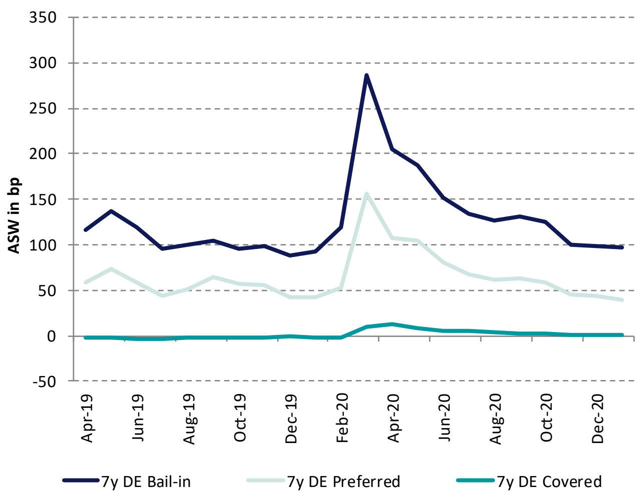
Are investors seeking alternatives?

Even though senior bonds are not among the assets that are directly eligible for purchase under the ECB programmes, the effects of the ECB's monetary policy of massive asset purchases are nevertheless still visible in this segment – albeit these are more through second-round effects. Given the yield conditions in the covered bond segment, for example, some investors are more likely to turn to senior bonds. In addition, ample liquidity provision – not least through the CSPP – is contributing to lower risk premiums, even in the case of unsecured covered bonds. On the issuer front, those institutions with a broader funding base are more likely to turn to riskier asset categories in the current yield environment. The spread between covered bonds and senior bonds (preferred and bail-in) is at a low level in many jurisdictions, as illustrated by the graphs below, which show the generic spread development for bonds in the 7-year maturity bucket for France and Germany respectively. However, even in the case of senior bonds, there is evidence of slightly more muted momentum at the beginning of the year in relation to the primary market. As per 25 January 2021, senior preferred issues from four jurisdictions amounting to a total of EUR 5bn had been placed in the EUR benchmark segment, whereas bail-inable material from the senior non-preferred segment amounted to EUR 11.75bn from seven jurisdictions.

France: covered vs. senior bonds (7y generic spreads)



Germany: covered vs. senior bonds (7y generic spreads)



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

Conclusion

As expected, there is clear evidence that supply in the covered bond market remains tight at the beginning of 2021. In light of this, we regard the debut issues from South Korea and the Czech Republic as a hopeful sign along with expectations of strong market growth in the APAC and CEE regions as well as the Baltic States. Fundamentally, however, supply is likely to remain muted, especially in the eurozone. This would generally support the view of further very tight spreads over the rest of 2021, as we already outlined in our Outlook. In this context, the Eurosystem is set to remain the most important buyer in the market, which is also why primary market allocations should be put into context. It should hardly come as a surprise, then, that a withdrawal by the ECB from the market remains an extremely unlikely scenario. Even in the event of economic stabilisation and further progress with vaccination programmes, we assume that we would still be looking at quarters rather than weeks or even months when it comes to any normalisation of the situation. The ECB is currently still in crisis management mode, both as a monetary-policy body and as a regulator – with inevitable consequences for the covered bond market.

Covered Bonds
A look at USD benchmarks

Author: Dr Frederik Kunze

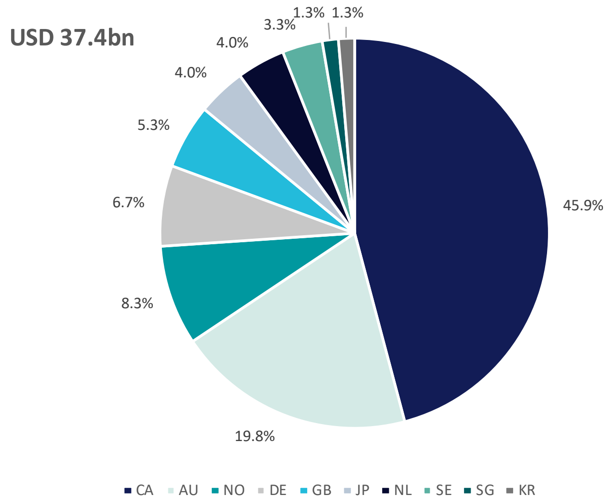
Covered bonds – USD benchmark sub-segment

Deutsche Pfandbriefbank kicked off activity in the market for USD benchmarks on 13 January with a three-year Pfandbrief worth USD 750m, placing the bond at ms +23bp (current ASW spread: +18bp). In fact, the last USD covered bond in benchmark format dates back to September 2020 when Fédération des caisses Desjardins du Québec (FCDQ) also placed a USD 750m bond with the same maturity (ms +25bp; current ASW spread: +11bp). As we start the new year 2021, we propose to analyse current conditions for the USD sub-segment and to look in greater detail at the specific characteristics of this market as part of the process.

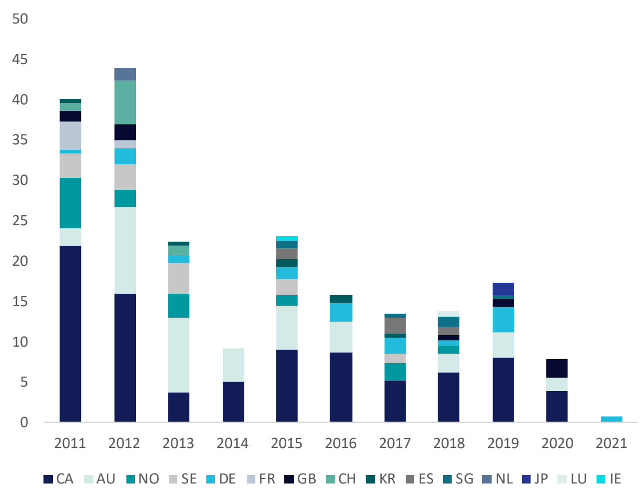
iBoxx USD Covered: volume outstanding of USD 37.4bn

Once again, we have used the composition of the iBoxx USD Covered as the relevant bond universe in our analysis. All in all, we conclude from our analysis that the USD segment also shows a certain restraint with regard to the issuance of secured covered bond benchmarks – at least looking back at 2020. At present, the iBoxx USD Covered has an outstanding volume of USD 37.4bn. The figure was still USD 41.8bn in November 2020 and USD 47.1bn in mid-2020. The 13 issues from Canada (USD 17.2bn) account for the bulk of the USD volume outstanding, followed by Australia (USD 7.4bn; five issues) and Norway (USD 3.1bn; three issues). In our view, the shrinking process in the USD benchmark segment largely reflects issuance activity on the part of Canadian issuers.

Composition of the iBoxx USD Covered



Issuance of USD benchmarks



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

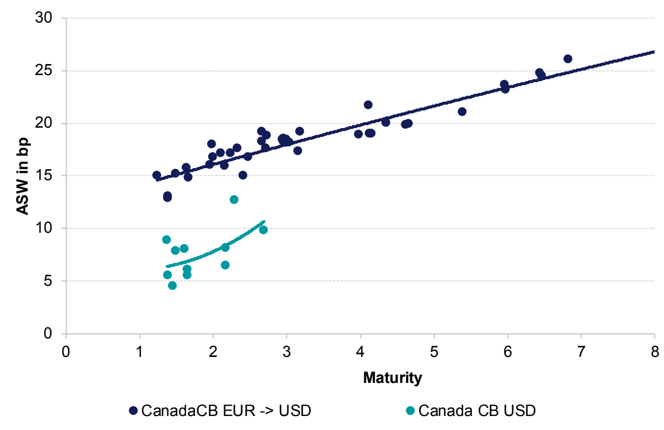
Issuance year 2020 also muted by historical standards

It is fair to say that activity in the primary market in 2020 was also relatively muted in relation to the last ten issuance years. As outlined earlier, this lacklustre momentum reflects mainly new placements by Canadian institutions. Although the bulk of new issues amounting to USD 3.9bn in 2020 came from that country, at the same time it was the lowest figure since 2013 (USD 3.9bn). Canadian issuers were considerably more active in the USD benchmark segment in 2019 (USD 8.0bn) and 2018 (USD 6.2bn). Canada is the jurisdiction with the largest issuance volume in terms of long-term market classification. US dollar-denominated covered bond benchmarks amounting to USD 87.8bn were placed in the period from 2011 to 2020. Australia is in second place (USD 43.2bn), followed by Norway (USD 15.85bn), Germany (USD 13.73bn) and Sweden (USD 13bn).

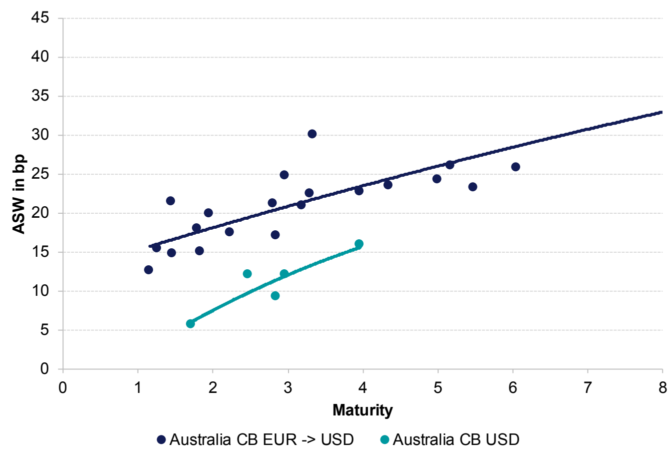
Factors influencing issuance behaviour

The motivation of an issuer in the USD benchmark segment to approach its investors is based – at least theoretically – on a number of reasons. First and foremost, in our view, is a primary funding requirement in USD, a fact which is likely to apply especially to Canadian issuers. In our view, moreover, the USD segment has also demonstrated that it can offer an additional funding option in the context of pandemic-led market turbulence. On the other hand, the regulatory and monetary policy response to the pandemic (above all that of the Bank of Canada) has repressed potential supply. After all, for the first time, Canadian issuers were able temporarily to use retained covered bonds as collateral with their own central bank. Looking at the pricing advantage of USD issues, it is clear that, based on current price parameters (and in this respect especially those relating to maturity-dependent EUR/USD cross-currency basis swap spreads) USD issues are well below their synthetic EUR benchmark in USD equivalent in terms of ASW spread (see for example the graphs below for Canada and Australia). Nevertheless, in this respect, it is important to bear in mind that the USD market is characterised by short maturities, as a result of which there are no outstanding bonds in Canada with a term to maturity of more than three years and the maturity spectrum of USD issues in Australia is limited to a maximum of four years.

Cross-currency spreads: Canada



Cross-currency spreads: Australia



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

Bond issues in detail

The USD benchmarks placed reflect a focus on three-year maturities, although there are a few exceptions with longer initial residual maturities (e.g. the covered bond from Westpac at the beginning of 2020: USD 1.75bn; 5.0y). Of the seven deals in 2020, four came from Canada (USD 3.9bn in total), two from the UK (USD 2.25bn) and one from Australia (USD 1.75bn). In contrast, the market in 2019 was definitely much more differentiated with 17 bonds split between six jurisdictions, namely Canada (USD 8bn; 6 bonds), Australia (USD 3.25bn, 2 bonds), Germany (USD 3.05bn; 5 bonds), Japan (USD 1.5bn, 2 bonds), the UK (USD 1bn; 1 bond) and Singapore (USD 500m; 1 bond).

USD benchmarks: Issues 2021 (ytd), 2020 and 2019

Issuer	Country	Timing	ISIN	Maturity	Volume USD bn	Current Spread	Change vs. Reoffer-Spread
Deutsche Pfandbriefbank	DE	13.01.21	DE000A3H2ZW1	3.0y	0.750	18	-5
FCDQ	CA	30.09.20	USC34201JP66	3.0y	0.750	11	-14
HSBC Bank Canada	CA	07.05.20	USC4R461AC74	3.0y	1.000	14	-58
Bank of Nova Scotia	CA	25.03.20	US06416BAB62	3.0y	0.900	9	-91
Toronto-Dominion Bank	CA	27.03.20	USC8888MA329	3.0y	1.250	8	-92
Nationwide Building Society	GB	05.02.20	USG6398ADC83	3.0y	1.000	16	-11
Santander UK	GB	04.02.20	XS2116105144	3.0y	1.250	13	-15
Westpac Banking	AU	09.01.20	US96122XAN84	5.0y	1.750	17	-23
Sumitomo Mitsui Banking	JP	29.10.19	XS2066646816	3.0y	0.500	15	-23
CBA	AU	08.10.19	US20271BAH87	3.0y	1.250	8	-22
FCDQ	CA	19.09.19	USC34201FV70	3.0y	1.000	7	-27
Royal Bank of Canada	CA	17.09.19	USC7976PAB25	3.0y	1.500	8	-23
HSBC Bank Canada	CA	03.09.19	USC4R461AB91	3.0y	1.000	10	-25
United Overseas Bank	SG	29.08.19	XS2050420590	3.0y	0.500	11	-21
Lloyds Bank	GB	17.07.19	XS2031976082	3.0y	1.000	9	-27
Muenchener Hyp	DE	16.07.19	DE000MHB23J6	3.3y	0.600	30	4
Toronto-Dominion Bank	CA	08.07.19	USC8888MNU82	3.0y	1.750	6	-22
UniCredit Bank	DE	25.06.19	XS2019312318	3.0y	0.500	22	-10
National Bank of Canada	CA	13.06.19	USC60191BE98	3.0y	1.000	7	-23
Bank of Montreal	CA	12.06.19	USC0623PAS77	3.0y	1.750	10	-19
Sumitomo Mitsui Banking	JP	11.06.19	XS2008801370	5.0y	1.000	19	-31
Deutsche Pfandbriefbank	DE	22.05.19	DE000A2NBJ70	3.0y	0.600	21	-11
LBBW	DE	21.05.19	DE000LB2CJ96	3.0y	0.750	8	-16
Aareal Bank	DE	10.04.19	XS1983343838	2.3y	0.600	32	4
Westpac	AU	07.01.19	US96122XAM02	5.0y	2.000	13	-45

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

Conclusion

The covered bond sub-segment of the USD benchmark market also showed negative growth in 2020 – a fact which we would ascribe to the pandemic and monetary-policy conditions, just as in the case of the EUR benchmark segment. Overall, the primary market is likely to present a much less dynamic picture in 2021 than for example in 2019. However, we should see issuers from Canada and Australia especially, but also institutions from Europe with a primary funding requirement coming to the market. On the other hand, it will be important to factor in differences in duration characteristics in the USD market when it comes to taking advantage of favourable pricing.

SSA/Public Issuers
ESM reform – restructuring continues

Autor: Dr. Norman Rudschuck, CIIA

Crisis in eurozone states brought about establishment of new credit facilities

It is not the case that facilities to support states experiencing financial difficulties have only existed since 2010. It was at this time that Ireland was the first eurozone State to receive support from the International Monetary Fund (IMF) and the European Financial Stabilisation Mechanism (EFSM), an EU credit facility set up for this purpose. The EFSM was replaced by the European Financial Stability Facility (EFSF). There had been an (admittedly small) loan facility previously, which had a maximum capacity of EUR 12bn: the Balance of Payments (BoP) programme. This programme, which is currently still on standby to provide support for the EU states that have not adopted the euro, was increased to EUR 25bn in response to negative developments in 2008 and to EUR 50bn in 2009. It was followed by the EFSF as a temporary rescue package for eurozone countries in 2010, which was finally replaced by the European Stability Mechanism in 2012. While the EFSM and EFSF are now no longer available to provide possible aid programmes, the ESM is on permanent standby to support eurozone states.

