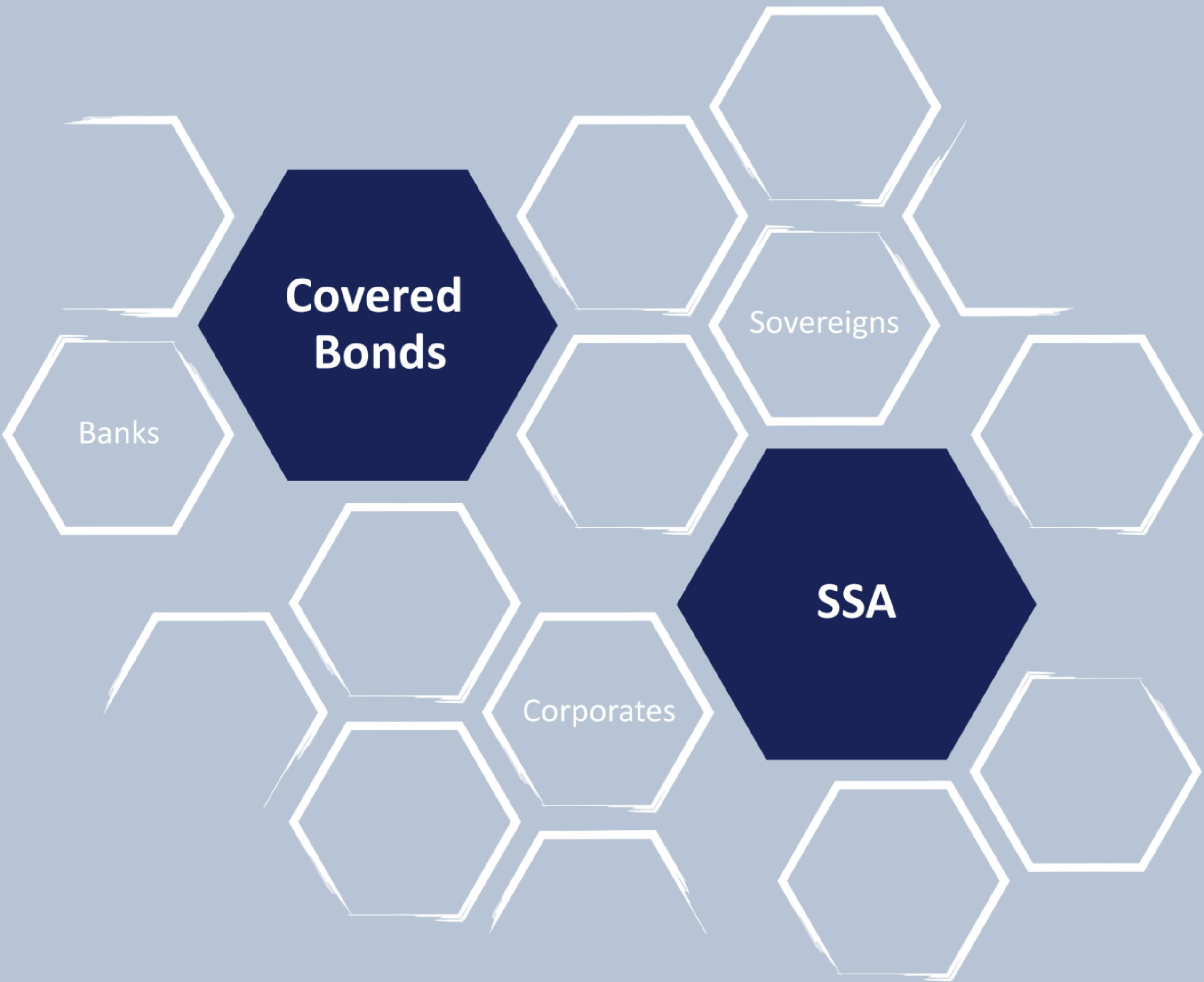

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

3 March 2021 ♦ 08/2021

Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

Finanzgruppe

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Market overview Covered Bonds

Author: Henning Walten, CIIA

UniCredit Bank places mortgage Pfandbrief

After the only new issuance to discuss in last week's edition came from NN Bank, this week we have a mortgage Pfandbrief from UniCredit Bank as the only new deal to report on from the EUR benchmark segment. This was UniCredit Bank's first market appearance since September 2020, when the Munich-based bank opted for a deal worth EUR 1.0bn over eight years at ms +7bp. Yesterday (Tuesday), however, a deal for EUR 750m was issued at ms +1bp. At 15 years, the term to maturity was nearly twice as long as the bank's previous market appearance. With demand in the area of EUR 2.85bn, this deal was likewise significantly oversubscribed (bid-to-cover ratio: 3.8x), thereby accurately reflecting the present situation on the covered bond market where low supply continues to meet substantial demand. Accordingly, pricing tightened by four basis points versus the guidance. The issuing yield of +0.002% scraped the zero line, which can be explained by the most recent decline in the 10y swap yield. On 25 February, this had been a full 10 basis points higher, although it has still increased by just over 30 basis points since the start of the year. In terms of the geographical investor distribution, the largest share went to investors in Germany (59%), followed by Austria and Switzerland (10%), the Nordics and Asia (both 7%) and the UK/Ireland (5%). Regarding investor groups, banks dominated proceedings here (60%), followed by central banks/OI (26%) and funds (13%). In addition to UniCredit Bank, RLB Vorarlberg also placed a bond on the market, albeit this was attributable to the sub-benchmark segment. This deal, which was finalised last Wednesday, comprised a volume of EUR 300m and was issued with a term of 15 years. Following initial guidance in the area of ms +8bp, the final pricing was fixed 4 basis points tighter at ms +4bp. The order books reached more than EUR 950m, producing a bid-to-cover ratio of 3.2x. Overall, 69% of the transaction volume went to Germany and Austria. In terms of investor type, banks and funds were predominant (38% each). This was also just the second EUR sub-benchmark seen in the current year.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
UniCredit Bank	DE	02.03.	DE000HV2AYD5	10.0y	0.75bn	ms +1bp	- / Aaa / -	-

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

Hypo Tirol Bank set to issue Austria's first ESG bond in the EUR benchmark segment

Yesterday (Tuesday), there was a noteworthy announcement coming from the direction of Austria. Hypo Bank Tirol, which currently has one benchmark (LANTIR 0.01 10/19/26) and one sub-benchmark (LANTIR 0 1/2 05/23/24) bond outstanding, mandated for a social covered bond in the amount of EUR 500m (no grow) with a term to maturity of 10 years. Investor calls are, however, held before this transaction will be executed. This deal would make Hypo Bank Tirol the first covered bond issuer from Austria to place a sustainable bond in the EUR benchmark segment, albeit not the first Austrian issuer with a publicly placed ESG covered bond. Back in July 2017, Kommunalkredit Austria had placed a social covered bond in the form of a EUR sub-benchmark. We expressly welcome the imminent Austrian ESG debut in the EUR benchmark segment.

Market overview
SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

The spectre of inflation or a real danger?

The inflation rate in Germany – measured as the year-on-year change in the consumer price index (CPI) – is expected to total +1.3% in February 2021. As reported by the Federal Statistical Office (Destatis), consumer prices are expected to rise by +0.7% compared to January 2021, according to results available so far. The ongoing coronavirus crisis again led to difficulties in surveying prices in February 2021 due to the fact that some goods were not available on the market, Destatis explains. The quality of the preliminary overall results is nevertheless still guaranteed. The final results for February 2021 will be published on 12 March 2021, one day after the upcoming ECB meeting, which is the focus of our Cross Asset article today. The spectre of inflation is currently dominating the interest rate landscape and is also likely to be the theme of Lagarde's press conference.

Second-highest deficit since German reunification

According to preliminary calculations, the coronavirus crisis led to a government financing deficit of EUR 139.6bn in 2020. This was the first deficit since 2011 and the second-highest deficit since German reunification, surpassed only by the record deficit of 1995, when trust debts ("Treuhandanstalt") were transferred to the state budget. Measured against GDP in current prices, the deficit ratio for 2020 is 4.2%. The reference value of the European Stability and Growth Pact – commonly known as the Maastricht criterion – of 3% was unsurprisingly missed by a large margin. However, its application has been suspended for the years 2020 and 2021. The financing deficit in 2020 results from the difference between government revenues, which decreased by 3.0% compared with 2019 to EUR 1,563.0bn (2019: EUR 1,610.6bn), and the 9.3% increase in expenditure to EUR 1,702.6bn (2019: EUR 1,558.1bn). The good fiscal starting position from 2019, in which all sub-sectors of the state recorded a surplus, deteriorated in 2020 in the wake of the coronavirus crisis – in some cases drastically. According to Destatis, the federal government's net lending/net borrowing deteriorated considerably by more than EUR 100bn to EUR -86.6bn. Social security funds posted a deficit of EUR 33.7bn and the Laender also closed the year with a deficit of EUR 18.0bn. The municipalities recorded a comparatively low deficit of EUR -1.3bn in 2020, also due to higher transfers from Bund and Laender. According to the press release, the main contributors to the Bund and Laender deficit were the expenses for state emergency and interim aid as well as the procurement and provision of protective equipment. The monetary social benefits paid increased significantly by 8.7% to EUR 593.1bn. In addition to the significant increases in unemployment and short-time working benefits, higher pension and child benefit payments also had an impact here. Social security thus acted as an automatic economic stabiliser during the coronavirus crisis. In contrast, the continuing very low interest rate level dampened government interest expenses. They fell by 20.7% to EUR 21.8bn.

Tax revenues down by -6.5% versus 2019

On the income side, tax revenues in particular remained well below the previous year's level with a decline of -6.5%. While wage tax revenues fell moderately by -2.3% according to Destatis, revenues from corporate taxes declined massively by -13.5%. As a result of weak private consumption and the temporary reduction of VAT rates from 1 July 2020, revenue from taxes on goods also decreased by -6.9%. Revenues from social contributions alone increased slightly by +1.7%. In other respects, too, the statistical values for 2020 are rather horrific; here are a few brief excerpts that quickly sum up the difficult revenue situation in a nutshell: in the German tourism sector in 2020, overnight stays were down 39% versus 2019, while start-ups of larger businesses fell by 4.5% in 2020. Beer sales dropped significantly during the coronavirus crisis and airline passenger numbers fell by 74.5% in 2020. Turnover in the travel industry was down 61% in the first three quarters, while for the hospitality sector this is expected to be 38% lower in real terms in 2020 than was the case for 2019. In December 2020, overnight stays were down 78.4% on the same month in the previous year.

Second global investor call by International Investment Bank

Considering its “size”, the Budapest-based International Investment Bank (IIB) is doing surprisingly refreshing investor work. With its second global investor call (the first was in September 2020), it once again underlined its business model and its steadily improving ratings: Fitch (A-), Moody’s (A3) and S&P (A-), each with a stable outlook. A fly in the ointment, however, is that the sounder the ratings and the business model, the lower the pick-up for investors who are desperately looking for returns. Whether and when negative returns can be achieved is anybody’s guess. In our view, IIB successfully occupies a niche, but will never (be able to) become a benchmark issuer, which at the same time is not necessary. The issuer is responsive towards private placements and currency diversification.

Canadian budgets in the starting blocks – fiscal year begins on 1 April

The fiscal year of Canadian provinces ends on 31 March. Currently, there is increased activity across the country. The COVID-19 pandemic and the associated impact on provincial expenditure and revenue are in some cases leading to a larger deficit than previously expected. For example, in Alberta this means that the government will no longer be able to balance the budget by the end of its first term in office in 2022/23. At the same time, however, the economy is beginning to recover. In particular, according to the Bloomberg ticker, even more caution is needed in ALTA than in other provinces, where the (conservative) budget projections are additionally based on crude oil prices, adding an extra dimension of contingency. While the ongoing pandemic has meant that a new timetable for balancing the budget cannot yet be announced, the Finance Minister reiterated his commitment to keeping the debt-to-GDP ratio below 30%. At the same time, per capita expenditure is to be brought in line with the average of other large provinces and a timetable for returning to an even keel is to be worked out. A factor for recovery and sustainability will nevertheless also be investments, which have been increased once again in the planning process. Currently, three out of four rating agencies have a negative rating outlook for the province. Alberta is always a candidate for a EUR benchmark and still has one of the lowest debt burdens among the Canadian provinces measured in terms of its GDP.

BADWUR goes green

As announced last week, the German state of Baden-Wuerttemberg has gone green and issued its first green bond for EUR 300m (WNG). Modest as the Swabians undoubtedly are, IPT came to ms -1bp area, guidance at ms -2bp area and final pricing at ms -4bp. The books were more than five times oversubscribed. The upcoming elections and the 2020 downgrade did not undermine the successful capital market performance. Exemplary projects are also mentioned: With particularly energy-efficient new building projects, whose primary energy consumption is more than 20% below the standard of the German Energy Saving Ordinance, additional greenhouse gas emissions are avoided in new buildings compared to conventional new buildings. With the promotion of municipal broadband investments, the foundations are being laid to change mobility behaviour – be it through home office or telemedicine. Silvicultural measures help forest owners to make their forests climate change-resistant and support reforestation, which directly contributes to climate protection.

Primary market

The EU has already raised a total of EUR 53.5bn under its SURE programme since the autumn. This corresponds to 53.5% of the planned volume. The order books totalled EUR 654bn and were therefore oversubscribed 12.2 times. Another RfP has now been submitted, but no consortium has been mandated to date. In our opinion, the EU is in a comfortable situation, as even an oversubscription of less than 10 times is still a complete success and it also influences market conditions in terms of volume alone. In any case, the EU as an issuer will have soon overtaken the EIB or KfW as regards outstanding market volume. It will probably not quite reach EUR 46.5bn by Easter, but that was just an educated guess on our part based on expected good to very good market conditions. In the first half of the year, the EU should have no problem raising funds for the SURE programme. Anyway, let's move on to discuss laid eggs instead of mandates: Kommunekredit, EIB and KfW all showed up on the market. In chronological order, we start with KOMMUN, which raised EUR 1bn at ms +4bp. The order books amounted to more than EUR 2.6bn, meaning two basis points of movement were recorded compared to the guidance (ms +6bp area). The EIB's deal was similarly successful, but very different: In its special EARN format, it chose the 15-year maturity and priced at ms -6bp. Owing to the largest order book of the trading week (EUR 21.8bn), a reduction of two basis points compared to the guidance was also possible here (ms -4bp area). Since we have already considered BADWUR separately above, we are left with the KfW transaction. EUR 5bn changed hands for five years. Here, too, two basis points of movement versus guidance were possible (ms -9bp area), as the order book totalled in excess of EUR 19bn. Last week we reported at some length on EURDEV – the Eurasian Development Bank – and held out the prospect of its first EUR benchmark due to its "de-dollarisation" policy. The EDB conducted investor calls on 1 March and decided on a five-year term. A bond of up to seven years was under consideration. Saxony-Anhalt has opted for the standard segment (10y) and plans to raise a total of EUR 1bn (no-grow).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
KFW	DE	02.03.	DE000A3H3E76	5.3y	5.00bn	ms -11bp	- / Aaa / AAA	-
EIB	SNAT	24.02.	XS2308323661	15.0y	3.00bn	ms -6bp	AAA / - / AAA	-
KOMMUN	Other	24.02.	XS2308329783	10.0y	1.00bn	ms +4bp	- / Aaa / AAA	-

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

Covered Bonds
Repayment structures on the covered bond market

Author: Henning Walten, CIIA

Three different repayment structures established in the market

The market has been preoccupied with the various options for designing a covered bond's repayment structure for some time. While investors focus on the last possible date for repayment of their investment, issuers often focus on the fact that rating agencies view extendable maturity structures positively when rating their bonds. Having usually opted for hard bullet structures in the past, the soft bullet structure has now become the most frequently chosen form for EUR benchmarks. Occasionally, bonds also appear on the market with the conditional pass-through structure (CPT) introduced by the NIBC in the Netherlands in 2013.