European Stability Mechanism (ESM)

The ESM came into force on 8 October 2012 and is the European Union's permanent rescue package. Having been temporarily ready to ensure financial stability in Europe for aid programmes parallel to the EFSF, it has been the sole support mechanism in the eurozone since July 2013. The ESM's maximum effective loan volume is EUR 500bn, provided that systematic overcollateralisation of EUR 704.8bn or 140% takes place. The last tranche for the paid-in capital was transferred in April 2014 bringing it up to EUR 80.6bn. Latvia's accession to the eurozone resulted in a slight increase in the paid-in capital and the ESM's overcollateralisation. The remaining EUR 624.3bn is available as callable capital in emergency situations. If a Member State makes use of emergency aid, this will not affect the guarantee structure, as it does with the EFSF. Accordingly, a member of the eurozone would still be liable for liabilities with its defined share. In the case of any loans granted, the credit facility ranks as a preferred creditor, which is only subordinate to the IMF. The exception to this rule is the recapitalisation of Spanish banks where the ESM ranks equally with private creditors. This is due to the transfer of commitments (up to EUR 100bn) made by the EFSF to the ESM. In addition, a programme was agreed for Cyprus, in which the ESM participates to the tune of EUR 9.0bn. It was also decided in 2014 that it can participate in a direct bank recapitalisation up to a figure of EUR 60bn. Since July 2015, a third programme for Greece of up EUR 86bn has been financed via the ESM. The third programme officially ended in August 2018. The ESM provides an early warning system for Greece as part of its "enhanced surveillance framework". The ESM is headquartered in Luxembourg.

ESM reform agreed on 30 November 2020

On 30 November 2020, the eurozone finance ministers agreed to reform the ESM. The reform aims to strengthen the ESM and thereby make the European banking sector more crisis-proof. Heads of state and government approved this at the European summit on 11 December. The German Finance Minister Olaf Scholz praised the reform, as it will strengthen the euro and the European banking sector. His view is that the reform will make the eurozone "more able to resist attacks by speculators". The new ESM tools and guidelines are expected to be operational from 2022. In the first place, the agreement must be signed by all 19 members of the eurozone in January 2021, if possible, i.e. in the current calendar week, before subsequently being ratified by the respective parliaments over the course of the year. According to the Kalin Anev Janse, CFO of the ESM, most banks and investors view the changes positively, as they will boost market confidence through closer European financial integration and stronger safety nets. We will briefly discuss the key aspects of the reform below.

Backstop for the Single Resolution Fund

The addition of a new credit instrument, namely a backstop for the Single Resolution Fund (SRF), to the ESM's toolbox is a key innovation. Following the euro crisis, the EU Regulation establishing a "single resolution mechanism" (SRM) was adopted in 2014. The role of the SRF is to finance the resolution of credit institutions. It currently comprises approximately EUR 47bn. Should the SRF's funds be exhausted – if, for example, too many banks ran into danger in a crisis – the reform will allow the ESM to intervene as a safety net from 2022. This would not immediately lead to the ESM requiring financing but if it is triggered, the ESM may possibly have to (re)finance amounts on the market. The decision-makers in the eurozone agreed on such a backstop as early as 2017 but it was supposed not to be introduced until 2024 since Germany, in particular, as well as other EU states, insisted on reducing banking risks first. At the meeting on 30 November 2020, however, the participants came to the conclusion that sufficient progress had been made in reducing risks in the banking sector, meaning that the backstop is expected to be introduced two years earlier (2022). The decision on the granting of the credit line by the ESM to the SRF will be made at the request of the Single Resolution Board (SRB) by the ESM Council. In principle, the decision taken by the body will be based on consensus. If, however, the ECB and the European Commission believe that the sustainability of the eurozone is at risk, it can be made by a qualified majority decision (85%).

Role of the Commission and the ESM

The ESM is also expected to play a greater role than previously in the development, design and monitoring of future programmes alongside the European Commission. Each Memorandum of Understanding (MoU), in which the economic policy conditions for the respective aid are laid down, will be signed by both the Commission and the ESM Director once the reform comes into effective. Its extended mandate also authorises the ESM to assess debt sustainability and ability to repay the debt transparently with the Commission and to track the macroeconomic and financial risks of eurozone states.

Easier provision of precautionary credit lines

The ESM has two types of credit line at its disposal: the "precautionary conditioned credit line" (PCCL) and the "enhanced conditions credit line" (ECCL). Another key point of the reform aims to make the former more effective and to facilitate granting of these loans through defined criteria. The PCCL is available to states in the eurozone, whose economic circumstances are sound but are hit by external shocks outside their control. In practice, it is assumed that the fact that PCCLs exist will be sufficient alone to bring calm to markets. Among other aspects, the current reform will introduce quantitative criteria which are expected to facilitate the granting of PCCLs. For instance, the deficit may not exceed 3% of GDP in the two years before the application for a PCCL is submitted and government debt must be less than 60% of GDP. If the latter is not applicable, a reduction in the difference between the actual percentage and 60% of on average a twentieth per year in the two preceding years is sufficient to qualify for the PCCL. States that receive precautionary credit lines must sign a memorandum of understanding in which they agree to comply with the criteria for support. This will be checked every six months. Should a country not be entitled to obtain a PCCL because of the criteria, it may apply for enhanced conditions credit lines (ECCL). The reform will have no effect on the crisis support introduced in April 2020 to combat the impact of coronavirus, meaning that the ESM can make PCCLs available to eurozone states up to 2% of their respective GDP to cover additional costs in their healthcare sectors. In this context, a total maximum amount of EUR 240bn is earmarked up to the end of 2022. Participation or a call for funds is voluntary and has already caused political controversy in the past (Italy).

Single-limb aggregation mechanism for collective action clauses (CACs)

Another aspect of the reform relates to collective action clauses (CACs), which are included in Euro states' government bonds and allow contractual conditions to be amended by a majority decision. CACs are primarily an instrument to make the restructuring of government debt more orderly and easier and therefore to prevent lengthy judicial proceedings. Since 2013, Euro states have been obliged to include CACs in bond issues. It was previously a double-limb aggregation process where a majority of the creditors had to be achieved for a restructuring both in each individual bond and across a whole series. The reform would introduce single-limb CACs where only a majority across the whole series would have to be achieved. This will make it less likely in future that blocking minorities would form among bond creditors, i.e., minorities that could prevent a restructuring. Single-limb CACs would theoretically make restructuring easier and therefore, by way of example, make Italian sovereign bonds riskier, which would increase the cost of borrowing for Italy. This is why the Italian government has long argued against the reform. However, Chung and

Papaioannou from the IMF assume that the inclusion of single-limb CACs in bonds will reduce costs for borrowers. Accordingly, market participants do not associate use of single-limb CACs with disincentives for issuers but appreciate the resultant implicit benefits of an efficient debt handling process in the event of any restructuring. Consequently, market participants would not expect a higher risk from the single-limb mechanism and spreads would not widen. The Italian Finance Minister Roberto Gualtieri announced that his concerns had now been dealt with in the run-up to the resolution.

Easier dialogue between countries and private investors

Interaction between countries and their private bond investors is expected to be supported by the ESM as a secondary aspect of the reform. If requested by a euro member state, the ESM can facilitate dialogue between this country and its private investors on a "voluntary, informal, non-binding, time-limited and confidential basis" from now on.

Rating agencies also see the reform as "credit positive"

We previously mentioned that the ESM had claimed that most banks and investors would view the changes positively, as they will boost market confidence through closer European financial integration and stronger safety nets. This has now been confirmed by Fitch among others, which has left its top credit rating at AAA. The new treaty reform is seen as "credit positive". According to Fitch, at least nine members of the eurozone also benefited financially when using ESM crisis aid to combat the pandemic (ECCL). These seem to be all states, where the yield is higher than the ESM's "blended lending rate". This would correspond to approximately EUR 76bn of the possible callable EUR 240bn. DBRS, which we do not yet follow very closely, also confirmed its top rating at AAA. Both outlooks are of course stable.

Conclusion

The reform of the ESM will entail far-reaching changes for the euro rescue package. Many politicians, including Olaf Scholz, expressed their satisfaction with the changes. External observers, ourselves included, would describe the reform as a sign of solidarity during the pandemic on the part of Euro states. Although the newly introduced backstop for the SRF and easier provision of precautionary credit lines are paramount in the reform, other aspects of the reform are also of major significance. Since the planned single-limb aggregation for CACs was highly contentious in the run-up to the reform and Italian politicians, in particular, had long argued against this change, it will be interesting to see how the newly adopted single-limb aggregation mechanism affects the spreads on Italian sovereign bonds. In our opinion, possible implications are being missed at present in the market mutterings caused by the crisis affecting the coalition government. In recent years, the ESM has in its own words evolved from being merely a "cash machine" with a limited voice to a "complete crisis mechanism". In particular, increased collaboration with the European Commission and the ESM's new role resulting from the current reform underline this evolution.

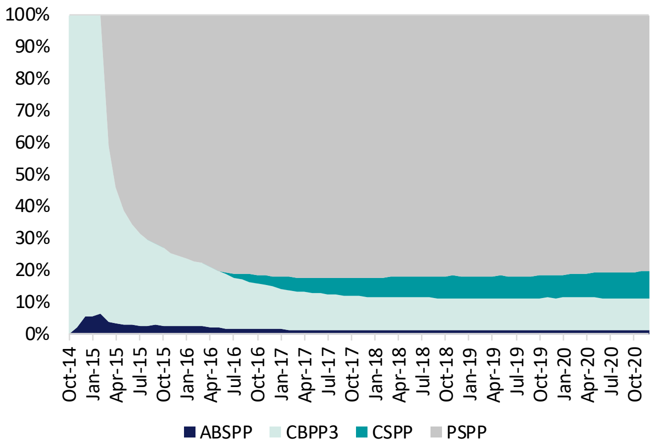
ECB tracker

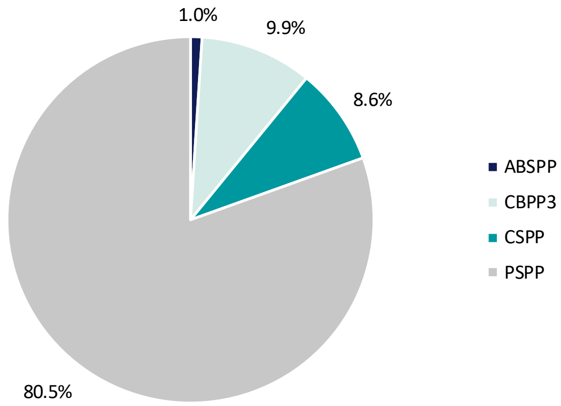
Asset Purchase Programme (APP)

Holdings (in EURm)

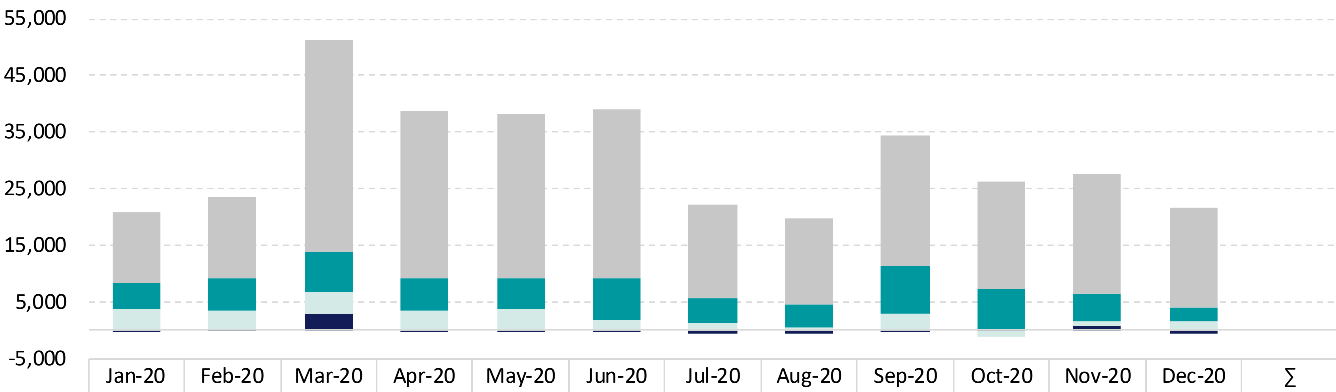
	ABSPP	CBPP3	CSPP	PSPP	APP
Nov-20	30,161	286,458	248,340	2,330,562	2,895,521
Dec-20	29,497	287,545	250,403	2,341,607	2,909,053
Δ	-664	+1,087	+2,063	+11,045	+13,532

Portfolio structure





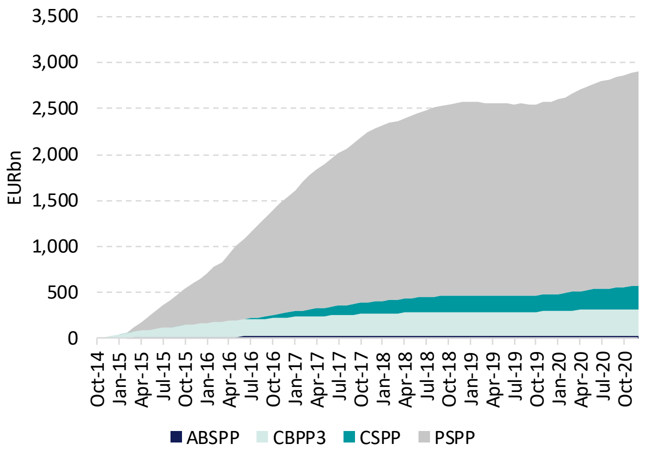
Monthly net purchases (in EURm)



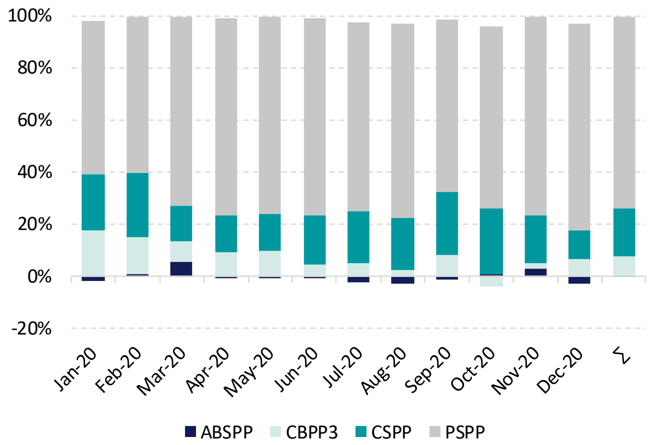
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	∑
APP	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	21,073	359,159
PSPP	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	19,182	21,241	17,822	265,118
CSPP	4,611	5,738	6,965	5,560	5,438	7,515	4,502	4,004	8,496	6,983	5,009	2,378	67,199
CBPP3	3,684	3,334	3,931	3,582	3,785	1,731	1,198	500	2,839	-1,041	646	1,529	25,718
ABSPP	-328	221	2,923	-325	-14	-255	-541	-527	-423	225	824	-656	1,124