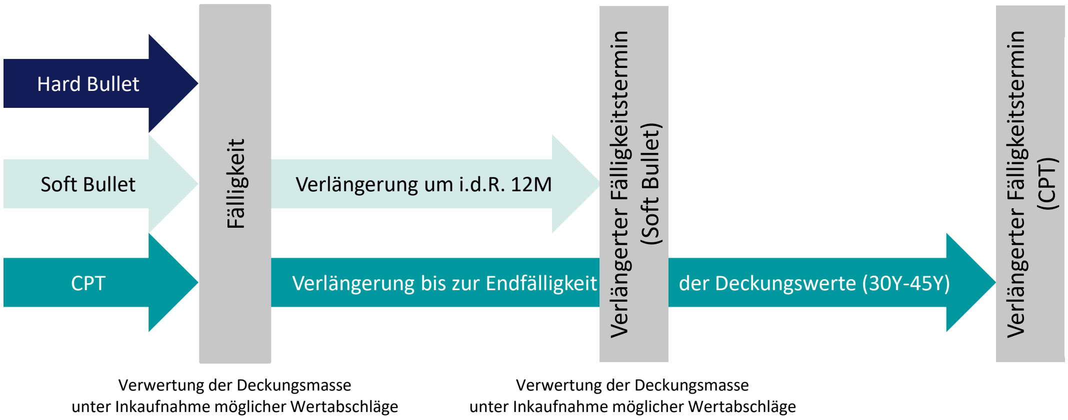
Hard bullet structures: no option for extending the maturity

Until a few years ago, hard bullet structures were regarded as market practice when it came to structuring the repayment arrangements for a covered bond – or to be more exact – the options for extending an issue if a trigger event occurred (such as an issuer becoming insolvent). This means that if the respective covered bond issuer is not able to comply with his outstanding payment obligations, investors will obtain access to the respective covered bond programme's cover pool – regardless of the repayment structure chosen – via the trustee or administrator because of the dual recourse mechanism. If redemption of an issue is pending and the liquid funds available are not sufficient to redeem the bond and liquidity cannot be generated by another means, the collateral in the pool will be sold if the bond has a hard bullet structure. This means that investors can expect prompt repayment on the one hand but this is associated on the other hand with the risk that market turbulence means that the market values of the assets may be reduced and, in extreme circumstances, the full repayment amount is not covered by the sales proceeds.

Soft bullet structures: maturity extended through trigger events

Soft bullet structures and, more rarely, CPT structures as well, exist to counter this risk. If investors' claims can be serviced when they originally fall due, there are no differences between the three payment structures as far as investors are concerned. Since no uniform trigger events have so far become established on the market to trigger an extension, different variants are currently possible, which lead to the repayment date originally agreed under a soft bullet structure being postponed. Examples of various models within the soft bullet variant include (i) the issuer's insolvency and postponement of redemption to a later repayment date by an independent trustee or (ii) the postponement of the original repayment date by the issuer. With regard to possible extension periods, a postponement of maturity by twelve months has become established in most cases under soft bullet structures. Interest payments during the extended maturity are largely based on 1-month or 3-month Euribor plus a premium or discount but are also defined as a fixed coupon in some cases.

Comparison of the different maturity structures



Source: NORD/LB Markets Strategy & Floor Research

Conditional pass-through structures: final maturity is actually uncertain

The original repayment date can be postponed for far longer in the case of bonds which feature a CPT structure. This also reduces the refinancing risk to a minimum at the same time. In contrast to the soft bullet structure, once the pass-through structure is triggered (for which, like soft bullet structures, there are currently no uniform trigger events), the outstanding covered bond issues are redeemed firstly from the inflows generated from the assets associated with them and also from the sale of assets, if they can be sold at adequate market prices. However, in contrast to the soft bullet structure, the date at which investors can expect the outstanding claims to be serviced cannot be determined ex ante. Rather, in the worst-case scenario, they can only be determined upon maturity of the assets with the longest term. Rating agencies view soft bullet, and even more so CPT structures because the refinancing risk is lower, as positive factors in assessing their ratings.

Special case Poland: soft bullet with the option to convert to CPT

With regard to the maturity structure of covered bonds, Polish legislation can be viewed as a special case. Covered bonds that cannot be serviced on maturity are initially extended by twelve months. During this extension period, a test is carried out every six months to check whether sufficient assets are available to service investors' claims and also whether there is sufficient liquidity to service these claims on time. If the two tests are not passed within the extension period, the bond is converted to a CPT structure once the period of twelve months expires. The repayment date is therefore postponed to the latest date on which the cover assets mature plus three years. However, a 2/3 majority of the investors can prevent such an extension. Polish covered bonds are therefore initially soft bullet bonds, for which the final maturity cannot be clearly determined in advance because of the possible conversion to a CPT structure, meaning that their repayment structure cannot be clearly assigned to one of the three forms of repayment. Therefore, we do not take into account the five EUR benchmarks issued by PKO Bank Hipoteczny included in the iBoxx EUR Covered in the following article.

Special case Slovakia: soft bullet with a possible second extension of maturity
Slovakia also deviates to a certain extent from current market standards as far as maturity extending structures are concerned, which is due to a change in legislation that came into effect on 1 January 2018. Accordingly, in the event of an institution becoming insolvent, the new legislative framework initially provides for postponing the due date by twelve months. Should there be no sign that investors' claims will be serviced when the extension period expires, the programme may be transferred to one or several other Slovakian banks. If such a transfer is not possible within the first extension period, a further postponement of the due date by another twelve months may be approved by the regulator. The renewed extension of maturity will affect both those bonds that were extended because of the first postponement and those whose due dates fall within the second 12-month period. The Slovakian EUR benchmark covered bonds included in the iBoxx EUR Covered are therefore soft bullet issues, whose structures differ, however, from other soft bullet issues in the index because their due dates may be postponed twice. Unlike Polish issues, Slovakian issues may, in our opinion, clearly be assigned to the soft bullet bond segment.

Soft bullet and CPT bonds under CBPP3 and for repo transactions
Given that their maturities may, under certain circumstances, be very long, covered bonds with a conditional pass-through structure are subject to special requirements. Accordingly, the ECB currently purchases no covered bonds with this structure under CBPP3. CPT bonds also have a particular feature in the context of repo transactions with the ECB. Adjustments to valuation discounts are relevant for own-use soft bullet and CPT structures. Accordingly, in the course of recognition, it is the extended maturity that is used to determine the discount and not that originally envisaged. In the case of a soft bullet, the maturity would have to be extended by a year as a rule, while all CPT structures fall into the maturity range of ">10 years" when determining any haircut because of their theoretically very long extension period.

Maturity extension also an issue for the harmonisation efforts
Extendable maturity structures are also the subject of discussion as part of the harmonisation of the European covered bond market. The aim is to create opportunities to counter risks resulting from mismatching maturities and potential liquidity shortages. In this context, the proposal envisages in the form of article 17 that it will be left to the respective national supervisory authorities to allow the issue of covered bonds with extendable maturity structures. The event that triggers the extension or postponement of maturity is critical for such structures. This trigger event must be included in the national framework and may not be left to the issuer's discretion. Bond investors must be provided with detailed information regarding the trigger, the effects on the maturity structure in the event of insolvency and the role of the supervisory authority and the trustee in the course of any extension to maturity.

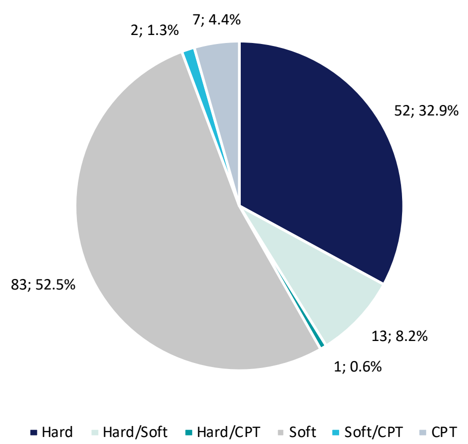
Liquidity buffer aims to mitigate market value risks

It is clear from the statements above that the refinancing risk can be significantly reduced compared with a hard bullet structure by means of a soft bullet or conditional pass-through structure. However, investment in such a covered bond requires prior, detailed examination of the terms of the bond in question since there are currently no uniform market standards either for the trigger event or for interest payments during the extension period. With regard to the refinancing risk following the issuer's insolvency, it must be mentioned that, in the case of hard bullet structures, issuers are already obliged by law in some cases to reduce this risk by maintaining a liquidity buffer. In the wake of the harmonisation efforts, Article 16 also envisages the mandatory introduction of a liquidity buffer to cover the net outflows of liquidity for 180 calendar days for all jurisdictions subject to the Regulation.

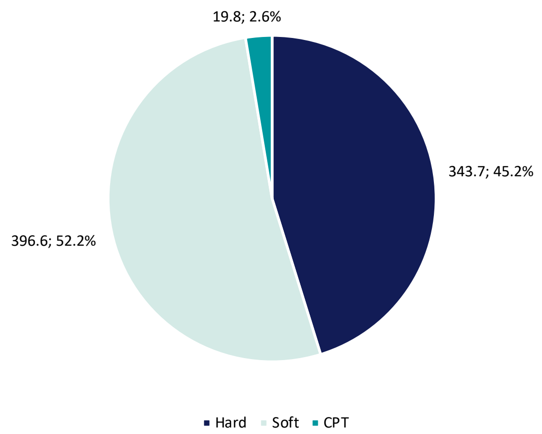
iBoxx dominated by pure soft bullet issuers

With 83 out of 158 issuers (52.5%), most of the issuers (excluding Spanish multi-cedulas) listed in the iBoxx EUR Covered currently only have outstanding benchmarks with soft bullet structures. A further 32.9% (52 issuers) is attributable to institutions that only have hard bullet bonds and 4.4% (7 issuers) to those which only use CPT structures. Consequently, a clear maturity model can be assigned to 89.9% of institutions with outstanding EUR benchmarks. However, the remaining 10.1% is attributable to issuers that have outstanding benchmarks with two differing maturity structures. The most frequent combination (8.2% or 13 issuers) is hard and soft bullet bonds. The only banks with EUR benchmarks with soft bullet and CPT structures are Italy's UniCredit and recently NN Bank from the Netherlands, making them a rarity. This is even truer of Deutsche Bank, which in addition to Pfandbriefe placed in accordance with the Pfandbrief Act also has a CPT benchmark on a contractual basis, a unique feature in the market for EUR benchmarks. The EUR benchmarks issued by Poland's PKO Bank Hipoteczny are not taken into account at this point because of their hybrid maturity structure model (soft bullet with option to switch to CPT) to avoid confusion with those issuers that have both soft bullet and CPT bonds outstanding.

Repayment structures by issuer



EUR benchmark volume by structure

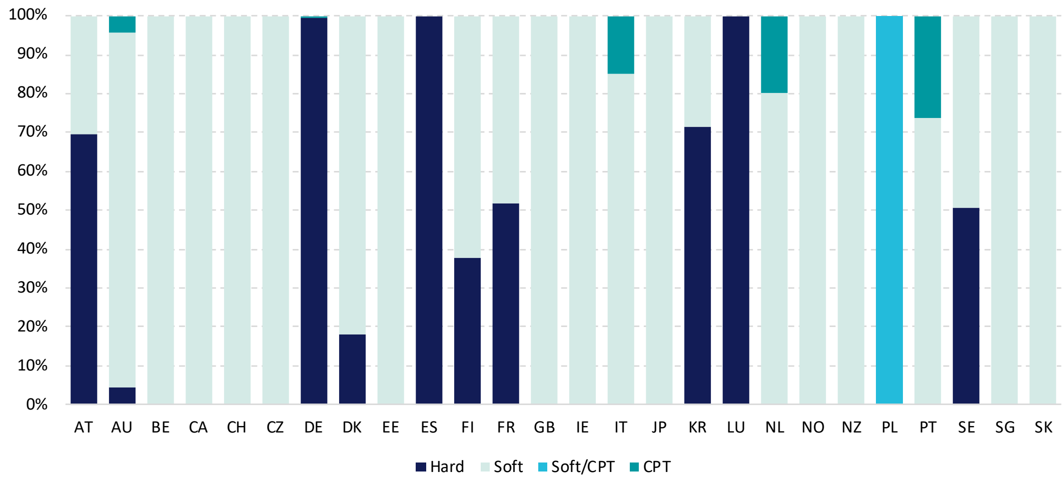


Source: Market data, NORD/LB Markets Strategy & Floor Research

EUR benchmarks with soft bullet structures account for largest outstanding volume

At 52.2%, over half of the bond volume in the iBoxx with a clear maturity structure (i. e. excluding Poland, see above or table below, as well as Spanish multi-cedulas) relates to covered bonds with a soft bullet structure. In most cases this provides for a maturity extension of 12 months if a trigger event occurs. EUR benchmarks with a CPT structure continue to represent a niche in the benchmark segment as they only account for 2.6% of the volume of bonds in the iBoxx index. Traditional hard bullet covered bonds with no option for maturity extension account for the remaining 45.2%. This share is primarily due to the fact that France, Germany and Spain are presently the biggest markets for EUR benchmarks, while legal regulations meant that these jurisdictions made greater use of hard bullet structure in the past.

Repayment structures by jurisdiction



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

Numerous jurisdictions feature varying repayment structures

Looking at the spread of the three repayment structures at jurisdiction level reveals that only EUR benchmarks from Spain and Luxembourg are exclusively represented in the iBoxx with hard bullet structures. Conversely, with Belgium, Canada, Switzerland, Czech Republic, Estonia, the UK, Ireland, Japan, Norway, New Zealand, Singapore and Slovakia, there are 12 jurisdictions with only soft bullet EUR benchmarks in the iBoxx. Poland's EUR benchmarks also have a standard (hybrid) maturity structure. CPT bonds were issued as well in Australia, Germany, Italy, the Netherlands and Portugal, whereby Australia is the only jurisdiction where all three maturity models can be found. There is more than one repayment model in 11 out of the 26 EUR benchmark jurisdictions represented in the iBoxx index. In the following, we provide a tabular overview of the individual issuers and the maturity models they use for these jurisdictions. It should be noted that under certain circumstances, repayment structures can be used in the respective jurisdictions, and by the listed issuers, that differ from those of the EUR benchmarks or are no longer listed in the iBoxx due to their residual maturity. For reasons of simplicity, this article is based exclusively on EUR benchmarks in the iBoxx EUR Covered index (excluding Spanish multi-cedulas).