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

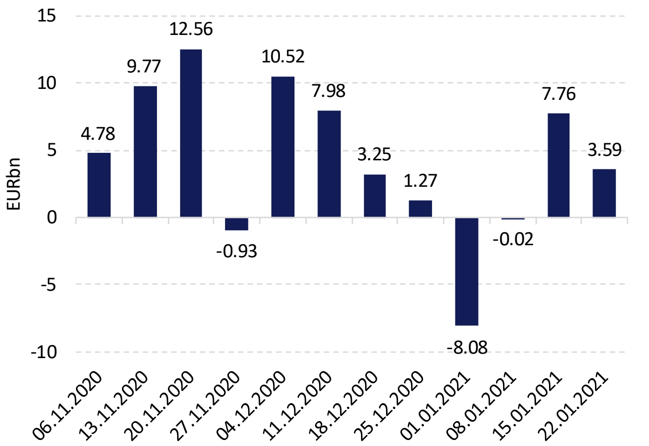
Portfolio development



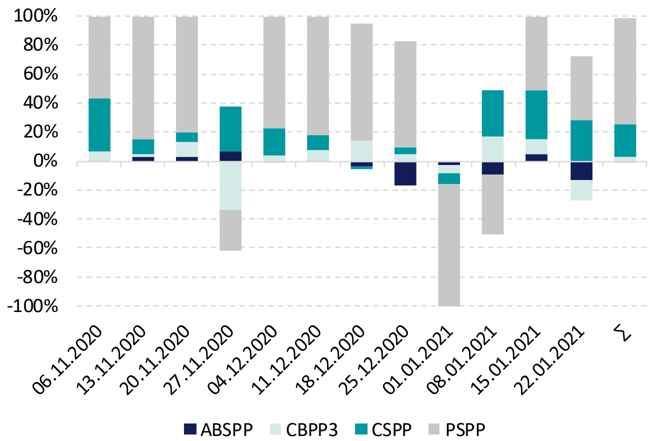
Distribution of monthly purchases



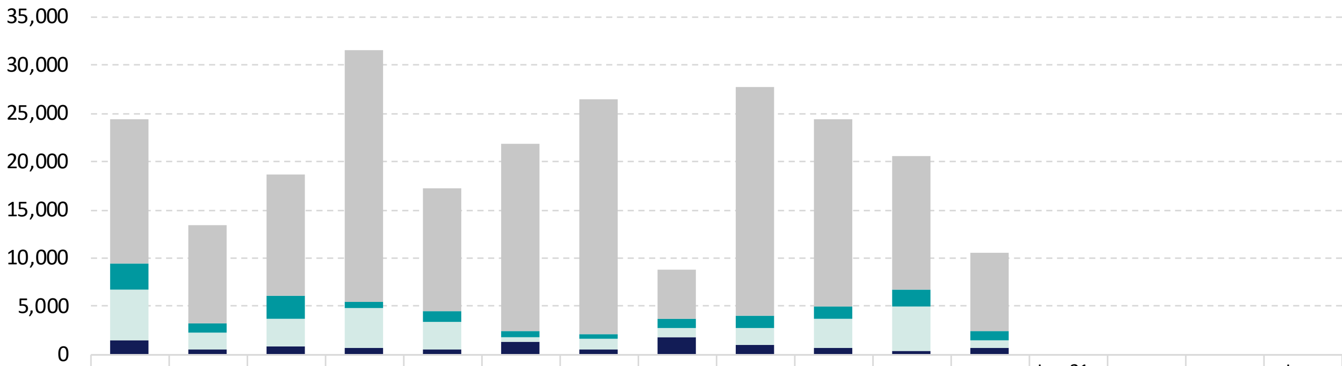
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

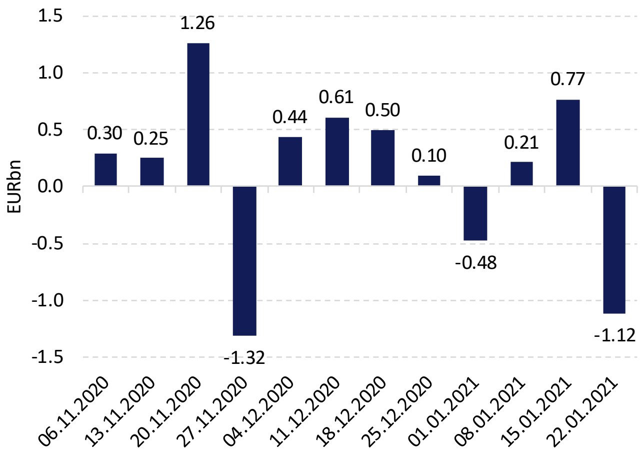


	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-21 - Dec-21	2019	2020	Jan - Dec-21
APP	24,426	13,437	18,687	31,635	17,169	21,940	26,564	8,871	27,713	24,399	20,656	10,547	246,044	204,542	262,109	246,044
PSPP	15,041	10,268	12,673	26,194	12,670	19,519	24,526	5,118	23,639	19,438	13,991	8,177	191,254	167,334	201,482	191,254
CSPP	2,722	846	2,323	578	1,144	686	334	966	1,272	1,309	1,673	826	14,679	7,070	18,267	14,679
CBPP3	5,148	1,824	2,818	4,224	2,894	367	1,132	1,002	1,847	3,037	4,597	937	29,827	21,948	33,236	29,827
ABSPP	1,515	499	873	639	461	1,368	572	1,785	955	615	395	607	10,284	8,190	9,124	10,284

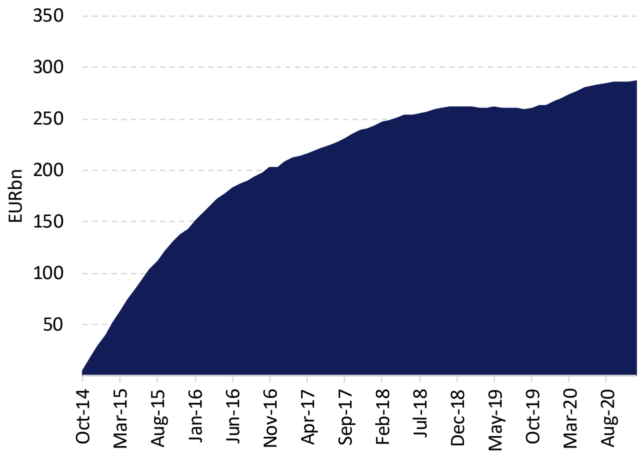
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

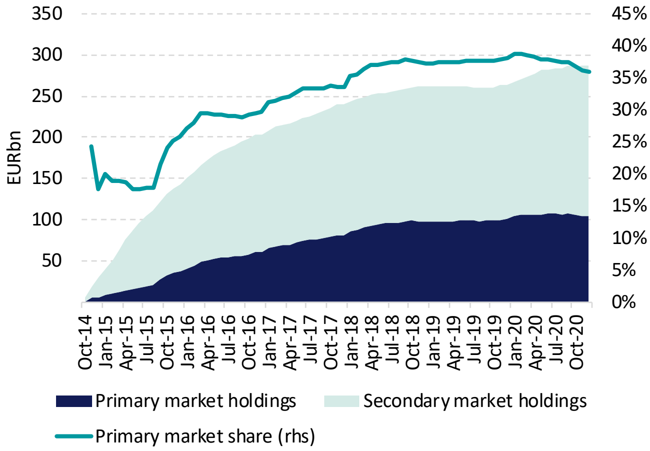
Weekly purchases



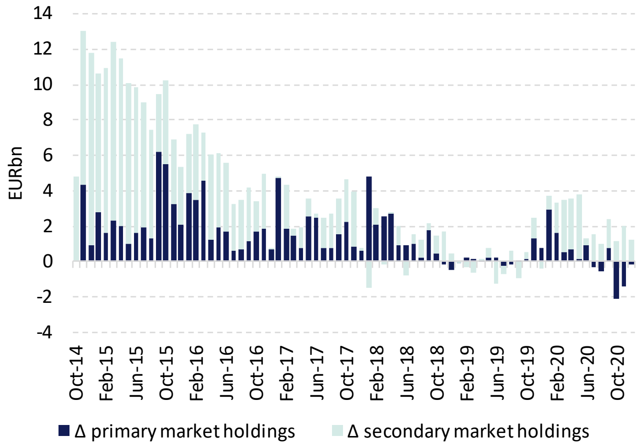
Development of CBPP3 volume



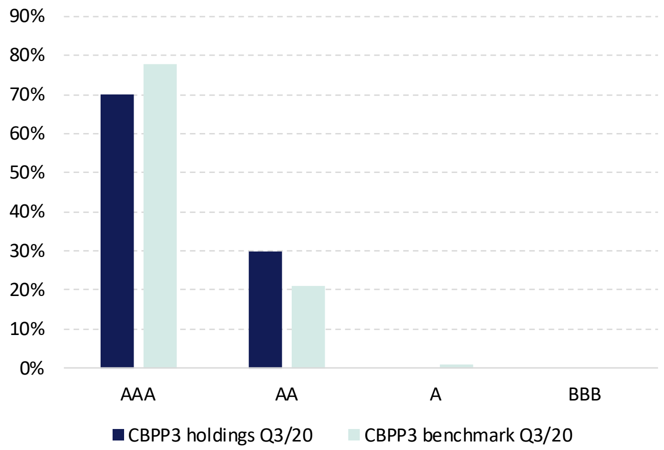
Primary and secondary market holdings



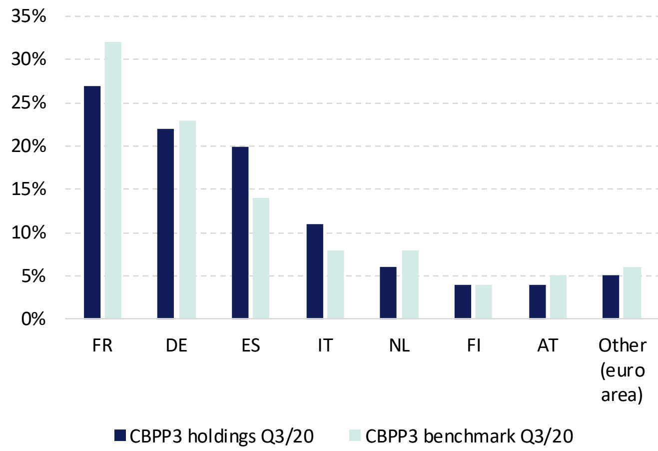
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



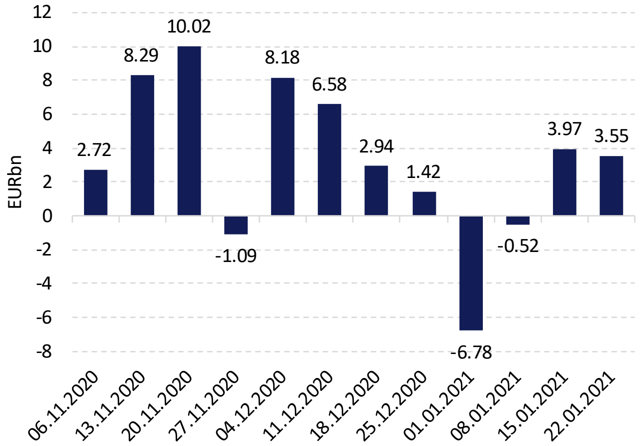
Distribution of CBPP3 by country of risk



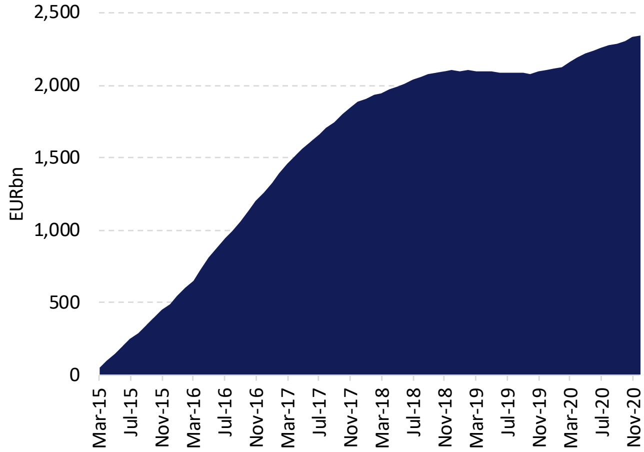
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



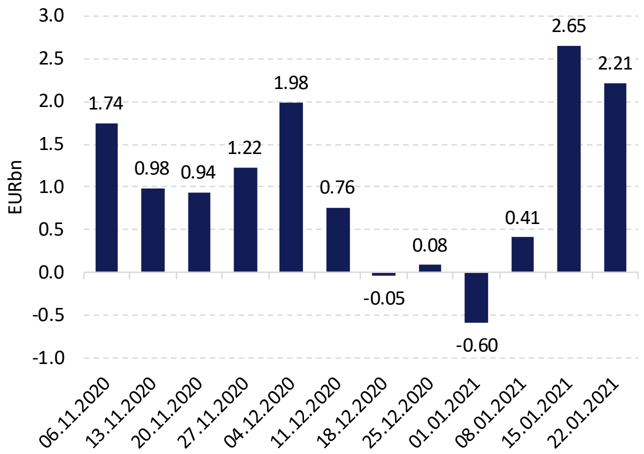
Overall distribution of PSPP buying at month-end

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%	67,577	66,048	1,529	7.78	8.04	-0.3
BE	3.362%	85,867	82,213	3,654	8.29	10.10	-1.8
CY	0.199%	3,142	4,856	-1,714	9.98	9.09	0.9
DE	24.327%	575,158	594,868	-19,710	6.52	7.64	-1.1
EE	0.260%	263	6,357	-6,094	9.52	9.51	0.0
ES	11.004%	290,758	269,088	21,670	8.12	8.41	-0.3
FI	1.695%	35,448	41,450	-6,002	7.10	7.95	-0.8
FR	18.848%	484,506	460,892	23,614	7.25	8.25	-1.0
IE	1.563%	36,997	38,212	-1,215	8.75	9.85	-1.1
IT	15.677%	411,971	383,360	28,611	7.28	7.71	-0.4
LT	0.360%	4,471	8,793	-4,322	9.84	11.00	-1.2
LU	0.304%	2,904	7,433	-4,529	5.31	6.36	-1.0
LV	0.534%	2,904	13,060	-10,156	9.71	10.30	-0.6
MT	0.097%	1,215	2,367	-1,152	9.82	9.34	0.5
NL	5.408%	117,408	132,245	-14,837	7.61	8.45	-0.8
PT	2.160%	45,389	52,815	-7,426	7.12	7.38	-0.3
SI	0.444%	8,936	10,866	-1,930	9.33	10.11	-0.8
SK	1.057%	14,259	25,843	-11,584	8.24	8.57	-0.3
GR	0.00%	0	0	0	0.00	15.93	0.0
SNAT	10.00%	256,123	244,530	11,593	7.43	8.74	-1.3
Total / Avg.	**100.0%**	**2,445,296**	**-**	**-**	**7.31**	**8.27**	**-1.0**