NORD/LB

Repayment structures in Austria

Although EUR benchmarks with a hard bullet structure continue to dominate in Austria (EUR 18.75bn), there has been a recent trend towards soft bullet bonds. Consequently, six out of the total of 13 Austrian issuers have outstanding EUR benchmarks with a maturity extension option (EUR 8.25bn). Apart from Raiffeisen Bank International, these banks still have outstanding hard bullet bonds, but their respective most recent placements in the EUR benchmark segment were in the form of soft bullet bonds. Looking ahead, these banks are likely to become pure soft bullet issuers.

Repayment structures – Austria

	Hard	Soft
BAWAG PSK	X	
Erste Group Bank	X	X
HYPO NOE	X	X
Hypo Tirol Bank		X
Hypo Vorarlberg Bank	X	
Raiffeisen Bank International		X
Raiffeisenlandesbank Niederoesterreich-Wien	X	X
Raiffeisenlandesbank Oberoesterreich	X	X
Raiffeisen-Landesbank Steiermark	X	
Raiffeisenlandesbank Vorarlberg	X	
UniCredit Bank Austria	X	
Volksbank Wien	X	

Repayment structures – Italy

	Soft	CPT
Banca Monte dei Paschi di Siena		X
Banca Popolare di Sondrio	X	
Banco BPM	X	
Banco di Desio e della Brianza	X	
BPER	X	
Credit Agricole Italia	X	
Credito Emiliano	X	
Intesa Sanpaolo	X	
Mediobanca Banca di Credito Finanziario	X	
UniCredit	X	X
Unione di Banche Italiane	X	

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

Repayment structures in Italy

Italy is one of the jurisdictions that has outstanding bonds with CPT structures (EUR 6.5bn), even though such bonds play only a minor role in the Italian market compared with soft bullet bonds (EUR 37.68bn). While the EUR benchmarks from Banca Monte dei Paschi are exclusively CPT bonds, UniCredit has outstanding soft bullet bonds as well as issues in CPT format.

Repayment structures in Denmark

With regard to the Danish market, the bonds issued by Danish Ship Finance stand out, and not just because of their cover assets (ship mortgages). The two bonds it has issued also differ from other Danish EUR benchmarks in their repayment structure, in that they do not feature an extendable maturity. Danske Bank and Jyske Realkredit placed their EUR benchmarks with soft bullet structures (extension up to 12 months).

Repayment structures – Denmark

	Hard	Soft
Danmarks Skibskredit	X	
Danske Bank		X
Jyske Realkredit		X

Repayment structures – Finland

	Hard	Soft
Aktia Bank		X
Danske Mortgage Bank		X
Nordea Kiinnitysluottopankki	X	
OP Mortgage Bank		X
SP-Kiinnitysluottopankki		X

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

Repayment structures in Finland

Of the outstanding EUR benchmarks from Finnish issuers, only the bonds from Nordea Mortgage Bank (9 bonds) have a hard bullet structure. The remaining four issuers have 18 outstanding EUR benchmarks with a soft bullet structure, each with the option to extend maturity by 12 months.

Repayment structures in France

There are nine issuers in France that have structured their bonds with a uniform maturity structure, i.e. exclusively hard or soft bullet bonds. The majority of these issuers (five banks) have chosen extendable maturities. Only CRH, CAFFIL, CFF and Societe Generale SCF exclusively have outstanding hard bullet bonds. A further eight issuers have placed EUR benchmarks in the past with both hard and soft bullet structures. As in Austria, the most recent deals were placed as soft bullet bonds, whereby these institutions are set to become pure soft bullet issuers in the future.

Repayment structures – France

	Hard	Soft
Arkea Home Loans SFH	X	X
Arkea Public Sector SCF		X
AXA Bank Europe SCF		X
AXA Home Loan SFH		X
BNP Paribas Home Loan SFH	X	X
BPCE SFH	X	X
Caisse de Refinancement de l'Habitat	X	
Caisse Francaise de Financement Local	X	
Cie de Financement Foncier	X	
Credit Agricole Home Loan SFH		X
Credit Agricole Public Sector SCF	X	X
Credit Mutuel Home Loan SFH	X	X
HSBC SFH France	X	X
La Banque Postale Home Loan SFH	X	X
MMB SCF		X
Societe Generale SCF	X	
Societe Generale SFH	X	X

Repayment structures – Germany

	Hard	CPT
Aareal Bank	X	
Bausparkasse Schwaebisch Hall	X	
Bayerische Landesbank	X	
Berlin Hyp	X	
Commerzbank	X	
Deutsche Apotheker-und Aerztebank	X	
Deutsche Bank	X	X
Deutsche Hypothekenbank	X	
Deutsche Kreditbank	X	
Deutsche Pfandbriefbank	X	
DZ HYP	X	
Hamburg Commercial Bank	X	
Hamburger Sparkasse	X	
ING-DiBa	X	
Landesbank Baden-Wuerttemberg	X	
Landesbank Hessen-Thueringen Girozentrale	X	
Muenchener Hypothekenbank	X	
Norddeutsche Landesbank-Girozentrale	X	
Santander Consumer Bank	X	
Sparkasse KoelnBonn	X	
UniCredit Bank	X	
Wuestenrot Bausparkasse	X	

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

Repayment structures in Germany

Although the legal basis for issuing Pfandbriefe in Germany does not provide for any maturity extension, since November 2019 Deutsche Bank has had one bond with a structure that does permit this option. To achieve this, Deutsch Bank used a contractual covered bond, which therefore does not constitute a bond pursuant to the German Pfandbrief Act and consequently does not constitute a Pfandbrief.

Repayment structures in Sweden

In Sweden, three of the five issuers use covered bonds with no maturity extension. In contrast, SCBC and Stadshypotek are currently represented in the iBoxx EUR Covered index exclusively with soft bullet bonds. In terms of volume, hard bullets are still just ahead (EUR 13.75bn) while the volume of Swedish soft bullet bonds in the iBoxx stands at EUR 13.33bn.

Repayment structures – Sweden

	Hard	Soft
Lansforsakringar Hypotek	X	
Skandinaviska Enskilda Banken	X	
Stadshypotek		X
Sveriges Sakerstallda Obligationer		X
Swedbank Hypotek	X	

Repayment structures - Portugal

	Soft	CPT
Banco BPI	X	
Banco Comercial Portugues	X	
Banco Santander Totta	X	
Caixa Economica Montepio		X

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

Repayment structures in Portugal

Alongside Australia, Germany, Italy and the Netherlands, Portugal is the fifth national market with EUR benchmarks featuring CPT structures. However, three of the four Portuguese EUR benchmark issuers represented in the iBoxx exclusively use soft bullet structures. Only the two bonds issued by Montepio have maturity extension options in CPT form, which in this specific instance provides for a maturity extension of up to 45 years.

Repayment structures in the Netherlands

The introduction of the CPT repayment structure by NIBC Bank in 2013 was followed by four more issuers in the shape of Achmea Bank, Van Lanschot, Aegon Bank and NN Bank issuing bonds in CPT format. Consequently, the Netherlands not only has the most CPT EUR benchmark issuers, but also the most outstanding CPT benchmarks (21 deals) in the world by far. At EUR 42.32bn, the volume of soft bullet bonds is around four times higher than that of the CPT bonds (EUR 10.55bn). However, the gap is considerably smaller when it comes to the number of bonds: 33 soft bullet deals versus 21 bonds in CPT format. With its debut soft bullet bond in June 2020, NN Bank in the Netherlands also has outstanding EUR benchmarks with two differing maturity structures.

Repayment structures – Netherlands

	Soft	CPT
ABN AMRO Bank	X	
Achmea Bank		X
Aegon Bank		X
Cooperatieve Rabobank	X	
de Volksbank	X	
ING Bank	X	
Nationale-Nederlanden Bank	X	X
NIBC Bank		X
Van Lanschot Kempen		X

Repayment structures – Australia

	Hard	Soft	CPT
Australia & New Zealand Banking Group	X	X	
Bank of Queensland			X
Commonwealth Bank of Australia		X	
National Australia Bank		X	
Westpac Banking Corp		X	

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

Repayment structures in Australia

Australia is the only jurisdiction with bonds outstanding in all three maturity structures. However, five of the benchmark issuers currently included in the iBoxx use soft bullet structures for nearly all of their covered bond issues. The exceptions here are the two issuers ANZ Banking Group and the Bank of Queensland. While the former still has one hard bullet structure from 2012 outstanding (ANZ 3 ⅝ 07/18/22) alongside soft bullet bonds, the two EUR benchmarks issued by Bank of Queensland have a conditional pass-through structure with a maturity extension of 31.5 years.

Repayment structure in South Korea

Since the inaugural EUR benchmark bond from Kookmin Bank, South Korea has been part of the group of jurisdictions with covered bonds featuring different maturity structures. While the four EUR benchmarks from KHFC do not include any maturity extension option and are therefore hard bullet bonds, Kookmin Bank issued its debut EUR benchmark in soft bullet format. The market entry of KEB Hana Bank saw another South Korean issuer of soft bullet bonds join the ranks.

Repayment structure – South Korea

	Hard	Soft
KEB Hana Bank		X
Kookmin Bank		X
Korea Housing Finance Corp	X	

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

Conclusion

Looking at the iBoxx EUR Covered index reveals that bonds with soft bullet structures have overtaken the former dominant form of hard bullet bonds. One of the reasons for this is that many issuers in France and Austria in particular have already moved over to this form of maturity structure for their covered bonds. The proportion is also likely to increase in the first half of the year as Germany will bid farewell to the hard bullet structure as part of implementation of the Covered Bond Directive and outstanding bonds will feature a maturity extension option in line with the legislation, albeit in a very narrow legal framework. In principle, other jurisdictions where hard bullet bonds are still issued (e.g. France or in particular Spain) could opt for a similar route in the context of harmonisation of the European covered bond market, further reducing the share of hard bullet bonds in the near future (as in Germany) or further in the future through the coexistence of both issuance formats. With regard to the niche market for CPT bonds, it should also be noted that CPT issuers in the Netherlands are turning in part to the soft bullet segment. As a former CPT issuer, NN Bank placed its most recent EUR benchmarks in soft bullet format. Two other CPT issuers, Achmea Bank and AEGON Bank, could also change sides in the future and structure their EUR benchmarks as soft bullet structures.

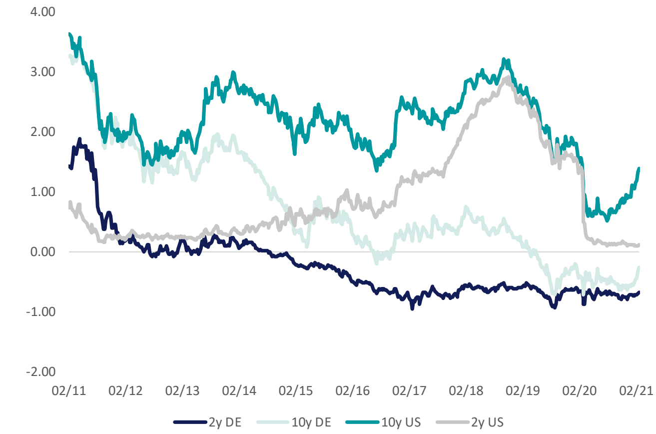
Cross Asset – SSA/Covered Bonds
ECB in a tight spot: litmus test for PEPP flexibility and preview of the second interest rate meeting of the year

Authors: Dr Norman Rudschuck, CIIA // Dr Frederik Kunze

Next ECB interest rate decision on 11 March 2021 – yield rises will inevitably shape discussions

In the past few trading days, the international bond markets were noticeably characterised by yield fluctuations – above all in the longer maturities. In the course of the market movements, which started in the US government bond segment, this became particularly evident in the increasing steepness of the yield curves in Europe as well. In light of the capital market movements, senior representatives of the ECB also felt compelled to point out their own possibilities for action. This is not without implications for the asset classes we are looking at. After all, the monetary policy of the European Central Bank has had a decisive influence on the bond markets in the common currency area in recent years. This also applies in particular to the covered bond market and the SSA universe. Accordingly, both EUR benchmark segments – in addition to the corporate bond sector – were and are in the focus of the ECB's ongoing purchase programmes. In this respect, the factors currently influencing the bond market and the pace of the ECB's monetary policy are also of fundamental importance for covered bonds and public issues. On 11 March 2021, the ECB's next rate decision is due. We still do not expect any further adjustments to the monetary policy instruments in use. Nevertheless, in our view, the recent increases in yields and the handling of the swings on the capital markets in the EUR currency area should help shape the Governing Council's debate. Within the framework of our ECB preview, we would like to outline the debate from the perspective of the asset classes we are looking at and present our assessments with a view to the medium-term decisions to be taken by the central bankers in Frankfurt.

Yield development USA and Germany



Yield differences versus bunds (10y in %)

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

Current inflation discussion taking Germany as an example

According to the Federal Statistical Office, consumer prices in Germany increased by 0.5% on average in 2020 compared to 2019, which is significantly lower than in the previous year (2019: +1.4%). If the prices of goods and services in general increase, and not just the prices of individual products, this is called inflation. In the eurozone, general consumer price inflation is measured by the Harmonised Index of Consumer Prices (HICP). "Harmonised" in this context means that all countries in the EU apply the same method. This ensures comparability of the data between the different countries. The main task of the European Central Bank is to ensure stable prices. The ECB defines price stability as an annual HICP inflation rate below, but close to, 2% over the medium term. As Destatis further reports, the last time a lower annual rate of inflation was recorded was during the financial and economic crisis in 2009 (+0.3%). In December 2020, the inflation rate – measured as the change in the consumer price index (CPI) compared to the same month of the previous year – was still -0.3%. It was negative for the fifth time in 2020 at that time. One reason for the low annual rate of inflation was the temporary reduction in VAT rates. This measure from the federal government's economic stimulus package was implemented on 1 July 2020 and had a dampening effect on consumer prices overall in the second half of the year and to varying degrees on the individual groups of goods. Energy products fell significantly in price by -4.8% year-on-year in 2020, following a +1.4% increase in 2019. Price decreases were recorded in particular for light heating oil (-25.9%) and fuels (-9.9%). Apart from the reduction in VAT rates, the main reason was the drop in oil prices on the world market in the first few months of the year. In contrast, the price of electricity went up by 3.0%. Now comes the unexpected part: excluding energy prices, the annual inflation rate would have been +1.1% in 2020. It should come as little surprise that, according to Destatis, no price collection was possible in 2020 for some goods and services at times due to the coronavirus pandemic. These price losses were imputed by means of European coordinated procedures. The term imputation covers mathematical-statistical procedures for filling in missing data in statistical surveys – known as non-responses – in the data matrix. The (data) quality was thus still guaranteed. Even without taking into account the goods sectors that were heavily imputed in the course of 2020, the annual inflation rate would have been +0.6%.