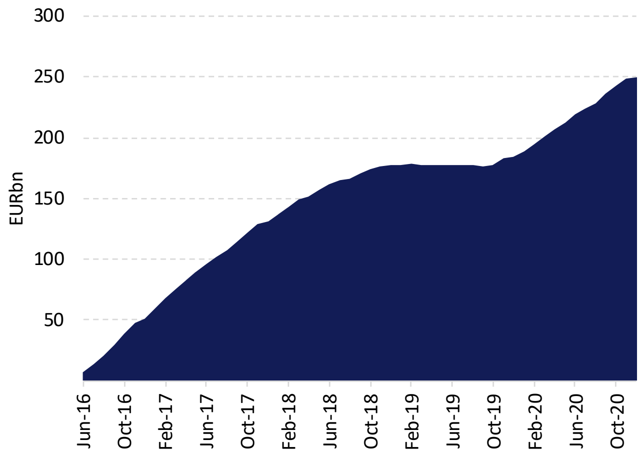
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

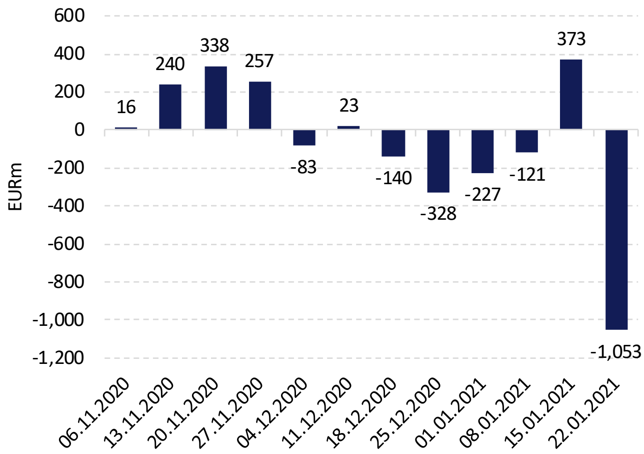


Development of CSPP volume

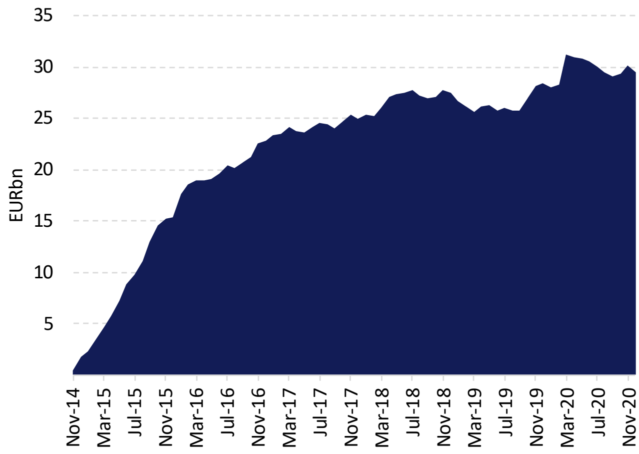


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



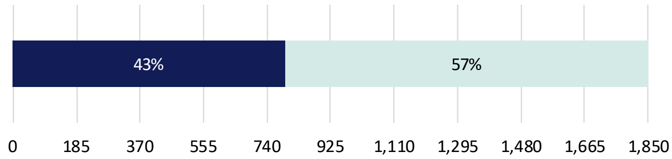
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Nov-20	700,003
Dec-20	757,166
Δ	+57,163

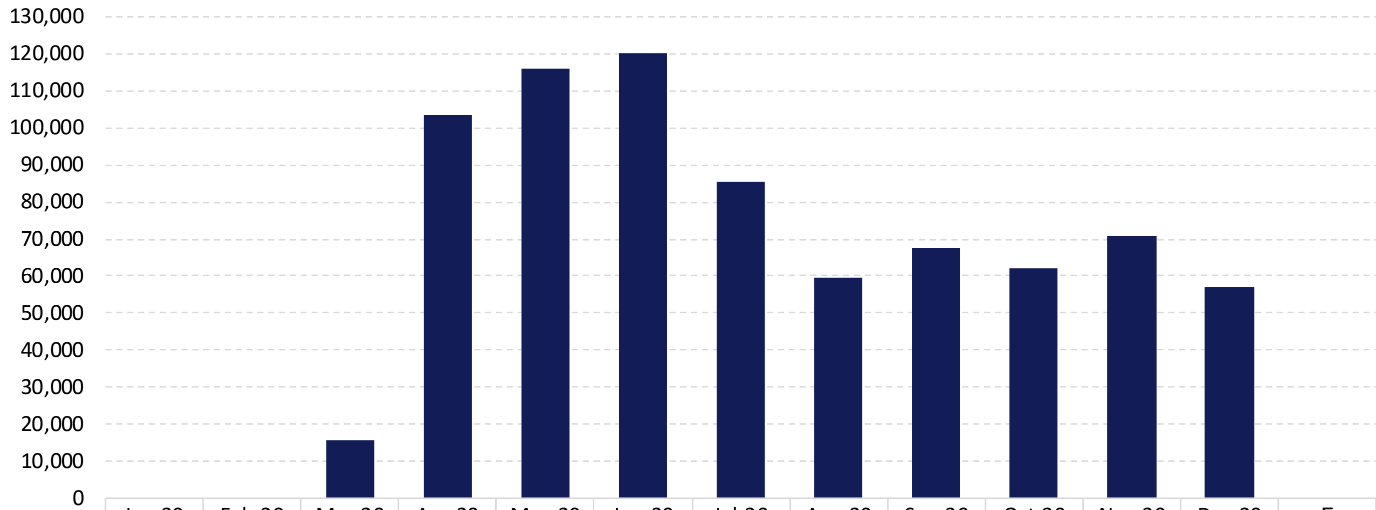
Volume already invested (in EURbn)



Estimated portfolio development

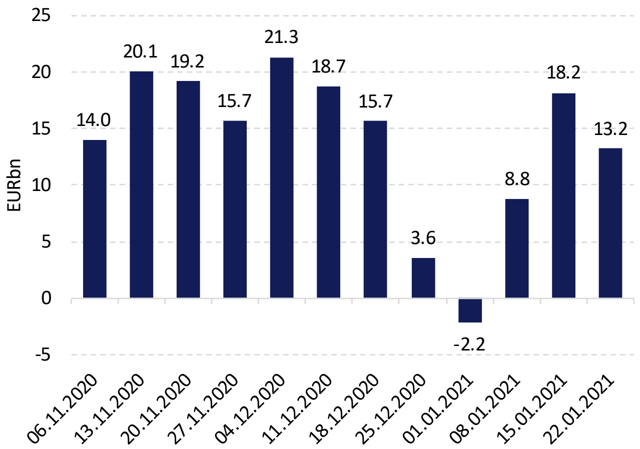
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 18.5bn	57 weeks (25.02.2022)

Monthly net purchases (in EURm)

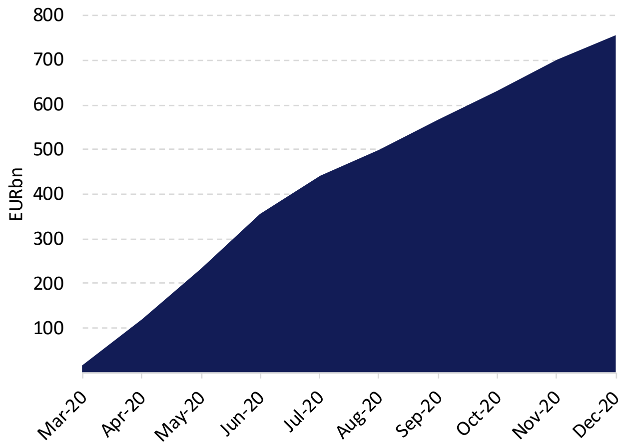


	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	∑
PEPP	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	757,166

Weekly purchases



Development of PEPP volume

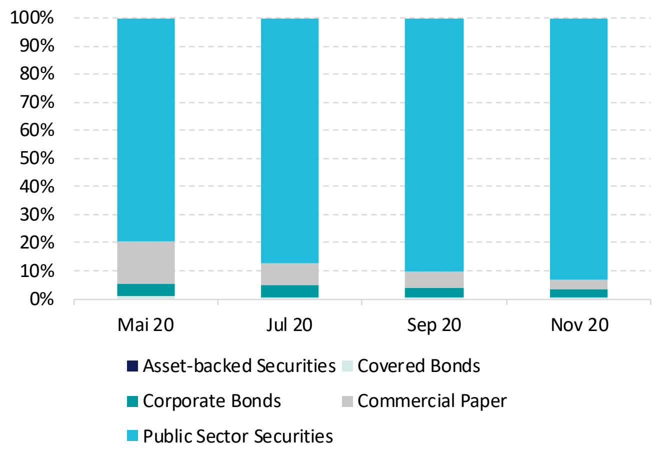


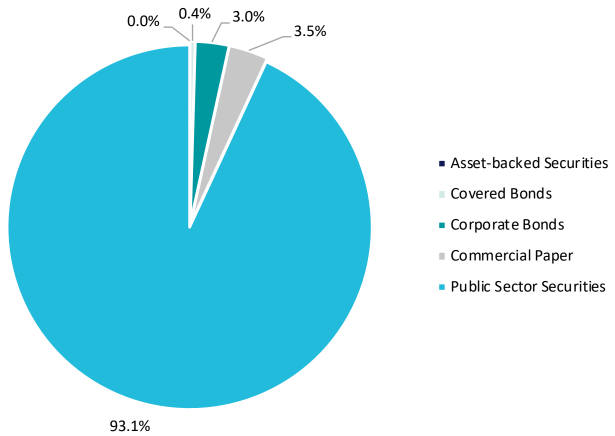
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

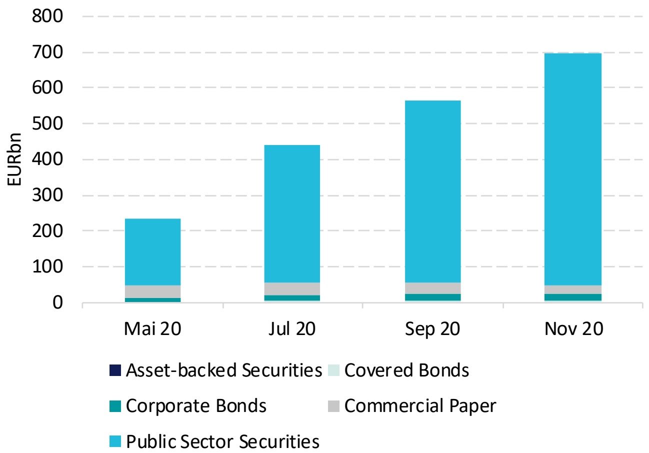
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Nov-20	0	3,123	20,760	24,306	650,272	698,461
Δ	0	0	342	-7,682	140,160	132,820

Portfolio structure

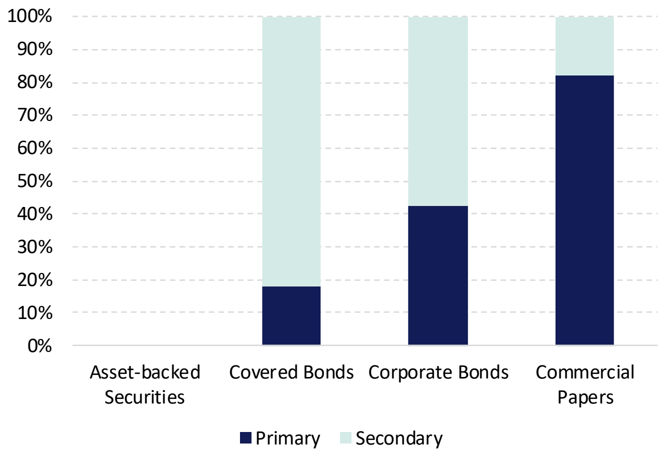




Portfolio development



Share of primary and secondary market holdings



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

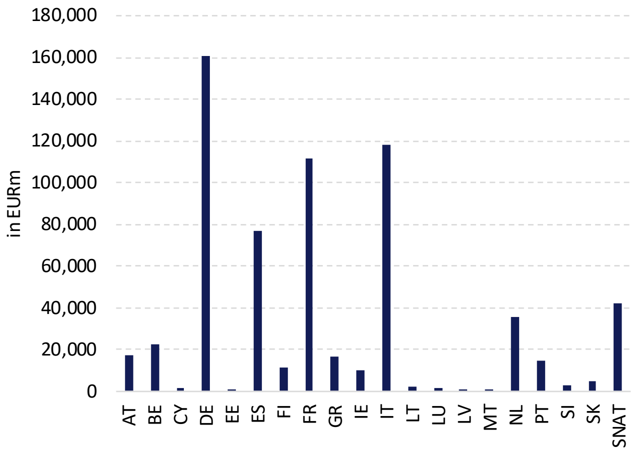
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Bestand in EURm	0	0	557	2,566	8,842	11,918	20,001	4,305
Anteil	0.0%	0.0%	17.8%	82.2%	42.6%	57.4%	82.3%	17.7%

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

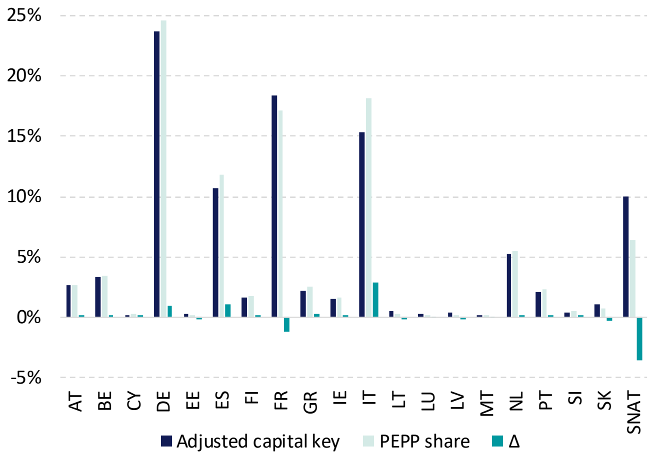
Breakdown of public sector securities under the PEPP

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	17,567	2.6%	2.7%	0.1%	10.9	7.1	3.9
BE	22,197	3.3%	3.4%	0.1%	6.3	9.4	-3.1
CY	1,484	0.2%	0.2%	0.0%	10.9	8.3	2.5
DE	160,619	23.7%	24.6%	0.9%	4.8	6.7	-1.9
EE	207	0.3%	0.0%	-0.2%	9.1	7.5	1.6
ES	77,128	10.7%	11.8%	1.1%	8.5	7.4	1.0
FI	11,169	1.7%	1.7%	0.1%	7.2	7.0	0.3
FR	111,810	18.4%	17.2%	-1.2%	8.6	7.3	1.4
GR	16,307	2.2%	2.5%	0.3%	8.4	9.4	-1.0
IE	10,317	1.5%	1.6%	0.1%	8.9	9.6	-0.7
IT	118,169	15.3%	18.1%	2.8%	6.8	6.9	0.0
LT	2,080	0.5%	0.3%	-0.2%	11.8	10.6	1.2
LU	1,244	0.3%	0.2%	-0.1%	7.1	6.4	0.8
LV	907	0.4%	0.1%	-0.2%	9.1	10.3	-1.2
MT	261	0.1%	0.0%	-0.1%	7.5	8.1	-0.7
NL	35,705	5.3%	5.5%	0.2%	4.1	7.3	-3.2
PT	14,809	2.1%	2.3%	0.2%	6.8	6.6	0.2
SI	3,131	0.4%	0.5%	0.0%	8.3	9.5	-1.2
SK	4,707	1.0%	0.7%	-0.3%	7.8	8.2	-0.4
SNAT	41,991	10.0%	6.4%	-3.6%	8.9	7.6	1.3
Total / Avg.	**651,810**	**100.0%**	**100.0%**	**-**	**7.0**	**7.2**	**-0.3**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



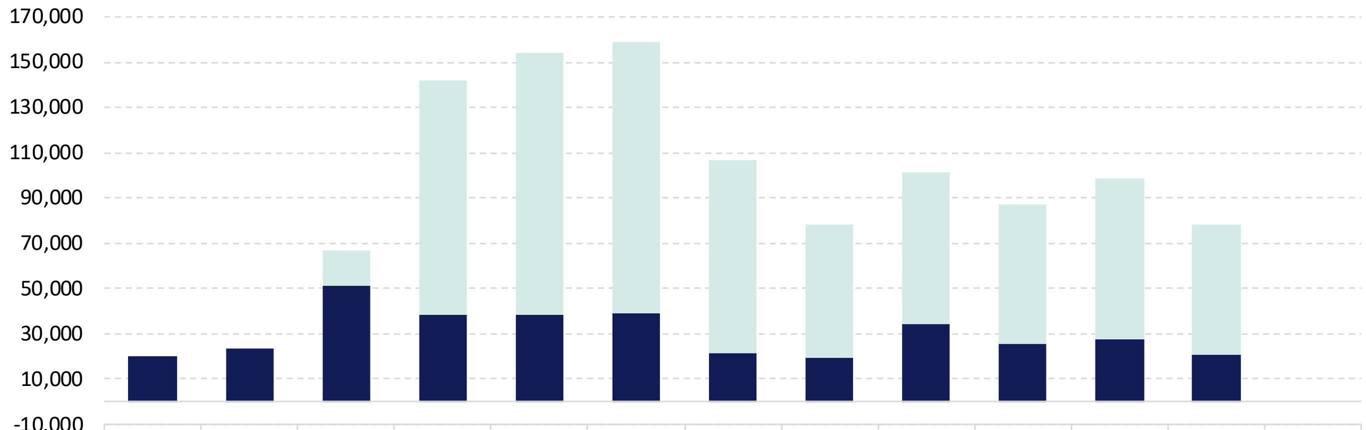
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

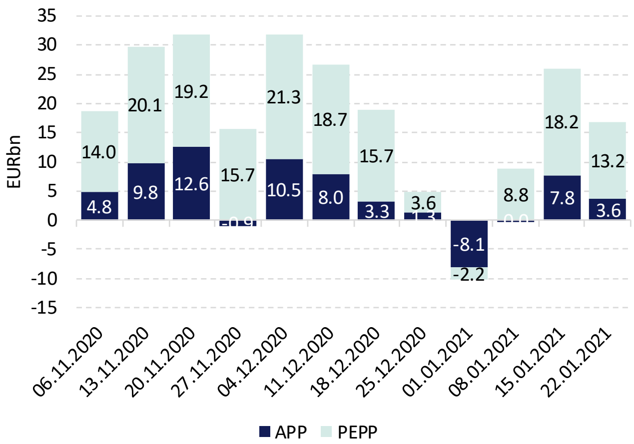
	APP	PEPP	APP & PEPP
Nov-20	2,895,521	700,003	3,595,524
Dec-20	2,909,053	757,166	3,666,219
Δ	+13,532	+57,163	+70,695

Monthly net purchases (in EURm)

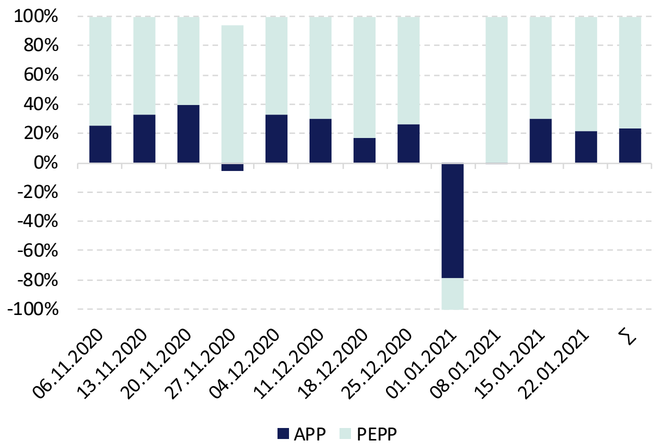


	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	∑
∑	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,322	87,334	98,555	78,236	1,116,32
PEPP	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	757,166
APP	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	21,073	359,159

Weekly purchases



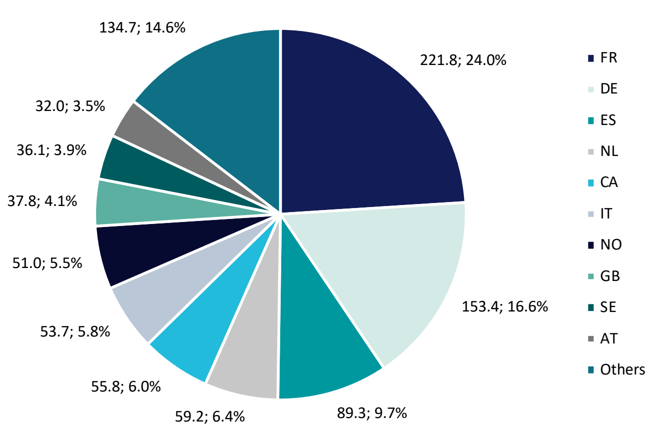
Distribution of weekly purchases



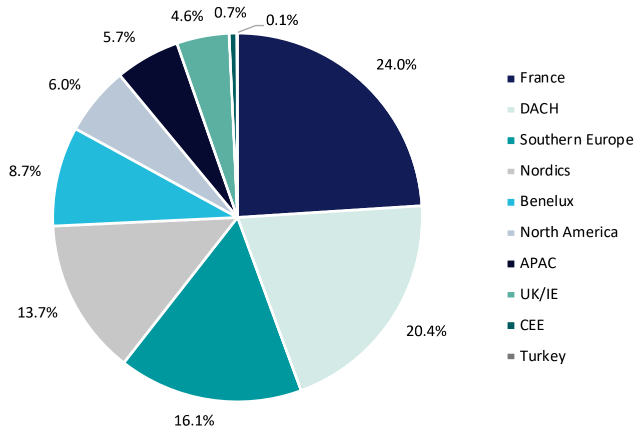
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



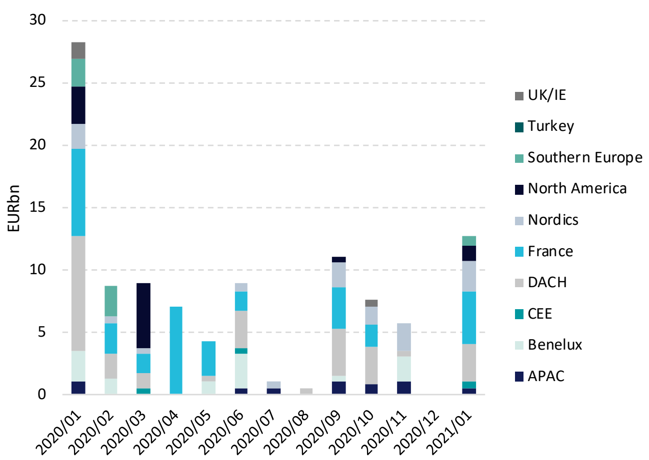
EUR benchmark volume by region (in EURbn)



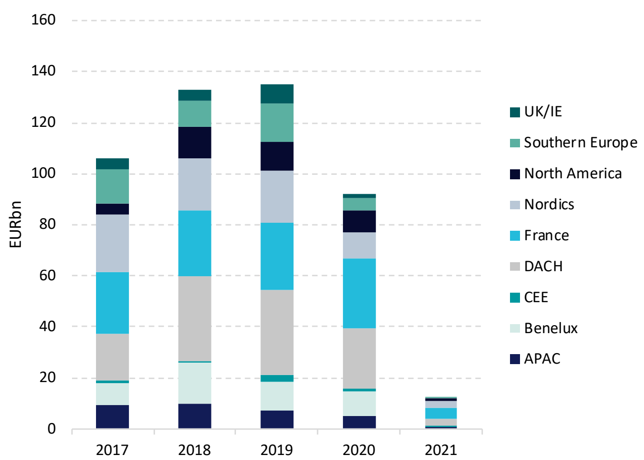
Top-10 jurisdictions

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	221.8	203	7	0.96	10.1	5.6	1.18
2	DE	153.4	229	12	0.60	8.3	4.7	0.49
3	ES	89.3	72	3	1.13	11.4	4.0	1.86
4	NL	59.2	58	0	0.97	11.1	7.3	0.98
5	CA	55.8	47	0	1.16	6.0	3.0	0.30
6	IT	53.7	62	0	0.84	9.0	4.2	1.51
7	NO	51.0	58	7	0.88	7.2	3.7	0.61
8	GB	37.8	42	0	0.91	8.4	3.2	1.21
9	SE	36.1	41	0	0.88	7.4	3.3	0.57
10	AT	32.0	58	0	0.55	9.3	5.7	0.75

EUR benchmark issue volume by month

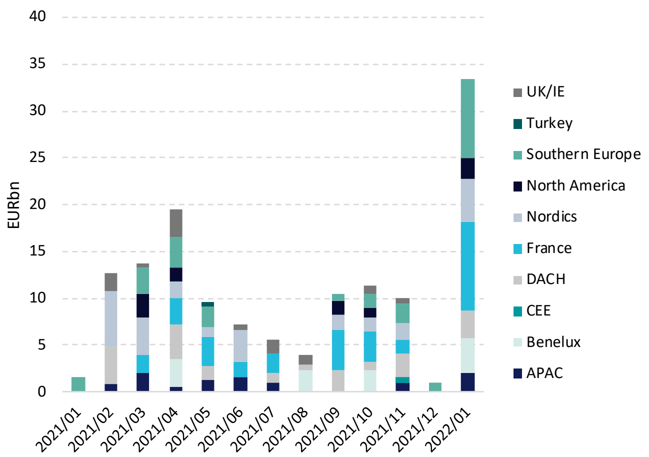


EUR benchmark issue volume by year

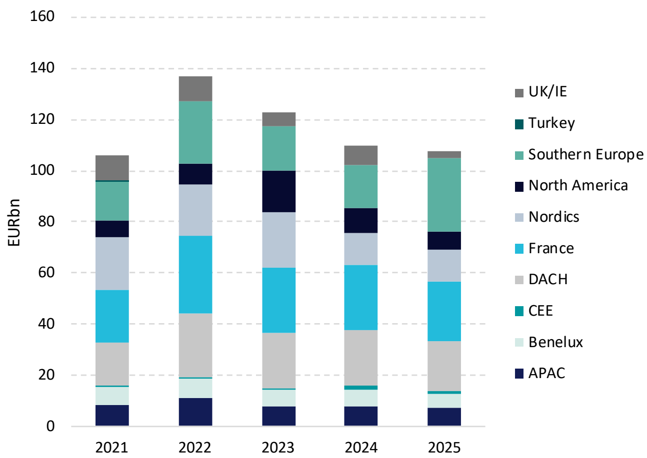


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

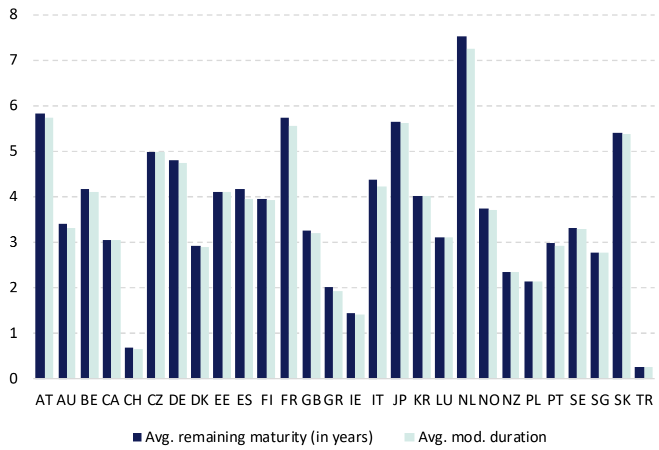
EUR benchmark maturities by month



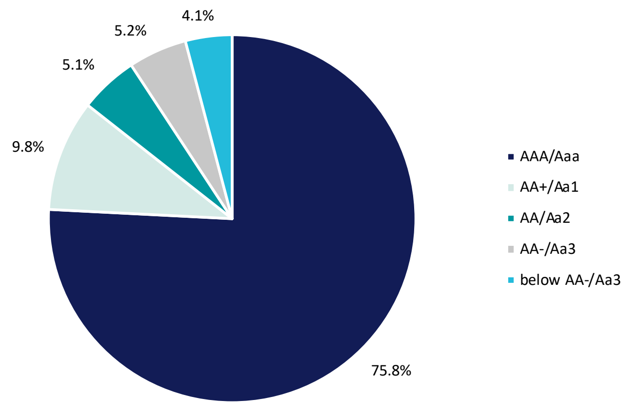
EUR benchmark maturities by year



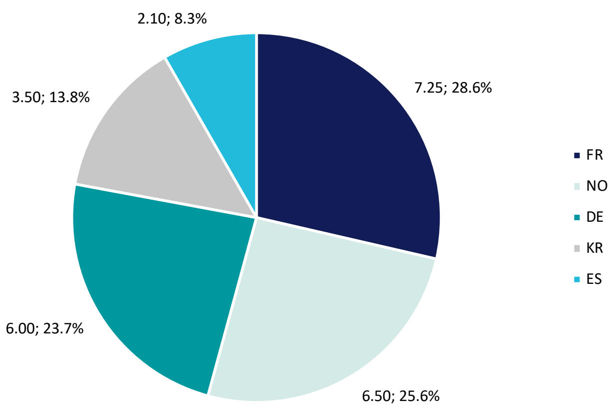
Modified duration and time to maturity by country



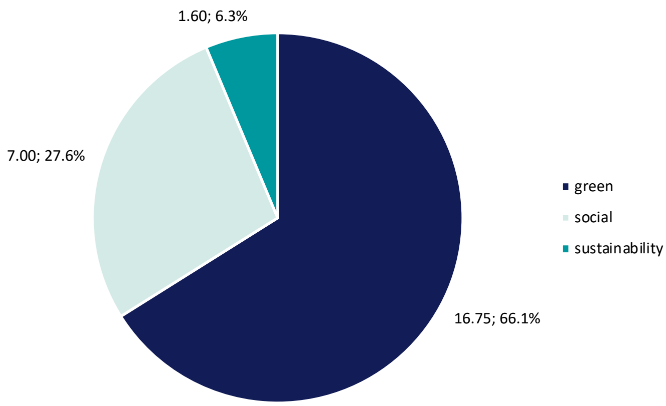
Rating distribution (volume weighted)