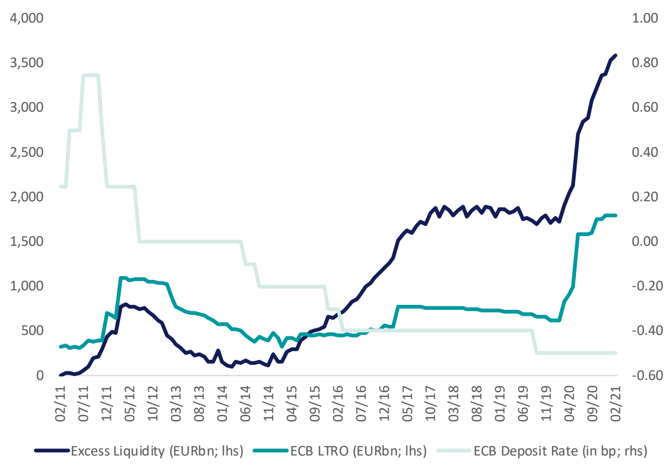
Inflation jumps in January 2021

The inflation rate in Germany was +1.0% in January 2021, after the aforementioned rate of -0.3% in December 2020 (both compared to the same month of the previous year). The last time the inflation rate was positive was in June 2020 (+0.9%). Consumer prices rose by +0.8% compared to the previous month of December 2020. It is common knowledge that the temporary reduction of VAT rates as a measure of the federal government's economic stimulus package ended on 31 December 2020. Only restaurant and catering services continue to be subject to the reduced tax rate. The passing on of the higher tax rates, which have been in force again since January 2021, accounts for part of the increase in consumer prices. As with the reduction of VAT rates in the summer, the return to standard tax rates must take into account that the actual effects do not have to correspond to the purely arithmetical effects. In addition to the end of the VAT rate reduction, the CO_2 levy introduced at the beginning of the year particularly impacted on prices. Excluding energy prices, the inflation rate would have been +1.4% in January 2021. This has had a noticeable impact on yields over the past few trading days.

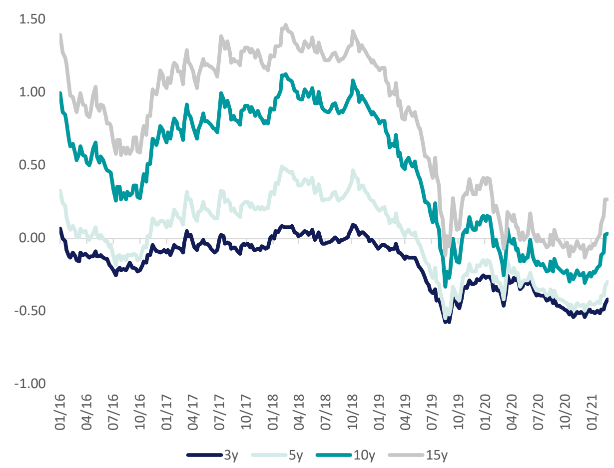
Inflation expectations, growth prospects and spread increases: Will the flexible use of PEPP soon be put to the test?

While US central bankers have linked the rise in ten-year Treasury yields primarily to improving growth prospects, which have been given an additional boost by the government's stimulus programme, in the common currency area the focus has also been on the issue of excessively rising inflation expectations and the risks to growth associated with the rise in yields. In this respect, it is not surprising that the ECB decision-makers already repeatedly referred to the flexibility of the PEPP last week (cf. e.g. Interview with ECB chief economist Philip R. Lane) and that these statements were also repeated several times at the start of the week. In the run-up to the approaching key rate meeting, the debate about the actual flexibility of securities purchases (the focus here is primarily on the PEPP) will gather momentum. In this context, capital market participants are likely to focus on financial market indicators of inflation expectations in addition to the reported inflation figures. Even if improving growth prospects and rising inflation rates taken in isolation are by no means bad news for the ECB, some observers rightly see the deteriorating financing conditions with rising capital market interest rates as an impediment to the already fragile economic recovery due to the pandemic situation. According to reports, the ECB could prevent an outright stalling of the dynamics of the economic expansion process with the help of additional securities purchases within the framework of the PEPP. In this respect, it is not surprising that François Villeroy de Galhau, Governor of the Bank of France, recently raised the issue of ECB intervention. ECB Vice-President Luis de Guindos also referred at the beginning of the week to the opportunities offered by the PEPP in terms of responding to rising nominal yields in the eurozone. At the same time, however, he made it clear that the purchase programme was indeed fulfilling its purpose. The central banker justified this, among other things, by saying that although yields were rising, this development was by no means limited to the periphery. In this way, de Guindos also identifies the factors behind the observed rise in yields as an important decision variable behind possible action to be taken by the ECB over the coming weeks.

ECB: Excess reserve, key interest rate and LTRO



EUR swap rates (weekly)



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

Current PEPP purchases: Have words already been translated into deeds?

In addition to Philip R. Lane and Luis de Guindos, Isabel Schnabel, the person responsible for market operations and thus also QE, has also commented on the current developments, pointing out that it is ultimately to be welcomed if improved growth prospects are behind the increases in yields. The actual purchases under the PEPP could in principle provide an insight into the Eurosystem's changed purchasing behaviour, which could ultimately indicate a link to current market developments. In this context, net purchases under the PEPP amounted to EUR 12.0bn (cf. ECB tracker), the lowest level in more than six weeks (gross: EUR 16.9bn). With relation to the current PEPP figures reported on Monday, they should be interpreted with some caution. After all, the figures only include purchases up to Wednesday of the previous week, so an adjusted purchasing behaviour that could be directly justified by the rise in yields would not yet be discernible. In fact, however, we are of the opinion that the ECB will first want to wait and see – as indicated – before assessing the causes behind the capital market movements in order to then intervene on an ad hoc basis if necessary.

ECB decision on 11 March 2021 – low expectations

Based on this consideration, we also come to the conclusion that the central bankers are by no means likely to feel compelled to adjust the monetary policy course next Thursday. In this respect, we rule out interest rate measures as well as adjustments to the PEPP framework or the TLTRO III conditions. The PEPP framework is currently not exhausted and thus favours the flexibility that has been highlighted several times. The adjustments to the TLTRO III tenders also have to take effect first. One subject for discussion could be the multiplier in the context of tiering, although here too we would initially expect a further “wait and see” approach. In fact, however, the increase in excess reserves (not least due to securities purchases) is likely to indicate an increasing burden for some credit institutions. The agreed wording of the ECB's press release may well ultimately have the potential to provide indications for the future. The flexibility of the PEPP is likely to be emphasised again in this context. We also think references to the necessary real economic impulses from the ECB measures (such as in a prior press release with regard to the best possible interest rate in the context of TLTRO III) are very likely.

SSA segment: general conditions unchanged

The unchanged high supply from issuers meets the undiminished strong demand from investors (primary market) and the ECB (secondary market). The EU is already in the starting blocks, and the German Laender are also permanently represented on the market. In addition, there are the usual representatives of the other e-supras (especially EIB, but also EFSF and ESM) as well as KfW. The PSPP, with EUR 20bn in fresh cash every month, is also unjustly regularly overshadowed by the younger but faster-growing PEPP. We are concerned about the discussions on the ISIN limits that the ECB has imposed on itself for the APP and PSPP. Here, as already explained several times, the limit of 33% per issuer or issue applies as a rule; only in the case of supranationals is it 50%. The ECB does not take a position here within the framework of the PEPP. An enquiry from us went unanswered. However, the issue of blocking minority is important should tensions arise again in the public sector. Here, the ECB would do well to provide more transparency, as it lives by its credibility and market confidence.

Covered bonds: EUR benchmark segment will continue to be under the spell of the ECB

With regard to the covered bond segment, we hardly expect any significant impulses from the upcoming ECB meeting. This assessment is based on the fact that the simultaneous influence on the supply and demand side of this sub-market will be maintained, especially in the form of favourable refinancing (TLTRO III) and massive purchases of securities. Should there be a surprise adjustment of the multiplier, this could give a negative impulse to the demand for covered bonds coming from the direction of bank treasuries, but in our assessment, this should be marginalised in light of the massive purchases under the CBPP3. Current market developments, on the other hand, could well rearrange the structure of the covered bond market to a significant extent. In this context, we should mention in particular the noticeable increase in swap rates, which has resulted in a return to positive yield territory for a growing proportion of covered bonds. Should risks be priced in more strongly again as a result of the yield increases in recent days, covered bonds would be largely shielded from spread increases, with spreads for senior unsecured issues expected to widen, especially for bail-in eligible papers. This is also consistent with our view that covered bonds are in an even better position than senior unsecured bonds from a relative value point of view. Overall, however, we do not expect a regime change that would result in massive re-pricing.

Conclusion and comment

In the run-up to next week's ECB meeting, senior ECB officials have commented several times on yield rises, flexible options and the current upward pressure on prices. We are also not ignoring the currently increasing special effects in some tax rates as well as rising transport and raw material costs seen not only in Germany, but across the rest of Europe and the world too. We see certain temporary inflation drivers here. Moreover, after the (partial) lockdown (unsatisfied online) consumption is coinciding with limited capacities, but also full warehouses, especially in stationary retail. While spring is beckoning, old collections still lie like lead on the shelves. Pandemic, lockdowns and sustained inflation can be ruled out in our view, as we do not expect a long-term boom. On the one hand, this may be because of the mutations and the "new normal" for co-existing in terms of travel, concerts and stadium visits, but also the expected wave of bankruptcies in 2021/22. We are not glorifying the scenario that is currently being played out in the market, but it is highly likely that Christine Lagarde will face questions about inflation (and thus the currently rising yields) at the press conference in eight days' time. According to the December forecasts, the ECB expects to miss its inflation target by 2023 (+1.4%). For the years before that, inflation rates are also expected to be well below the ECB's target (2021: +1.0%; 2022: 1.1%). Moreover, at the turn of the year, nothing at all unforeseen happened with regard to the return to the previously applicable tax rates and other possibly price-driving elements. Monetary policy is therefore likely to remain untouched in its current form, while the wording of the press release is once again likely to be very important.

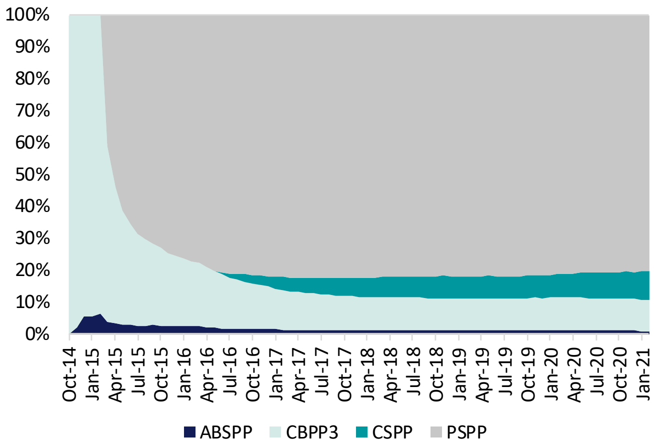
ECB tracker

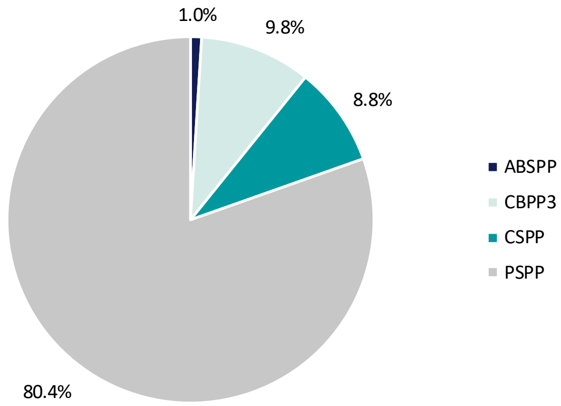
Asset Purchase Programme (APP)

Holdings (in EURm)

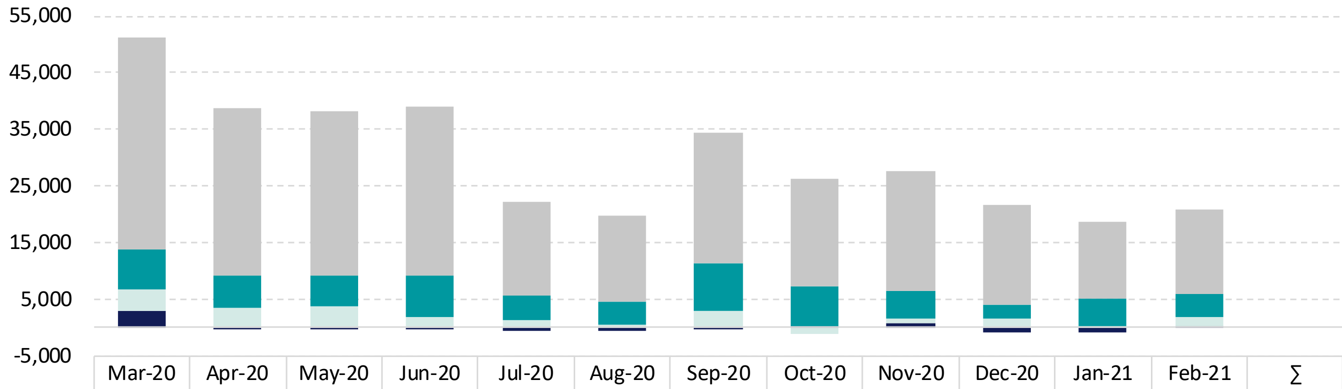
	ABSPP	CBPP3	CSPP	PSPP	APP
Jan-21	28,545	287,619	255,327	2,355,262	2,926,754
Feb-21	28,762	289,158	259,391	2,370,392	2,947,703
Δ	+217	+1,539	+4,064	+15,129	+20,949

Portfolio structure





Monthly net purchases (in EURm)

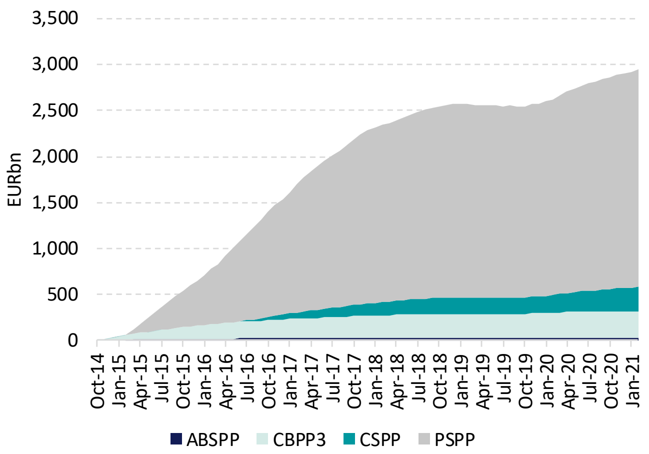


	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	∑
APP	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,949	353,986
PSPP	37,323	29,624	28,961	29,779	16,370	15,150	23,102	19,182	21,241	17,822	13,655	15,129	267,338
CSPP	6,965	5,560	5,438	7,515	4,502	4,004	8,496	6,983	5,009	2,378	4,924	4,064	65,838
CBPP3	3,931	3,582	3,785	1,731	1,198	500	2,839	-1,041	646	1,529	74	1,539	20,313
ABSPP	2,923	-325	-14	-255	-541	-527	-423	225	824	-800	-807	217	497

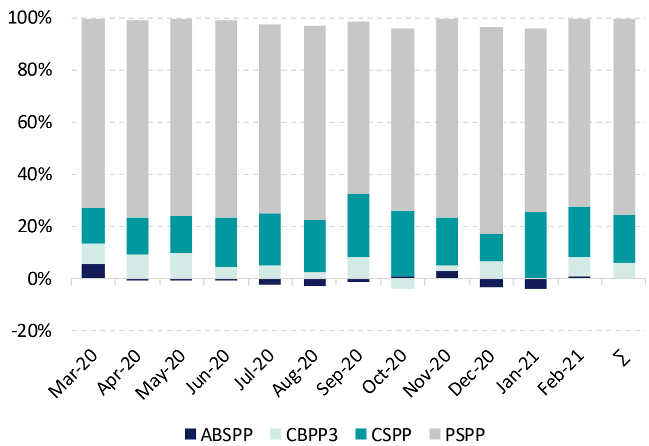
Source: ECB, NORD/LB Markets Strategy & Floor Research

NORD/LB

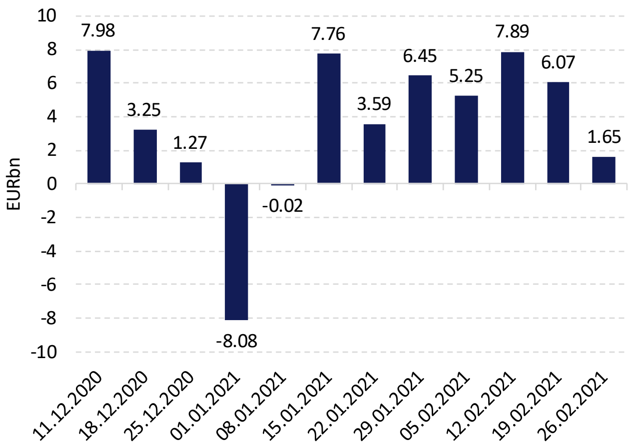
Portfolio development



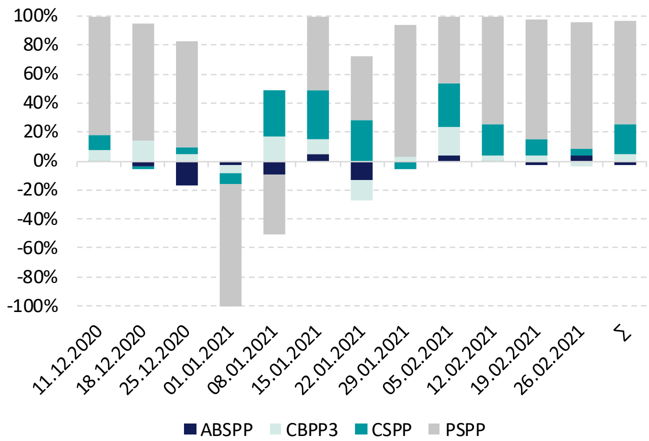
Distribution of monthly purchases



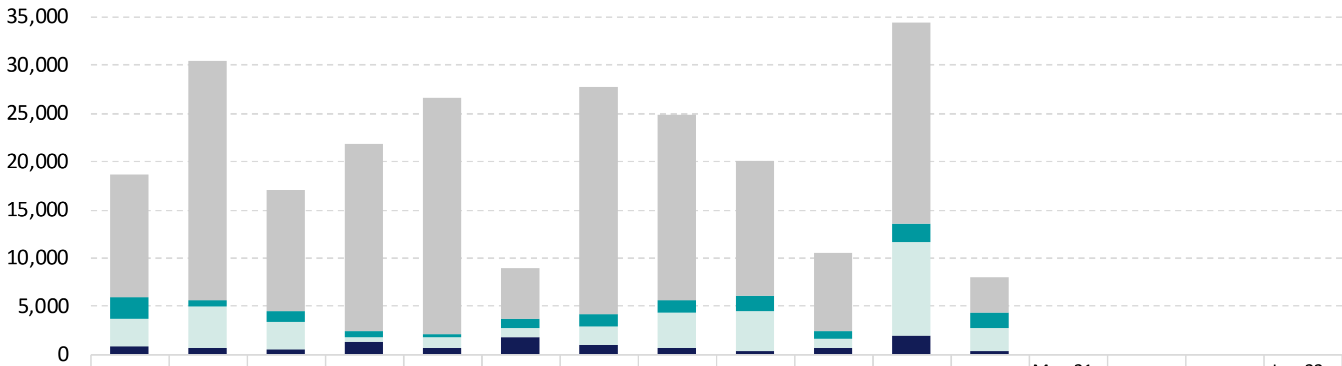
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

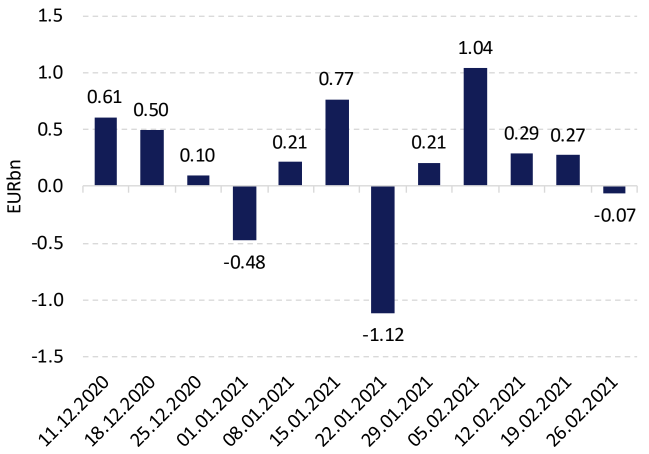


	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-21 - Feb-22	2020	2021	Jan-22 - Feb-22
APP	18,607	30,466	17,144	21,892	26,593	8,882	27,775	24,846	20,120	10,584	34,430	7,966	249,305	262,253	246,111	42,396
PSPP	12,674	24,919	12,637	19,519	24,532	5,118	23,640	19,227	13,991	8,177	20,906	3,625	188,965	201,482	189,743	24,531
CSPP	2,265	607	1,144	631	334	966	1,272	1,280	1,673	826	1,915	1,544	14,457	18,267	15,943	3,459
CBPP3	2,818	4,278	2,894	367	1,132	1,002	1,902	3,716	4,039	937	9,639	2,433	35,157	33,236	30,057	12,072
ABSPP	850	662	469	1,375	595	1,796	961	623	417	644	1,970	364	10,726	9,268	10,368	2,334

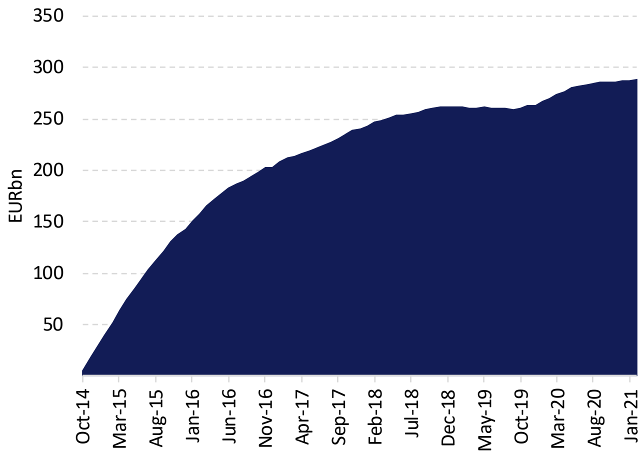
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

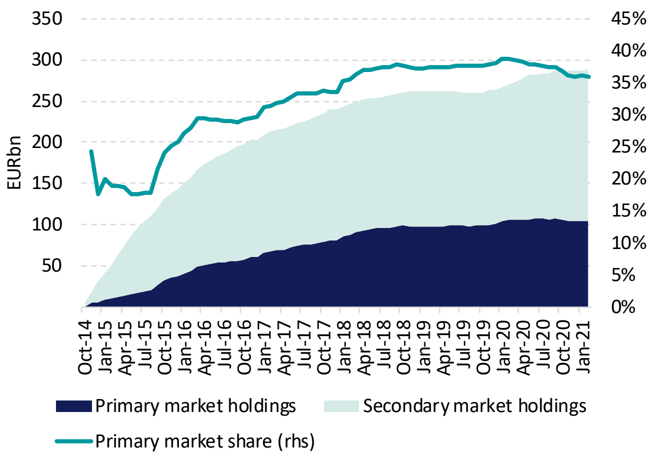
Weekly purchases



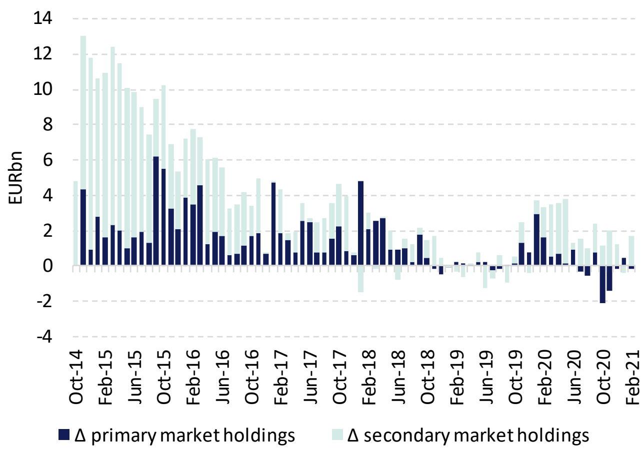
Development of CBPP3 volume



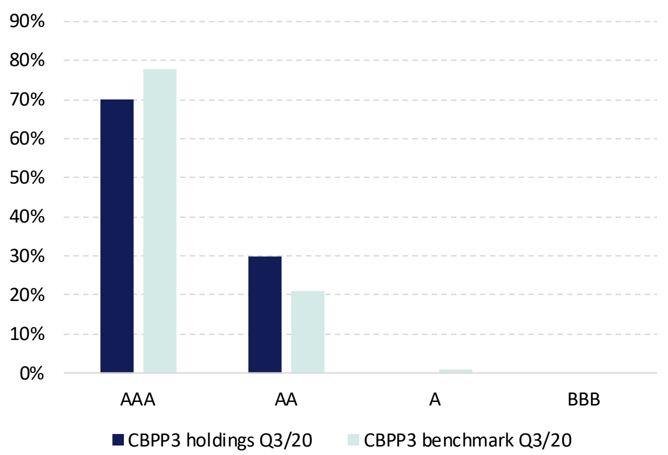
Primary and secondary market holdings



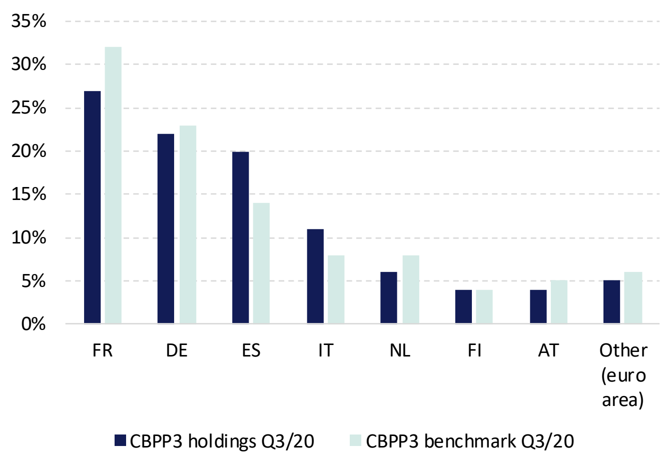
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



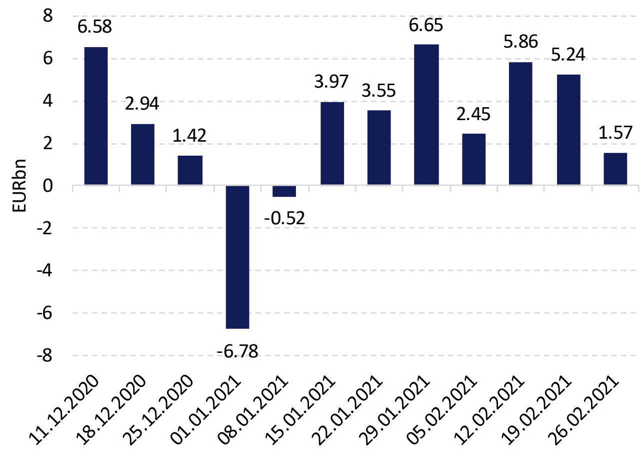
Distribution of CBPP3 by country of risk



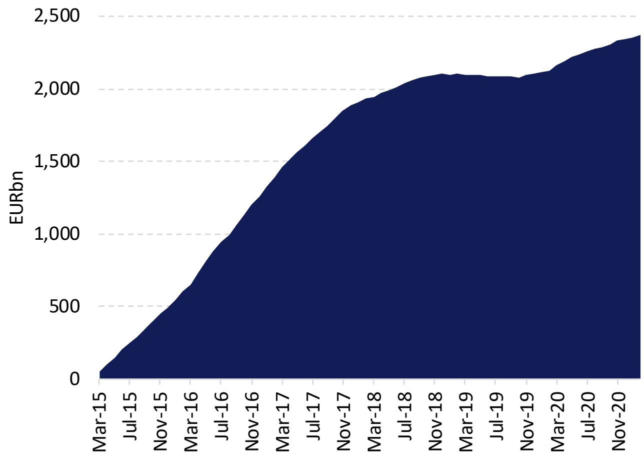
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



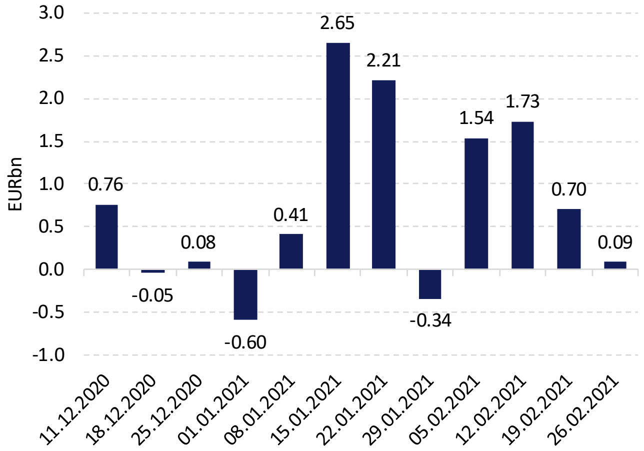
Overall distribution of PSPP buying at month-end

Jurisdiction	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Avg. time to maturity[3] (in years)	Market average[3] (in years)[3]	Difference (in years)
AT	2.7%	69,357	67,307	2,050	7.8	7.8	0.0
BE	3.4%	87,627	83,780	3,847	8.4	10.2	-1.8
CY	0.2%	3,427	4,948	-1,521	10.0	9.3	0.7
DE	24.3%	588,192	606,206	-18,014	6.5	7.6	-1.1
EE	0.3%	324	6,478	-6,154	9.7	9.7	0.0
ES	11.0%	292,369	274,217	18,152	8.2	8.5	-0.3
FI	1.7%	36,772	42,241	-5,469	7.2	7.9	-0.7
FR	18.8%	492,681	469,676	23,005	7.0	8.1	-1.1
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	38,171	38,941	-770	8.6	9.9	-1.3
IT	15.7%	418,790	390,666	28,124	7.1	7.8	-0.7
LT	0.5%	4,683	13,309	-8,626	9.5	11.3	-1.8
LU	0.3%	3,164	7,575	-4,411	5.0	6.5	-1.5
LV	0.4%	2,599	8,960	-6,361	10.1	10.5	-0.4
MT	0.1%	1,222	2,412	-1,190	10.1	9.2	0.9
NL	5.4%	119,658	134,766	-15,108	7.5	8.4	-0.9
PT	2.2%	46,884	53,822	-6,938	7.2	7.6	-0.4
SI	0.4%	9,041	11,073	-2,032	9.4	9.3	0.1
SK	1.1%	15,130	26,336	-11,206	8.4	8.6	-0.2
SNAT	10.0%	261,812	249,190	12,622	7.2	8.3	-1.1
Total / Avg.	**100.0%**	**2,491,902**	**2,491,902**	**0**	**7.2**	**8.1**	**-0.9**