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

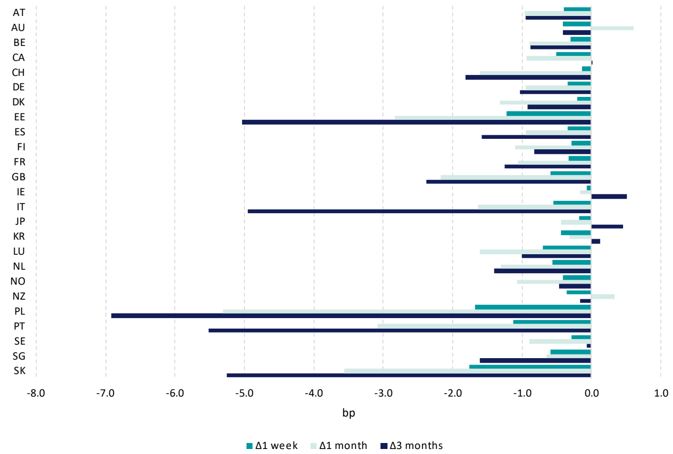


EUR benchmark volume (ESG) by type (in EURbn)

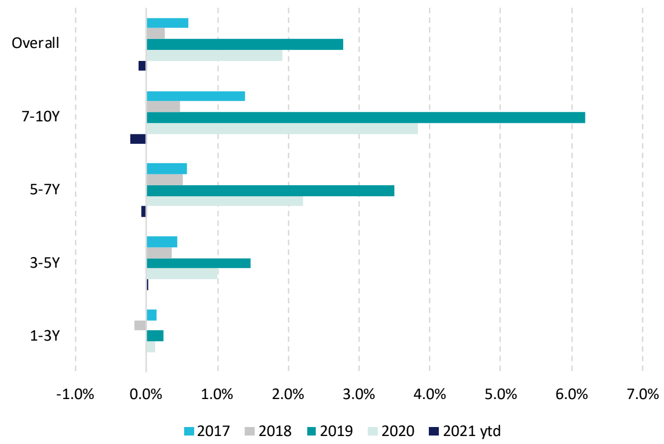


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

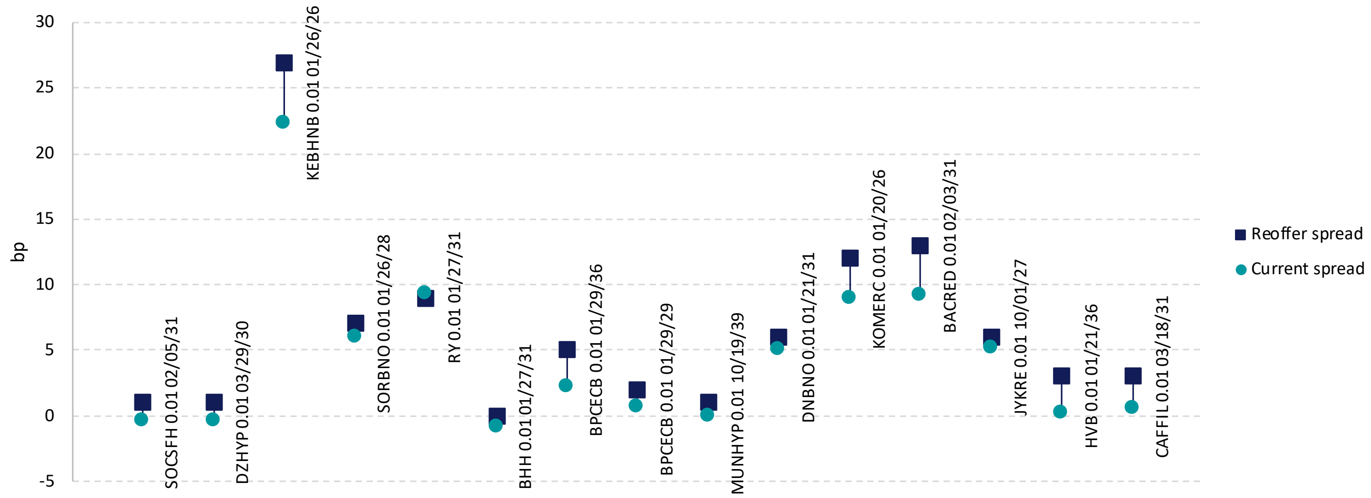
Spread development by country



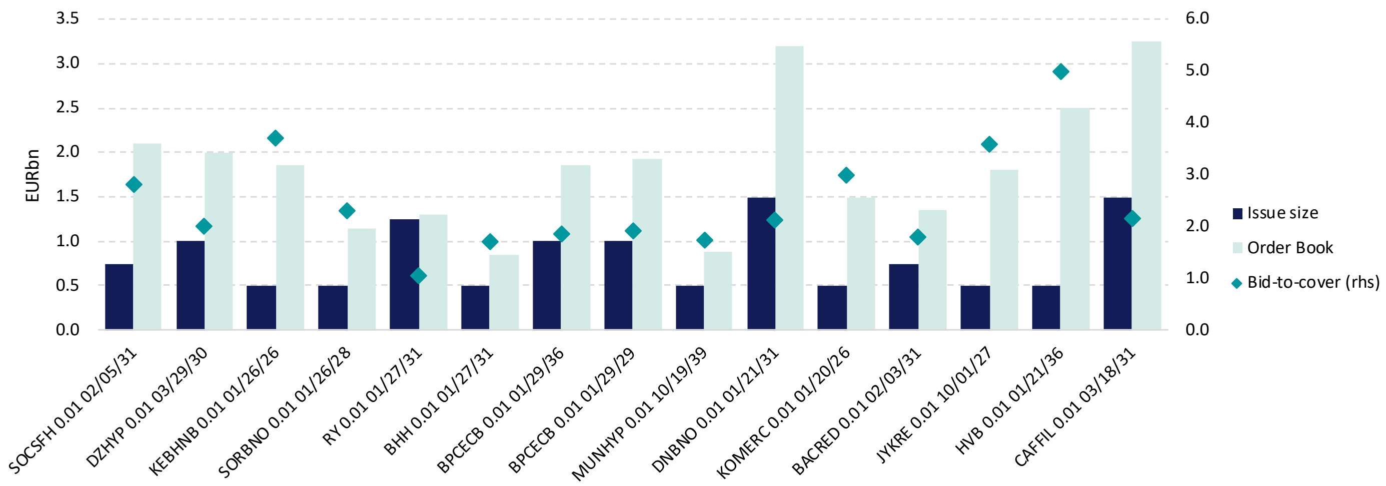
Covered bond performance (Total return)



Spread development (last 15 issues)



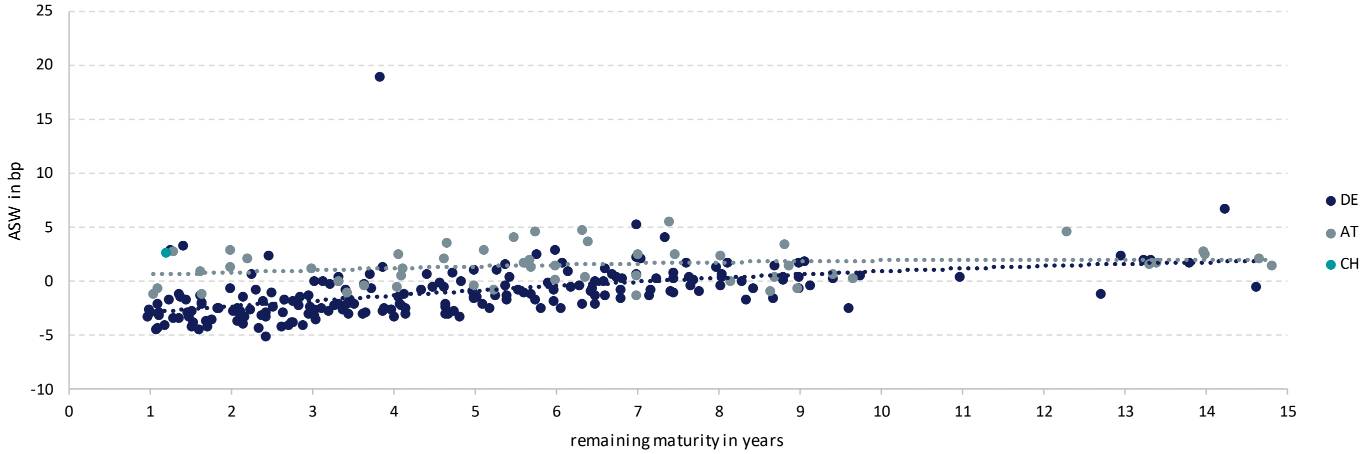
Order books (last 15 issues)



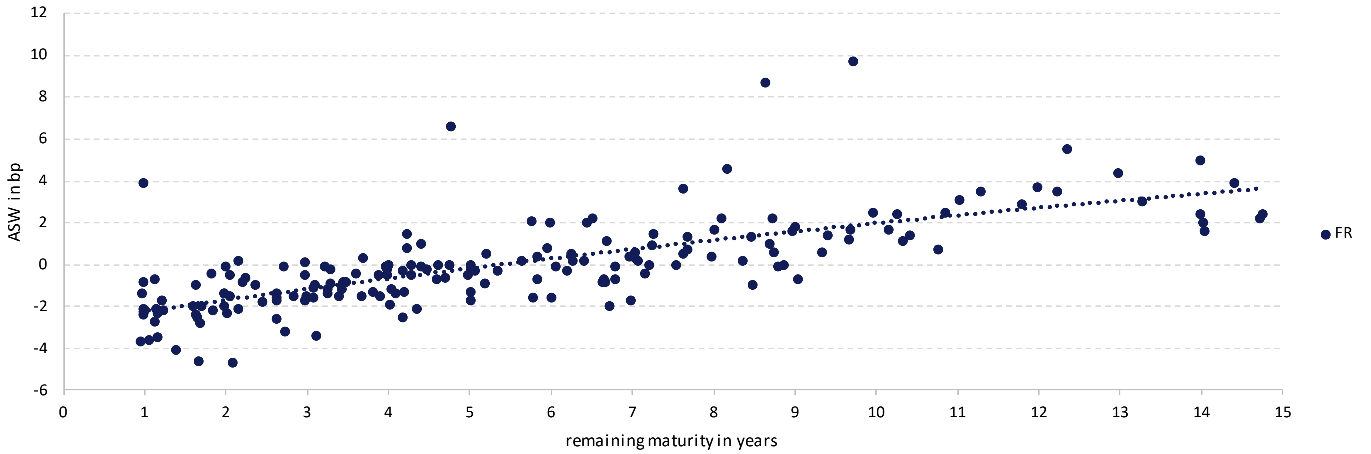
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