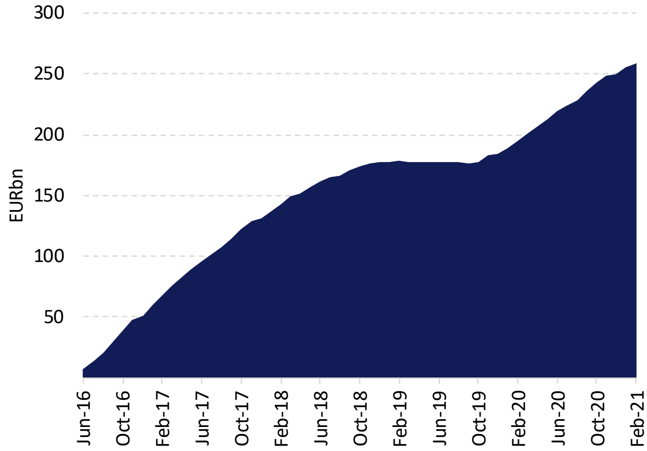
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q3/2020)
Source: ECB, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

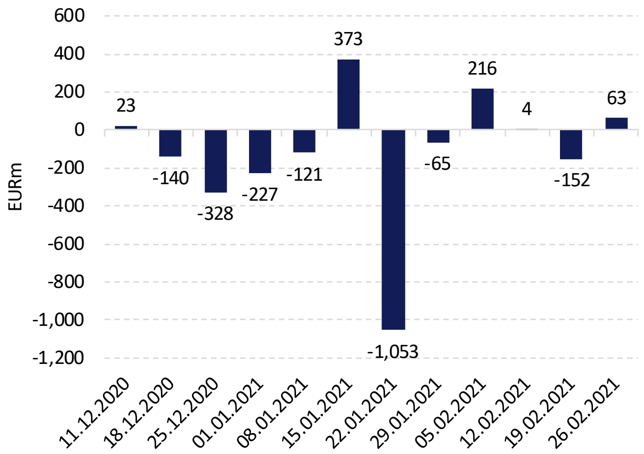


Development of CSPP volume

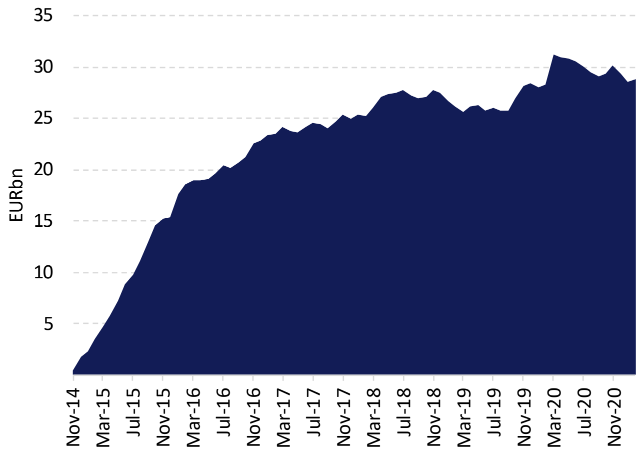


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



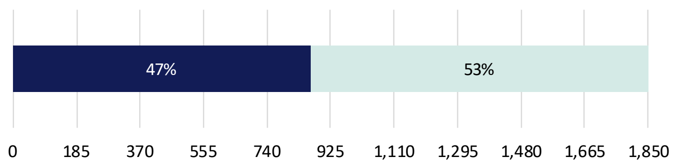
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Jan-21	810,212
Feb-21	870,126
Δ	+59,914

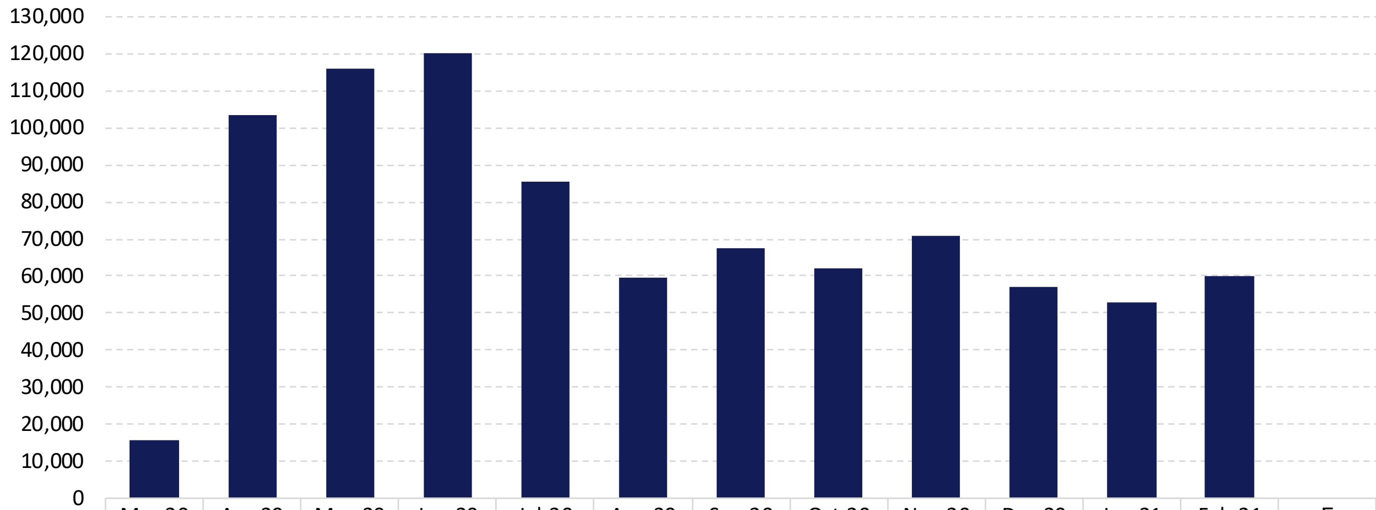
Volume already invested (in EURbn)



Estimated portfolio development

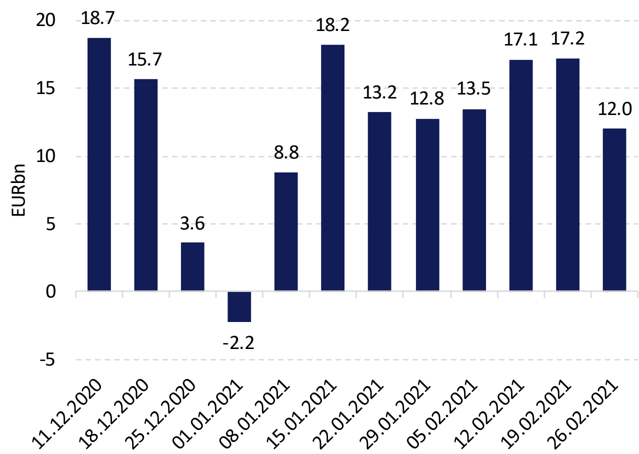
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 18.1bn	54 weeks (11.03.2022)

Monthly net purchases (in EURm)

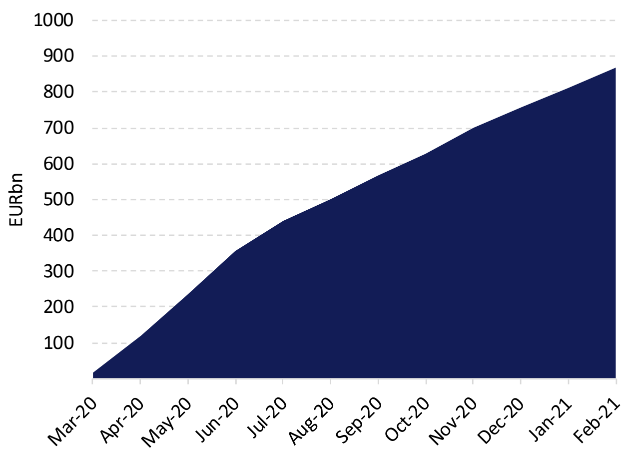


	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	∑
PEPP	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	870,126

Weekly purchases



Development of PEPP volume

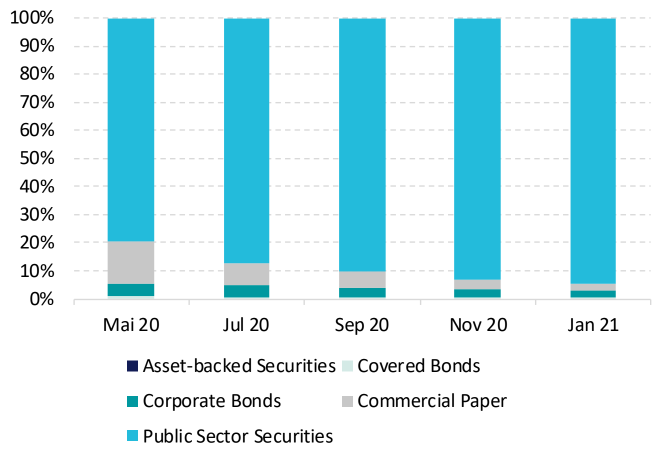


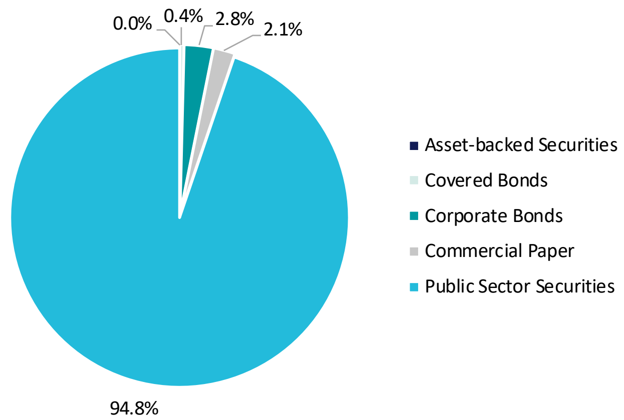
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

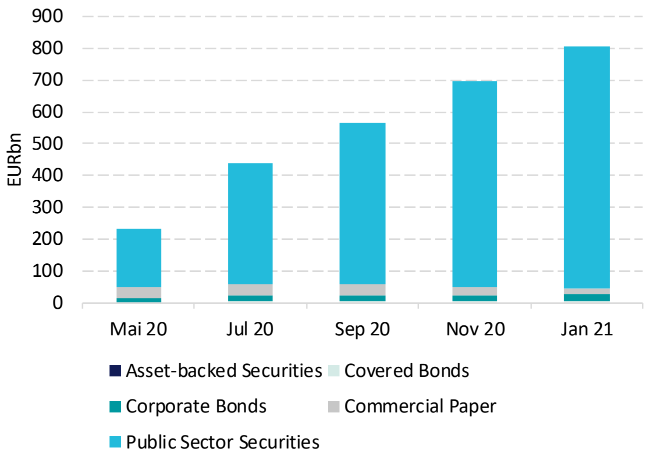
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Nov-20	0	3,123	20,760	24,306	650,272	698,461
Jan-21	0	3,120	22,315	16,611	764,710	806,756
Δ	0	-3	+1,555	-7,695	+114,438	+108,295

Portfolio structure

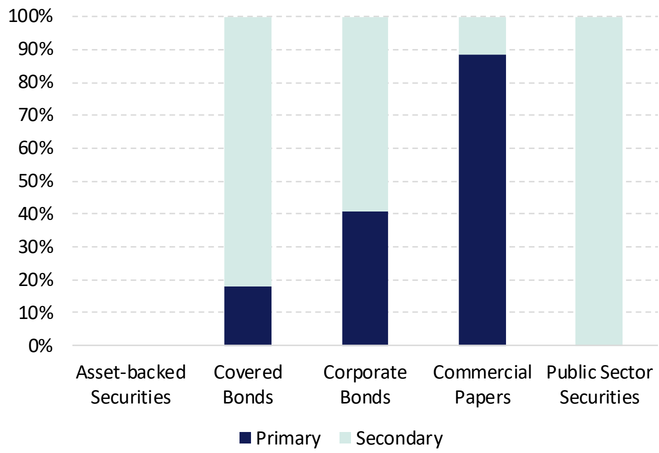




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP as of January 2021

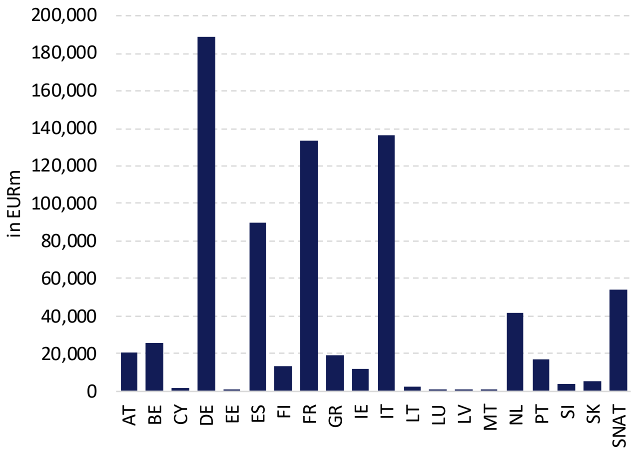
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	557	2,563	9,092	13,223	14,663	1,948
Share	0.0%	0.0%	17.9%	82.2%	40.7%	59.3%	88.3%	11.7%

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

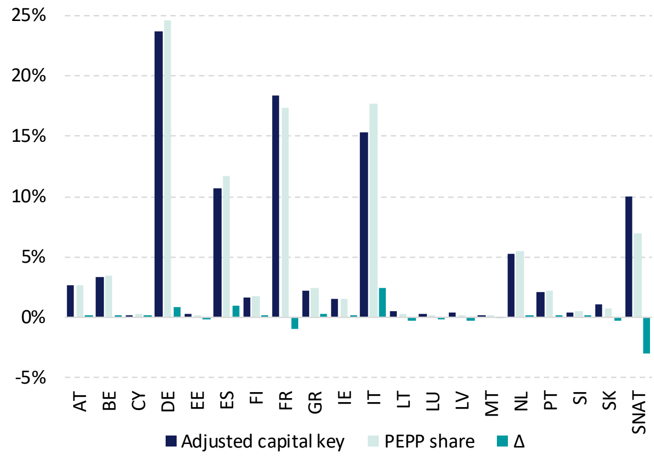
Breakdown of public sector securities under the PEPP

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	20,692	2.6%	2.7%	0.1%	10.0	7.1	3.0
BE	26,084	3.3%	3.4%	0.1%	6.5	9.3	-2.8
CY	1,712	0.2%	0.2%	0.0%	10.4	8.2	2.3
DE	188,751	23.7%	24.6%	0.8%	5.1	6.7	-1.6
EE	211	0.3%	0.0%	-0.2%	8.9	8.2	0.8
ES	89,846	10.7%	11.7%	1.0%	8.5	7.4	1.0
FI	13,103	1.7%	1.7%	0.1%	7.1	6.9	0.2
FR	133,594	18.4%	17.4%	-1.0%	8.4	7.3	1.1
GR	18,950	2.2%	2.5%	0.2%	8.6	9.5	-0.8
IE	12,123	1.5%	1.6%	0.1%	9.0	9.4	-0.5
IT	136,310	15.3%	17.7%	2.5%	6.8	6.9	-0.1
LT	2,183	0.5%	0.3%	-0.2%	11.5	10.3	1.2
LU	1,301	0.3%	0.2%	-0.1%	6.9	6.2	0.6
LV	888	0.4%	0.1%	-0.2%	9.7	10.1	-0.4
MT	266	0.1%	0.0%	-0.1%	7.2	8.0	-0.8
NL	41,956	5.3%	5.5%	0.2%	4.4	7.8	-3.3
PT	17,304	2.1%	2.3%	0.1%	6.6	6.6	0.0
SI	3,644	0.4%	0.5%	0.0%	9.3	9.8	-0.5
SK	5,381	1.0%	0.7%	-0.3%	8.6	8.2	0.4
SNAT	53,849	10.0%	7.0%	-3.0%	9.8	7.9	1.9
Total / Avg.	**768,148**	**100.0%**	**100.0%**	**0.0%**	**7.1**	**7.3**	**-0.2**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



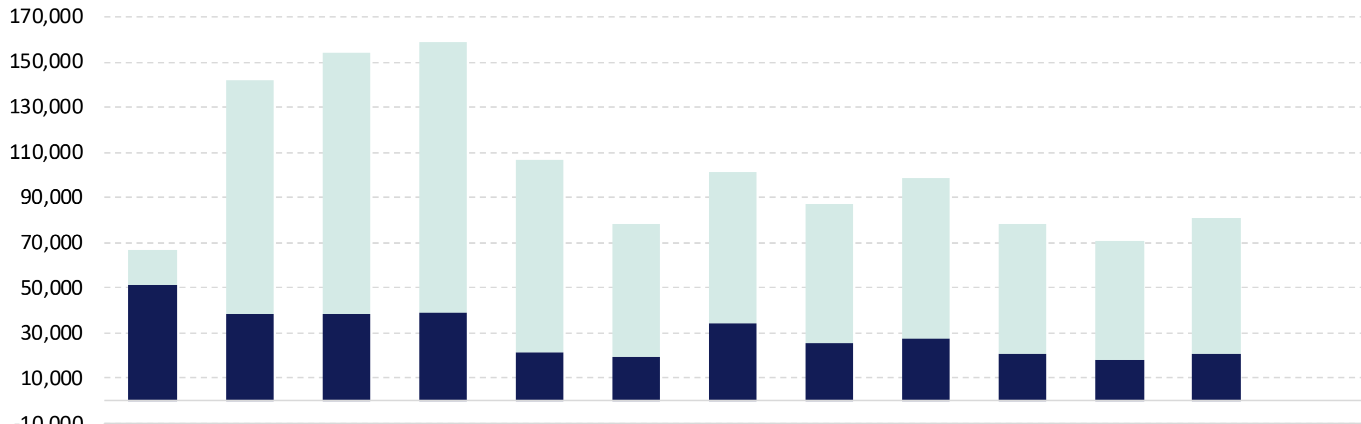
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

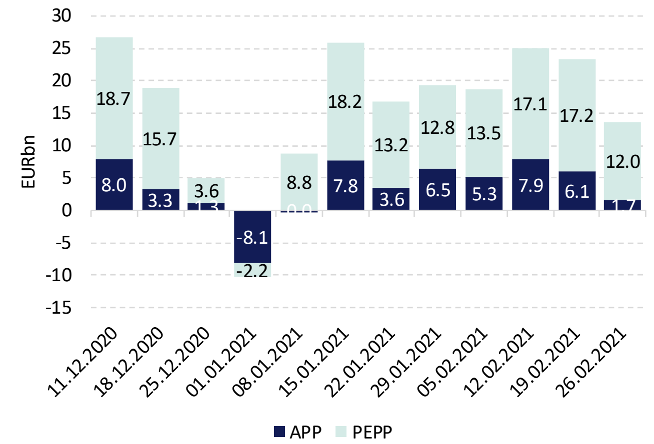
	APP	PEPP	APP & PEPP
Jan-21	2,926,754	810,212	3,736,966
Feb-21	2,947,703	870,126	3,817,829
Δ	+20,949	+59,914	80,863

Monthly net purchases (in EURm)

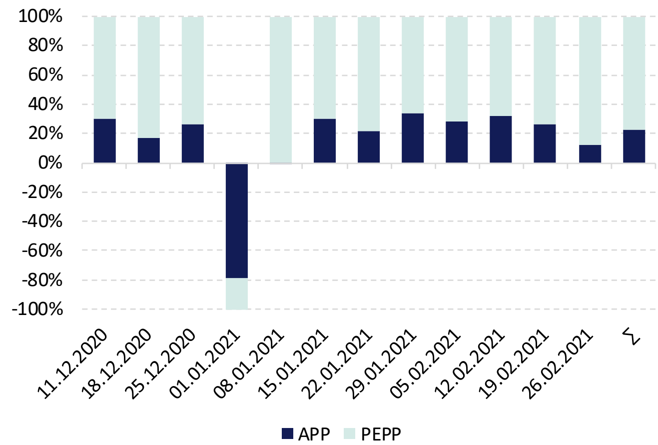


	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	∑
∑	66,586	141,807	154,025	159,091	106,952	78,593	101,322	87,334	98,555	78,092	70,892	80,863	1,224,11
PEPP	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	870,126
APP	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,949	353,986

Weekly purchases



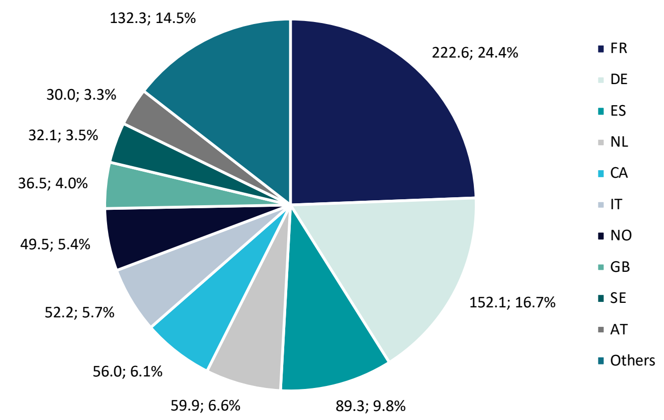
Distribution of weekly purchases



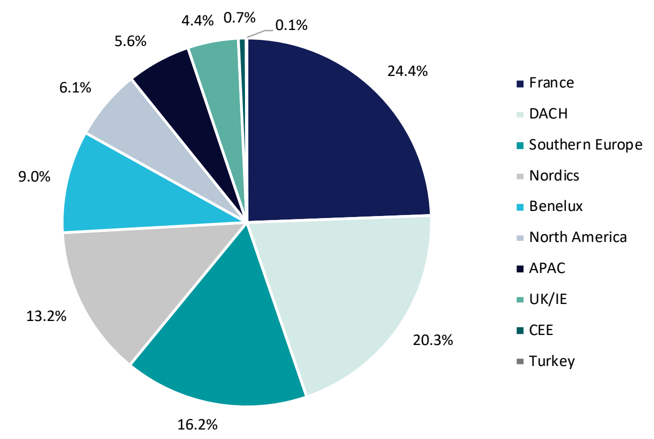
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



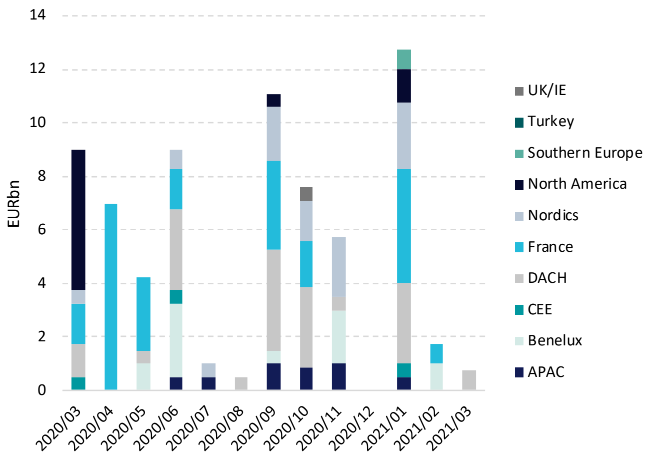
EUR benchmark volume by region (in EURbn)



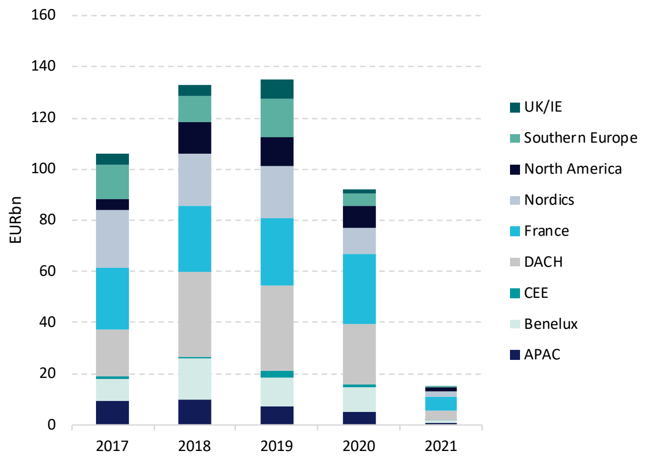
Top-10 jurisdictions

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	222.6	204	7	0.96	10.1	5.5	1.17
2	DE	152.1	227	12	0.60	8.3	4.7	0.47
3	ES	89.3	72	3	1.13	11.4	3.9	1.86
4	NL	59.9	59	0	0.96	11.2	7.4	0.97
5	CA	56.0	47	0	1.16	6.0	2.9	0.30
6	IT	52.2	60	0	0.84	9.0	4.3	1.45
7	NO	49.5	56	7	0.88	7.2	3.8	0.56
8	GB	36.5	41	0	0.90	8.4	3.2	1.12
9	SE	32.1	38	0	0.84	7.5	3.5	0.60
10	AT	30.0	55	0	0.54	9.5	6.0	0.68

EUR benchmark issue volume by month

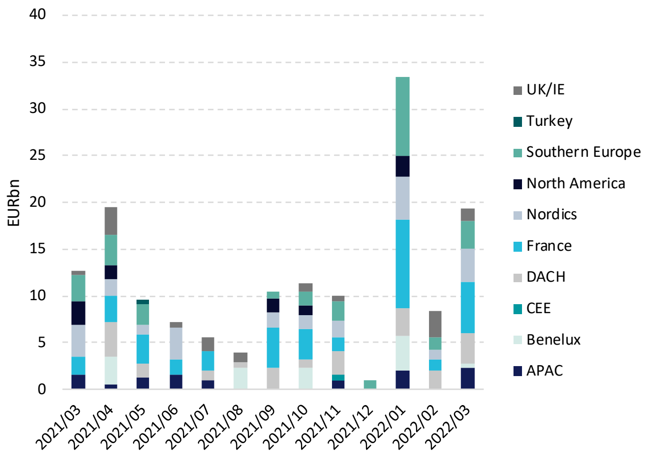


EUR benchmark issue volume by year

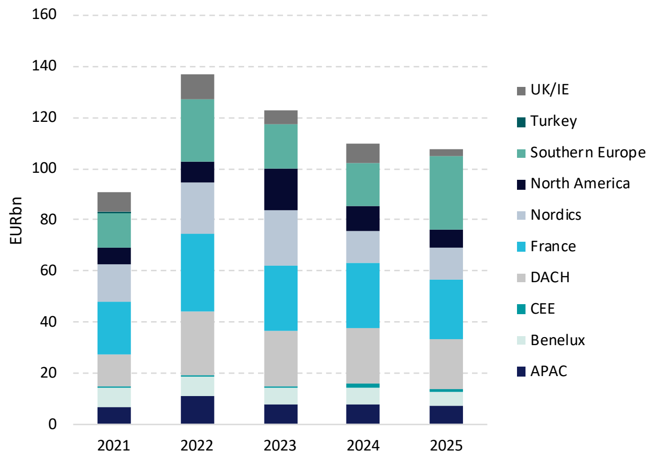


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

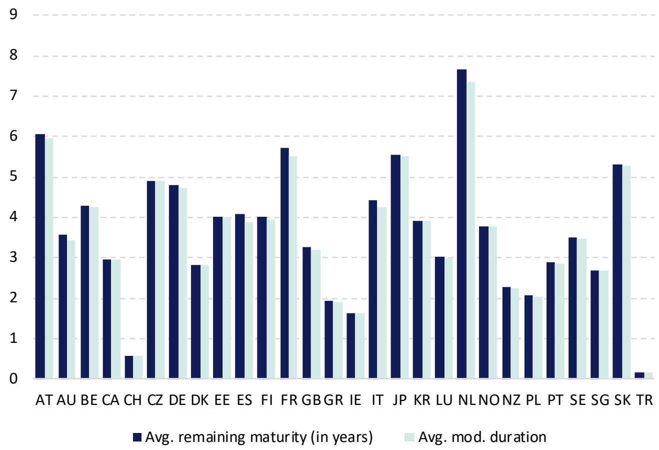
EUR benchmark maturities by month



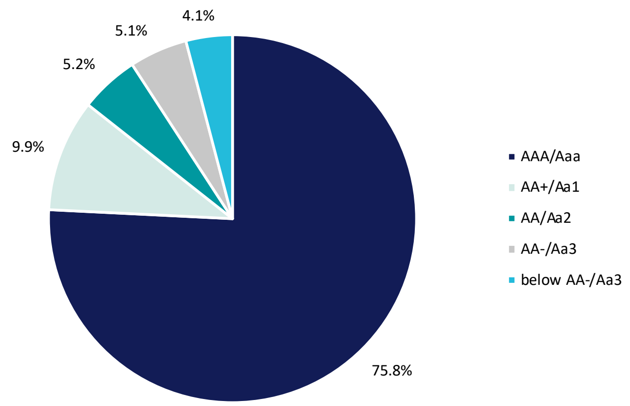
EUR benchmark maturities by year



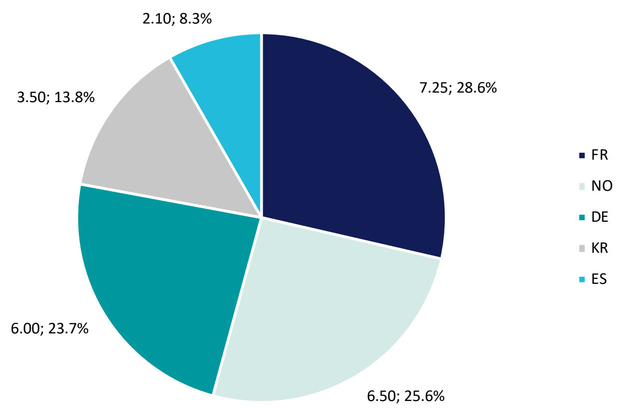
Modified duration and time to maturity by country