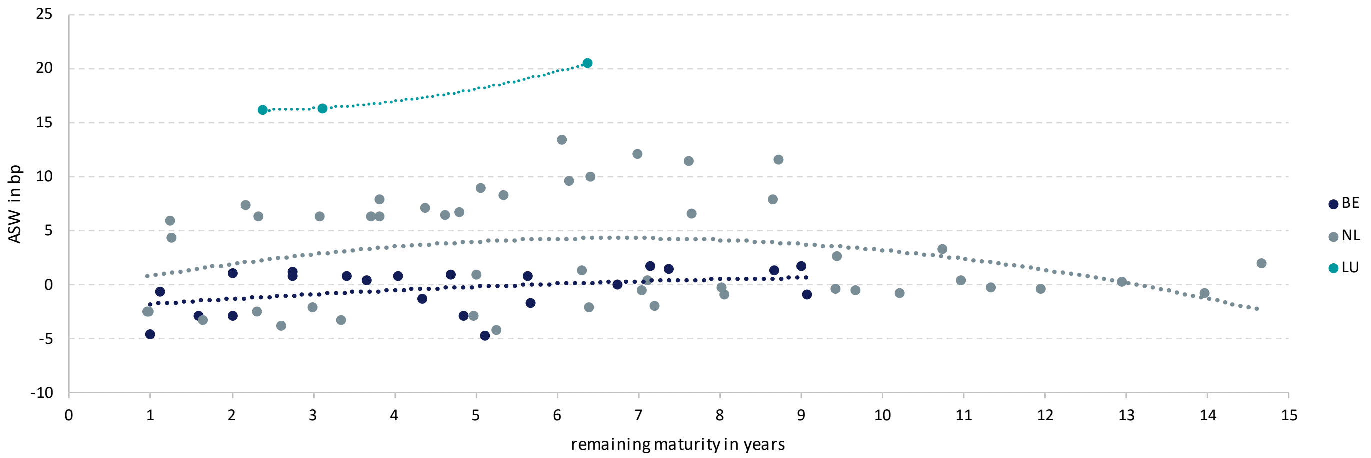
DACH



France

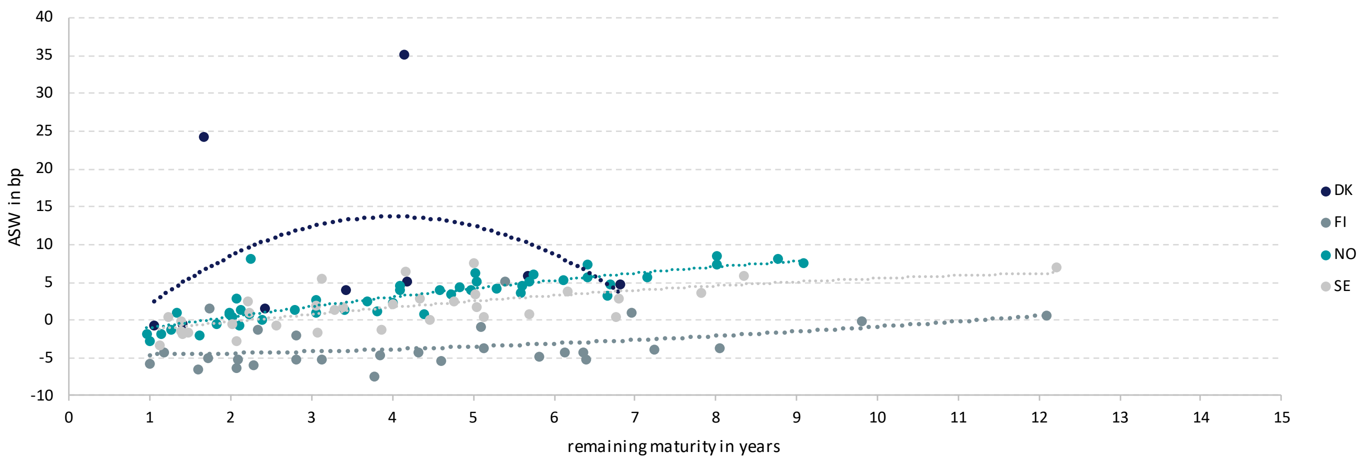


Benelux

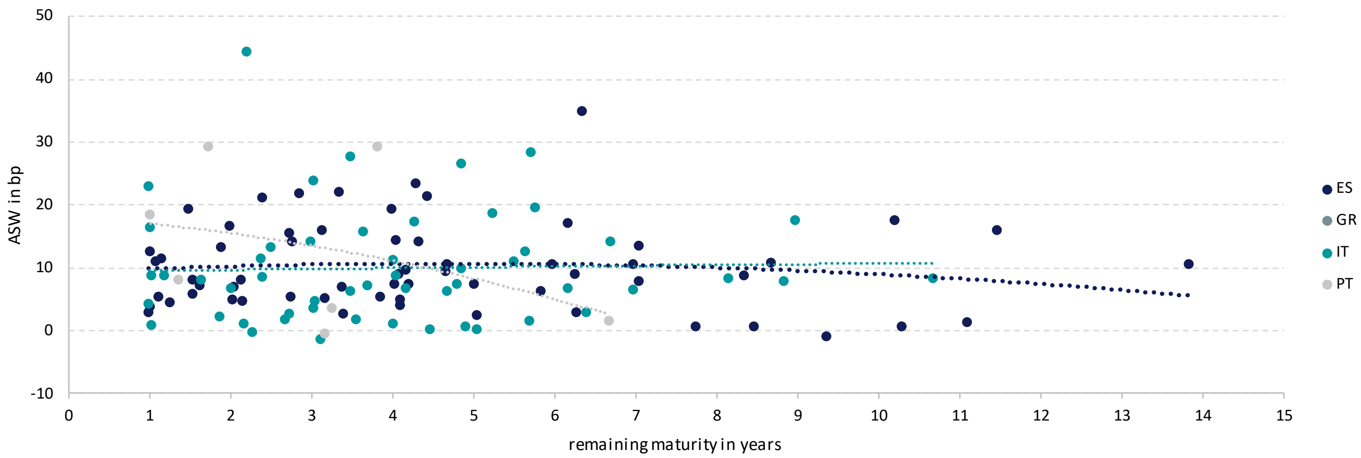


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

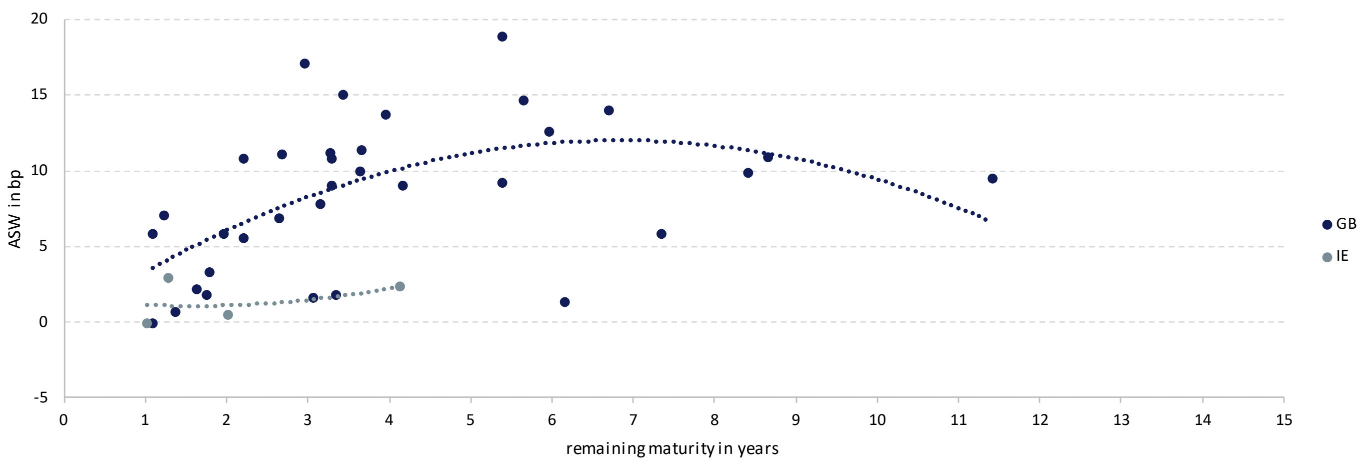
Nordics



Southern Europe

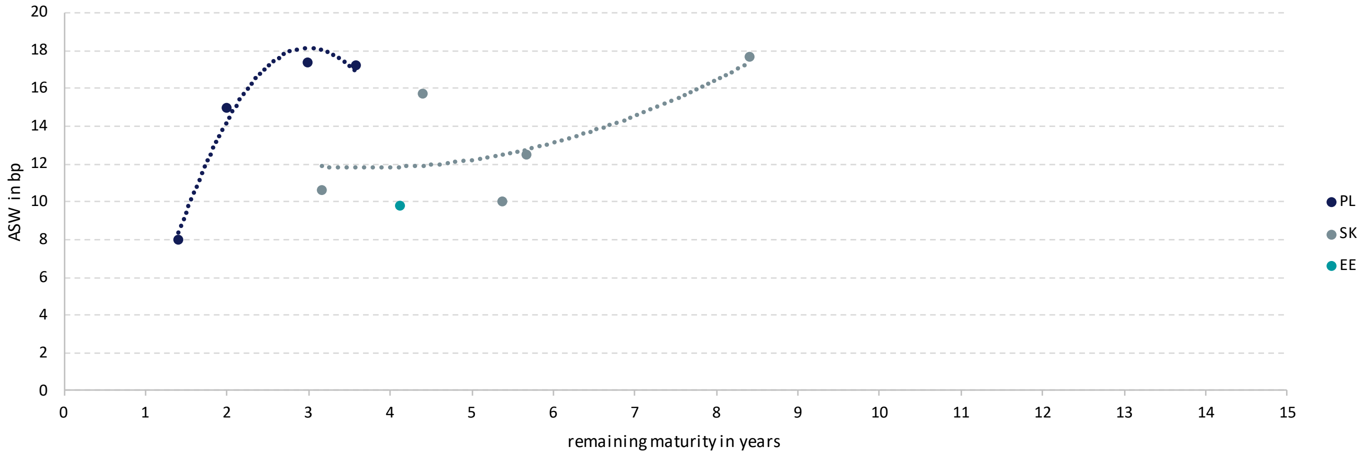


UK/IE

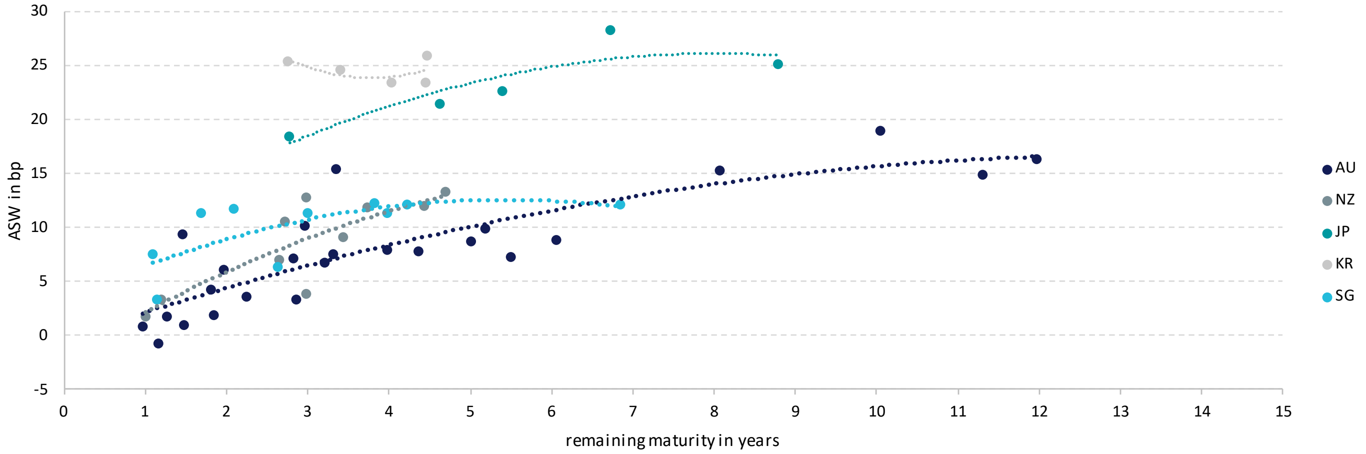


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

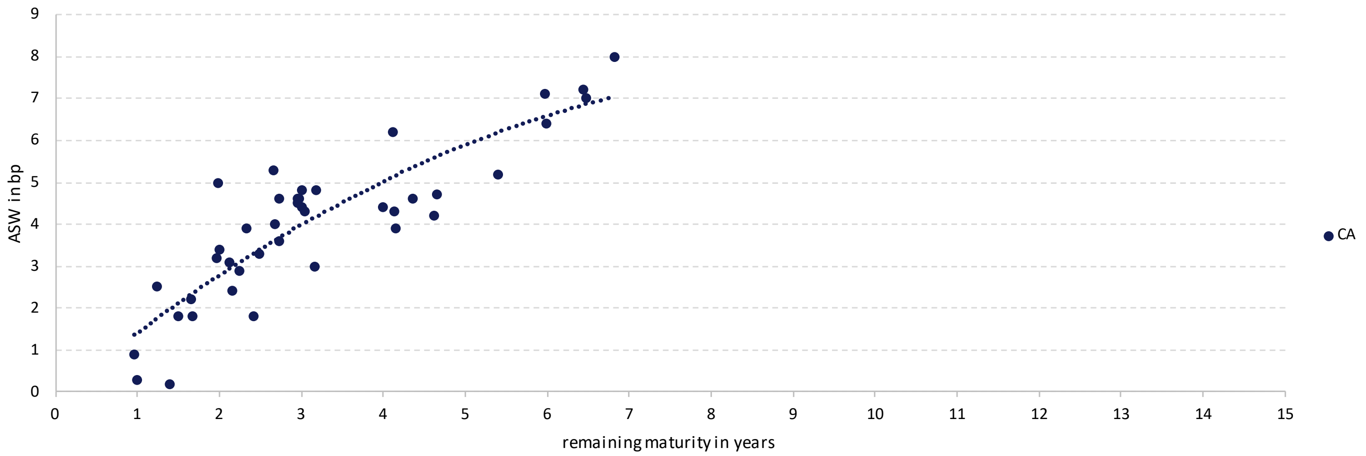
CEE



APAC



North America

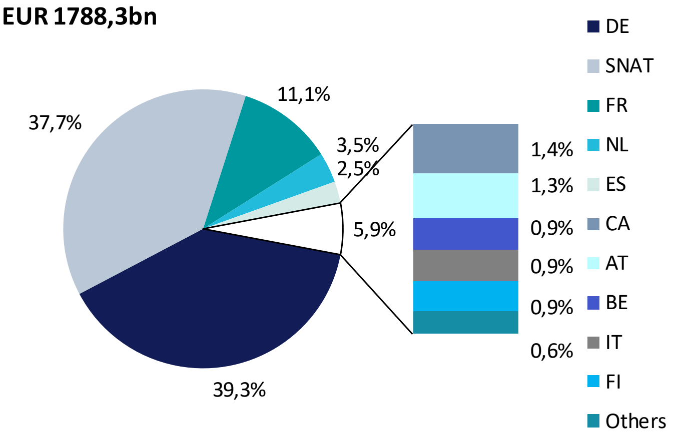


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

Charts & Figures
SSA/Public Issuers

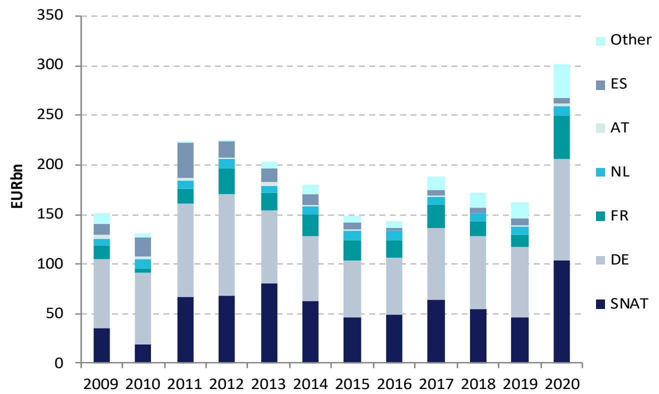
Outstanding volume (bmk)



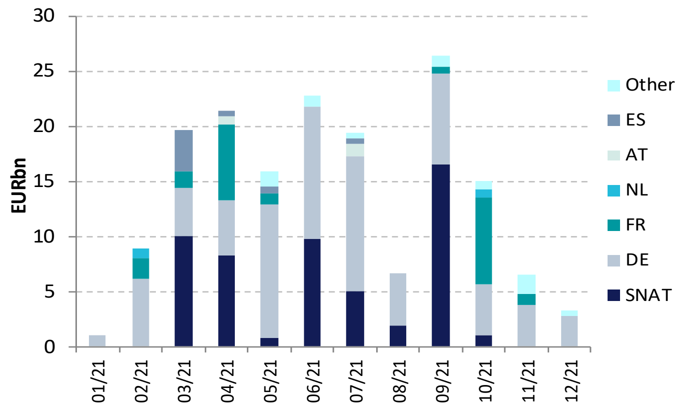
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	702,8	553	1,3	6,5
SNAT	673,6	177	3,8	7,8
FR	198,1	142	1,4	5,1
NL	62,4	64	1,0	6,5
ES	45,1	53	0,9	4,5
CA	25,0	18	1,4	5,6
AT	22,5	24	0,9	5,3
BE	16,3	19	0,9	14,1
IT	15,8	20	0,8	6,0
FI	15,5	20	0,8	5,9

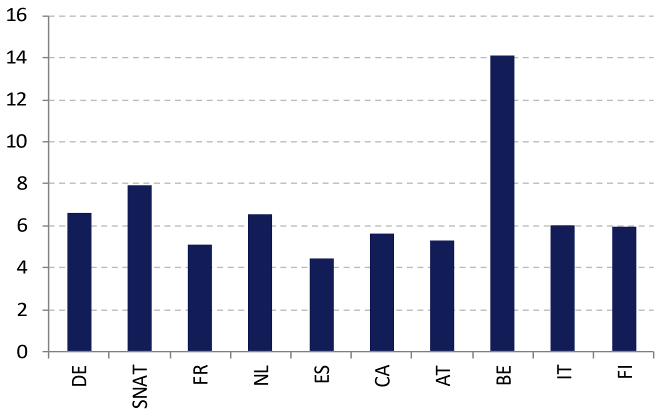
Issue volume by year (bmk)



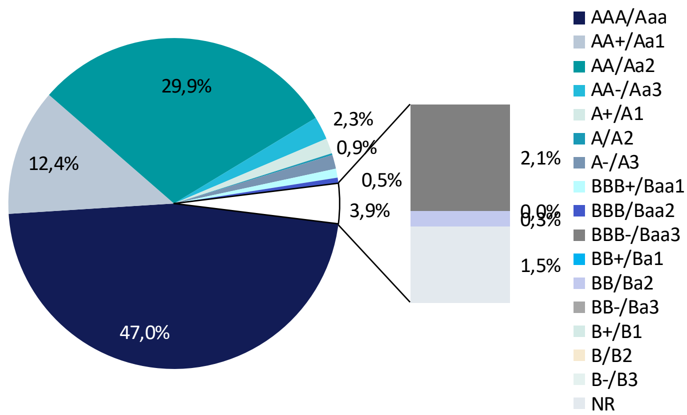
Maturities next 12 months (bmk)



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

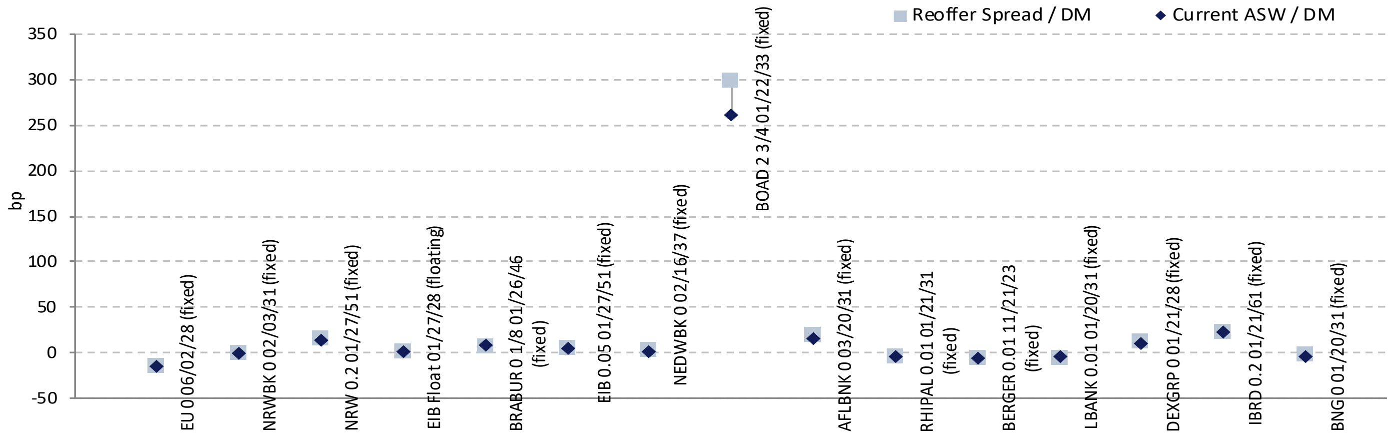


Rating distribution (vol. weighted)

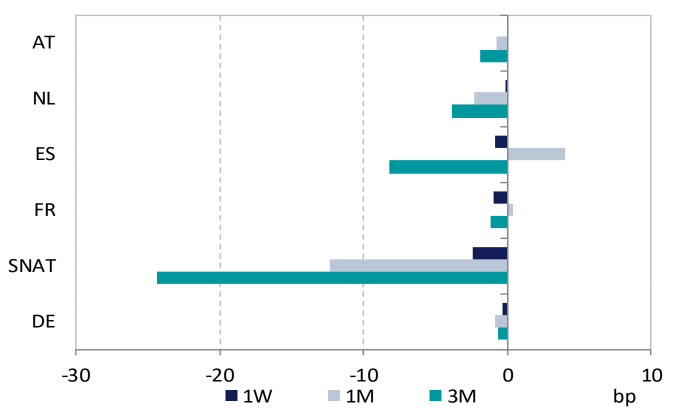


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

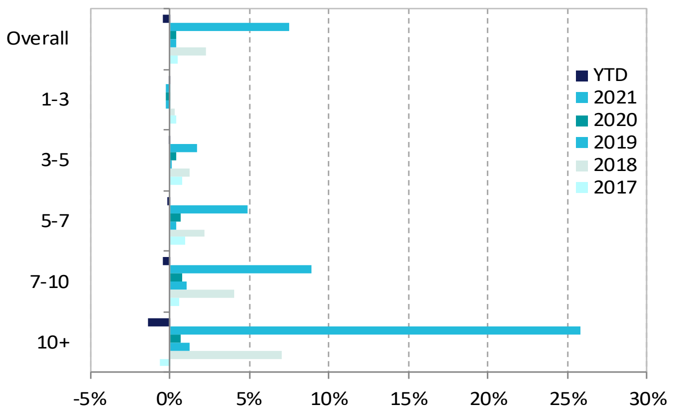
Spread development (last 15 issues)



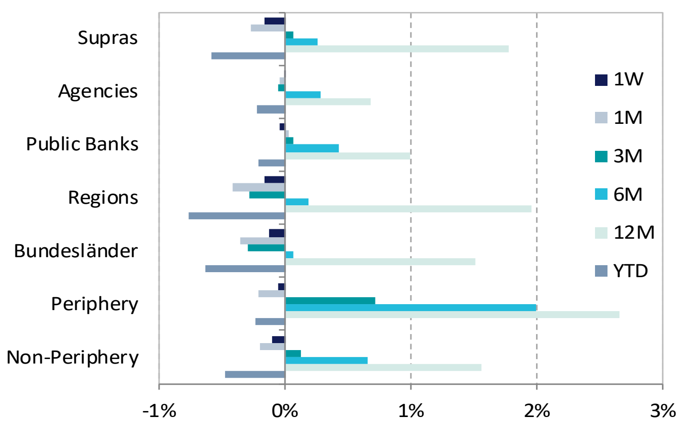
Spread development by country



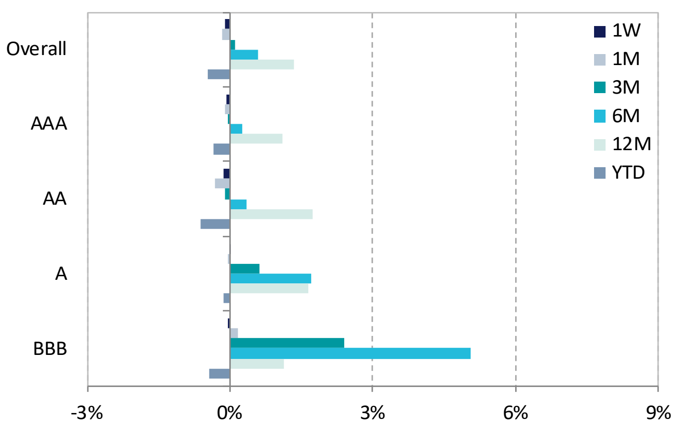
Performance (total return)



Performance (total return) by regions

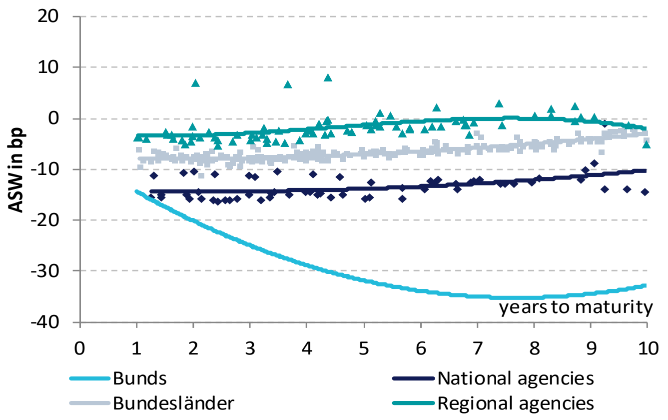


Performance (total return) by rating

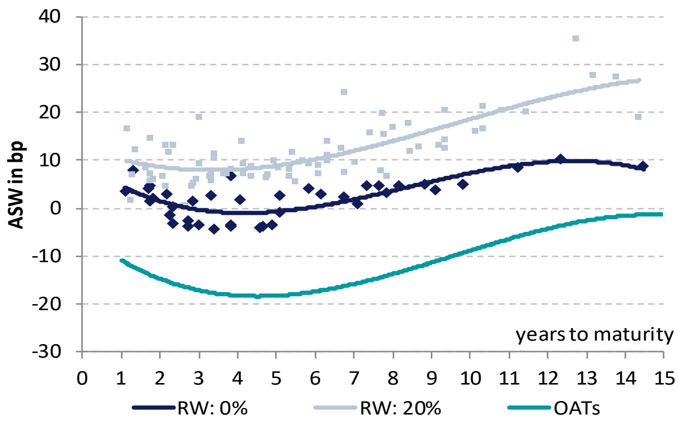


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

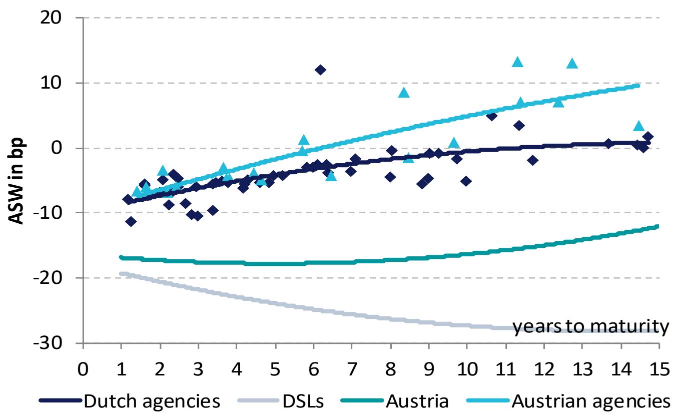
Germany (by segments)



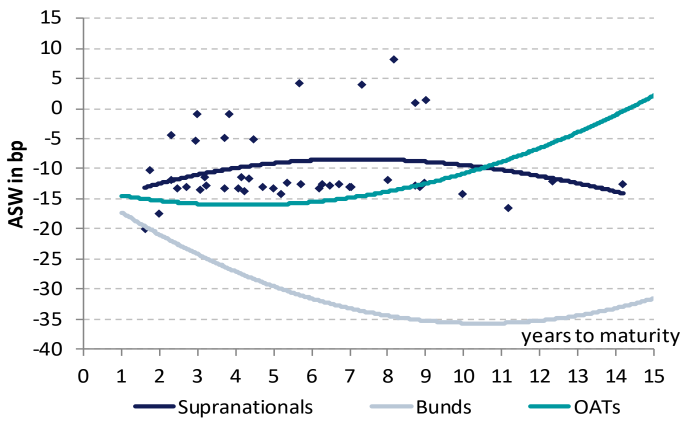
France (by risk weight)



Netherlands & Austria



Supranationals



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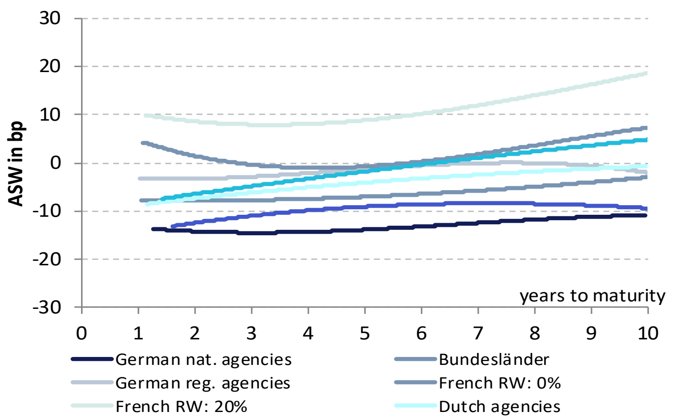

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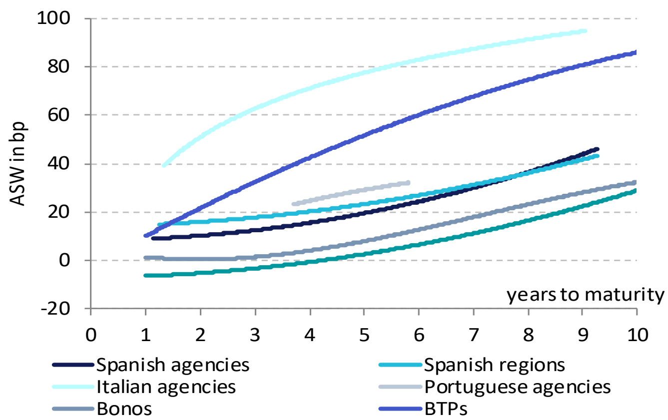

Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
02/2021 ♦ 20 January	▪ Spread considerations – APAC covered bonds riding the wave of ECB purchase programmes? ▪ Return of the Danish market for EUR benchmark bond issues ▪ 22nd meeting of the Stability Council (Dec. 2020)
01/2021 ♦ 13 January	▪ EUR benchmark from the Czech Republic: Komerční Banka launches a new covered bond programme ▪ New covered bond programme from South Korea: Hana Bank ▪ Annual review of 2020 – covered bonds ▪ Annual review of 2020 – SSA
48/2020 ♦ 16 December	▪ TLTRO III: ECB extends tender and also raises the threshold
47/2020 ♦ 09 December	▪ Fourth and final round of PEPP reporting in 2020 ▪ Investment alternative: Paris metropolitan area (IDF and VDP)
46/2020 ♦ 02 December	▪ The ECB ahead of its course-setting meeting for 2021 ▪ Covered Bonds – Outlook 2021: Waiting for the game changer? ▪ SSA – Outlook 2021: Coronavirus and ECB dominate public-sector segment
45/2020 ♦ 25 November	▪ UOB ends the state of hibernation on Singapore's primary market ▪ The covered bond universe of Moody's: an overview ▪ Update: Belgium regions as investment alternatives
44/2020 ♦ 18 November	▪ Primary market 2021: real prospect of Hungarian EUR benchmarks? ▪ German Pfandbrief savings banks in Q3 2020 ▪ Development of the German property market
43/2020 ♦ 11 November	▪ Newcomer to the benchmark segment: HSBC Bank Canada sets sights on EUR debut ▪ OP Mortgage Bank: First green covered bond from Finland ▪ Transparency requirements §28 PfandBG Q3/2020
42/2020 ♦ 04 November	▪ Covered Bond Framework and Liquidity Coverage Ratio: European Commission presents draft version of amendments to LCR regulation ▪ An overview of the Fitch covered bond universe
41/2020 ♦ 28 October	▪ ECB: The year of the owl – review and outlook ▪ Yield developments on the covered bond market
40/2020 ♦ 21 October	▪ German building societies: EUR benchmark debuts and requirements for investing in soft bullet bonds ▪ NPLs in cover pools – lack of unified approach at national level
39/2020 ♦ 14 October	▪ Spain: Issuer consolidation ahead? ▪ PfandBG to include extendable maturity structures ▪ The EU has big plans – "SURE" and "Next Generation EU"
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

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 holds course, but ups the ante – PEPP running until 2022**
- **ECB launches corona pandemic emergency**
- **ECB responds to corona risks**

NORD/LB:
Markets Strategy & Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuer Research

Bloomberg:
RESP NRDR <GO>

Appendix
Contacts at NORD/LB

Markets Strategy & Floor Research

Michael Schulz
Head
+49 511 361-5309
+49 172 740 4123
michael.schulz@nordlb.de

Melanie Kiene
Banks
+49 511 361-4108
+49 172 169 2633
melanie.kiene@nordlb.de

Dr Frederik Kunze
Covered Bonds
+49 511 361-5380
+49 172 354 8977
frederik.kunze@nordlb.de

Dr Norman Rudschuck
SSA/Public Issuers
+49 511 361-6627
+49 152 090 24094
norman.rudschuck@nordlb.de

Henning Walten
Covered Bonds
+49 511 361-6379
+49 152 545 67178
henning.walten@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Origination & Syndicate

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

Treasury

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

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
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Länder/Regionen	+49 511 9818-9550
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Issuer / security	Date	Recommendation	Bond type	Cause