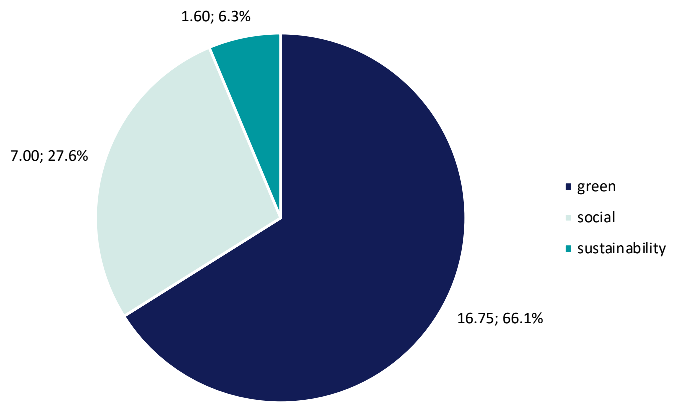
Rating distribution (volume weighted)



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

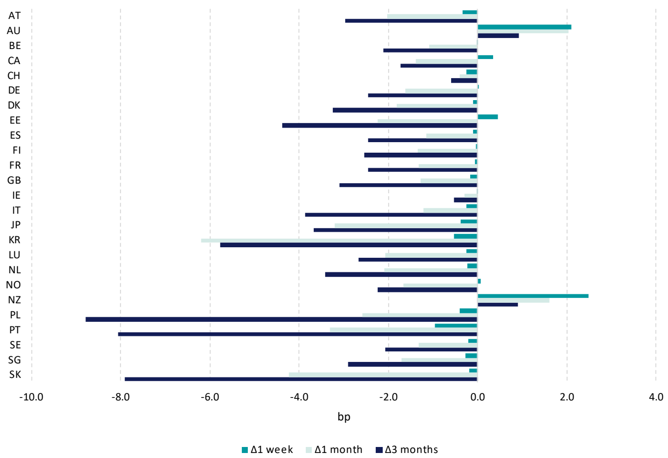


EUR benchmark volume (ESG) by type (in EURbn)

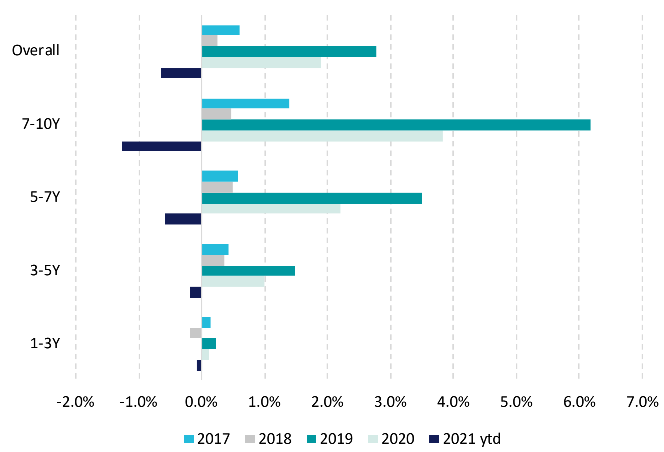


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

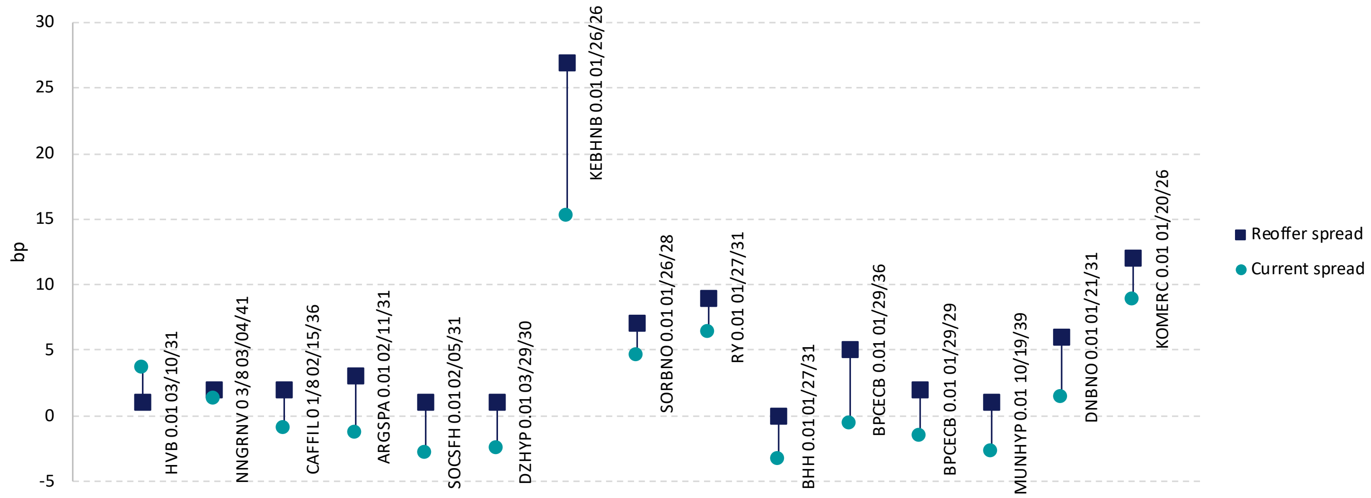
Spread development by country



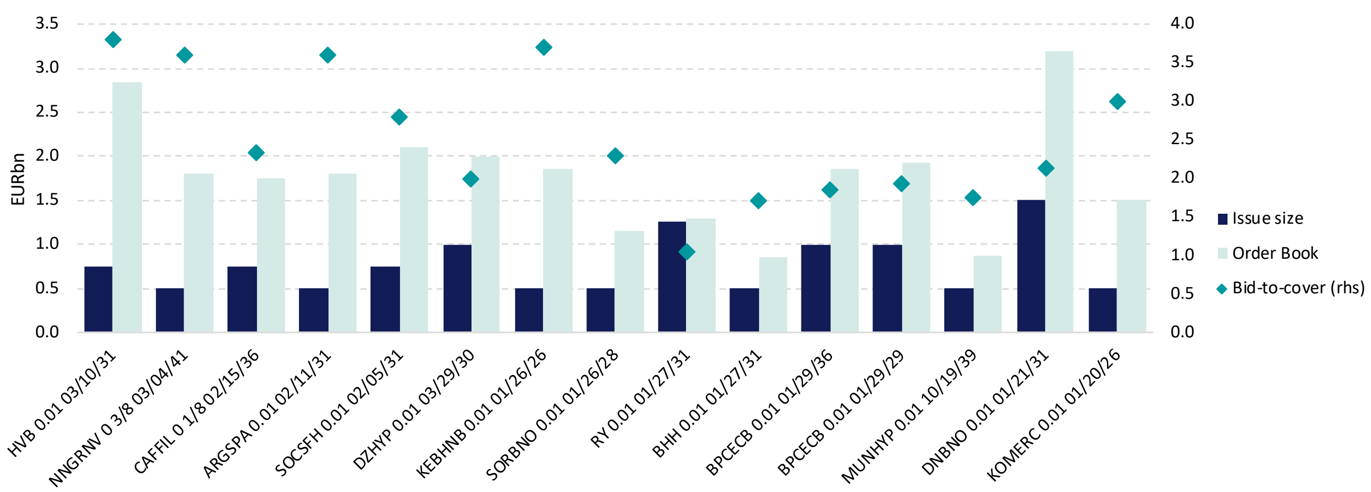
Covered bond performance (Total return)



Spread development (last 15 issues)



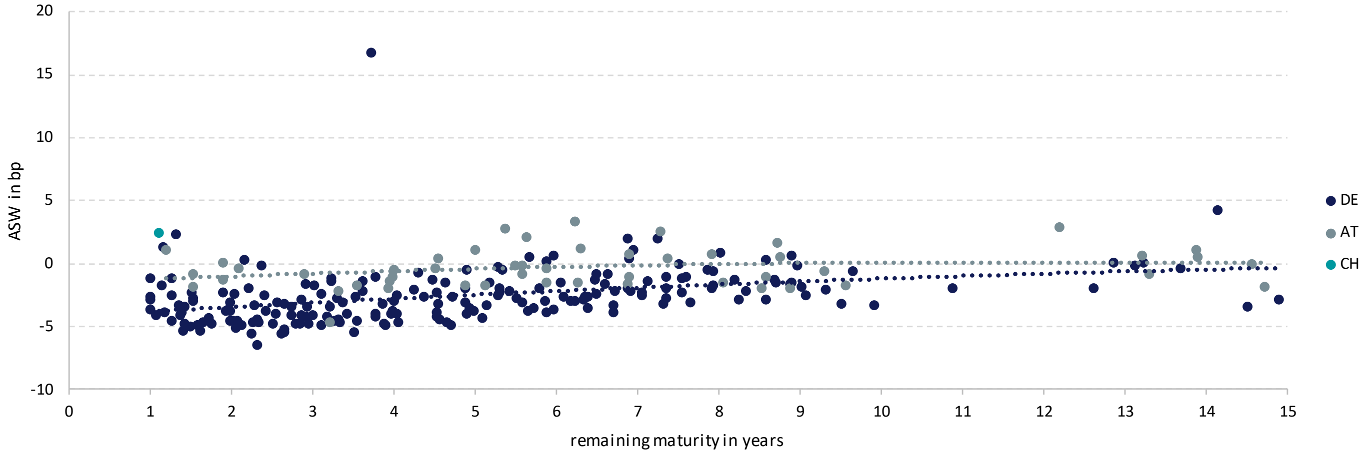
Order books (last 15 issues)



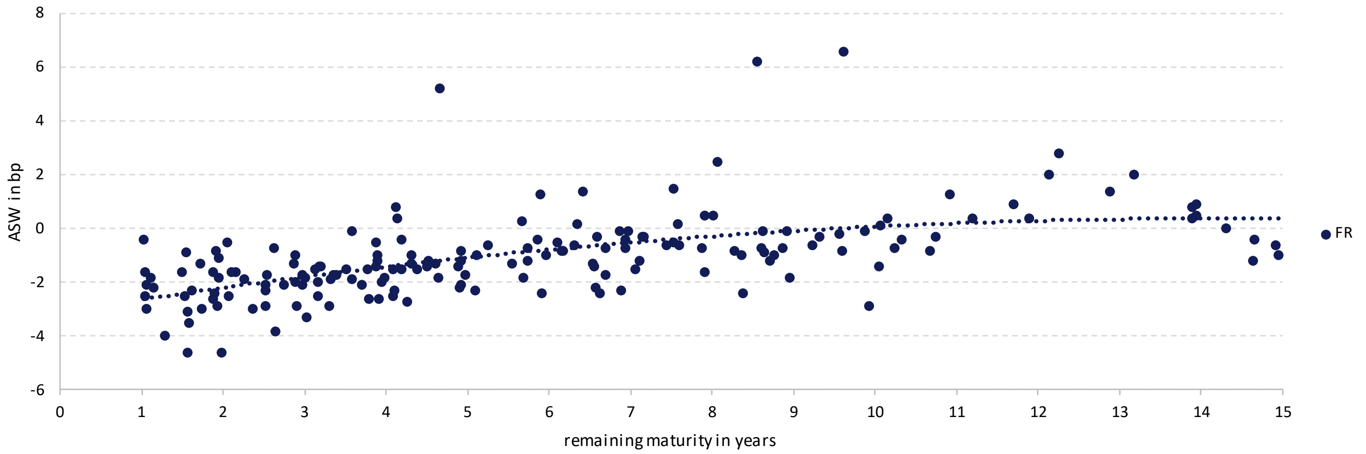
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

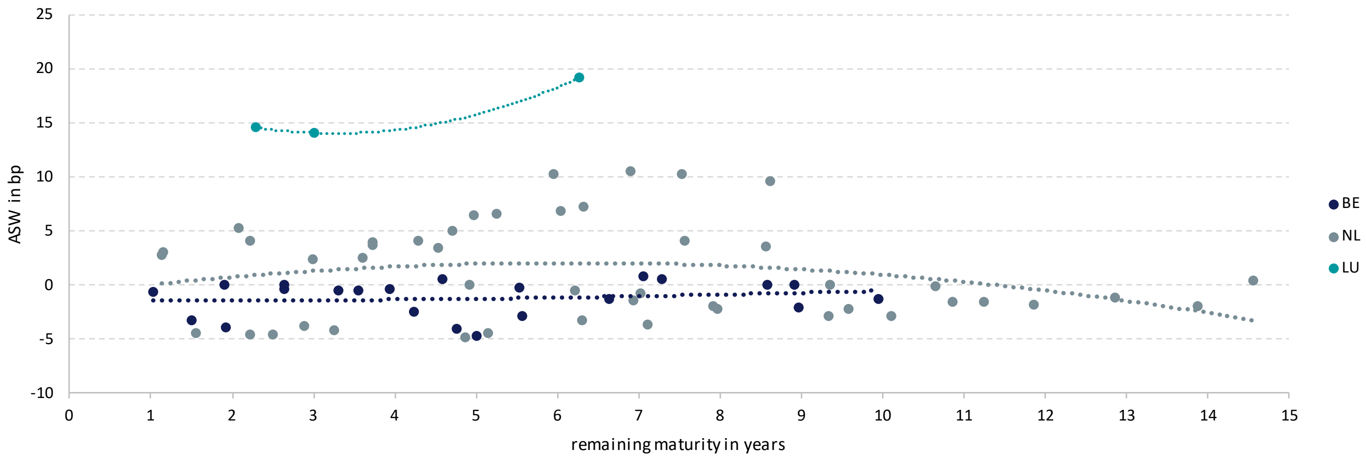
DACH



France

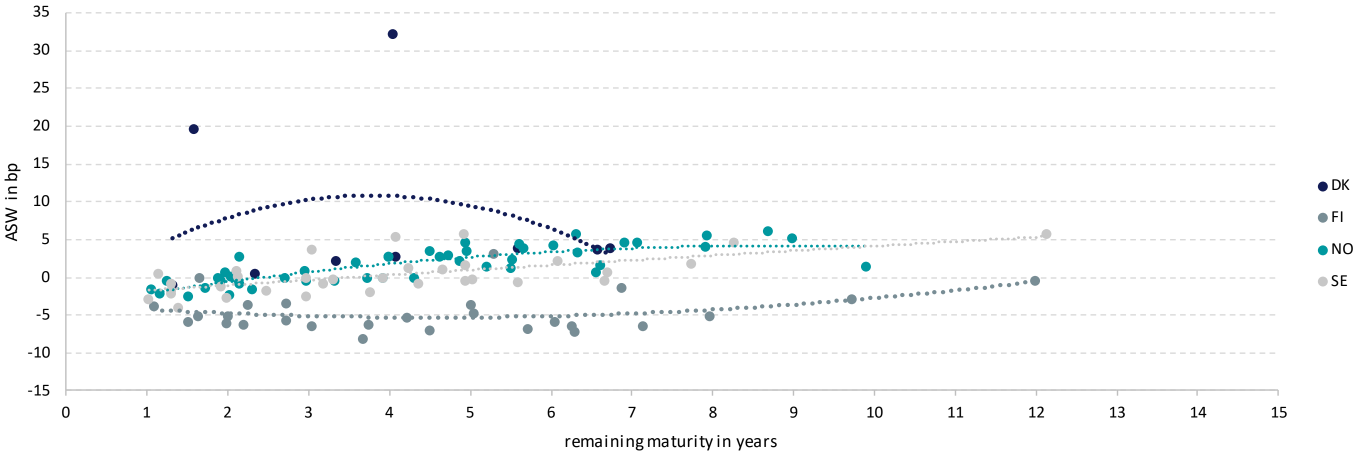


Benelux

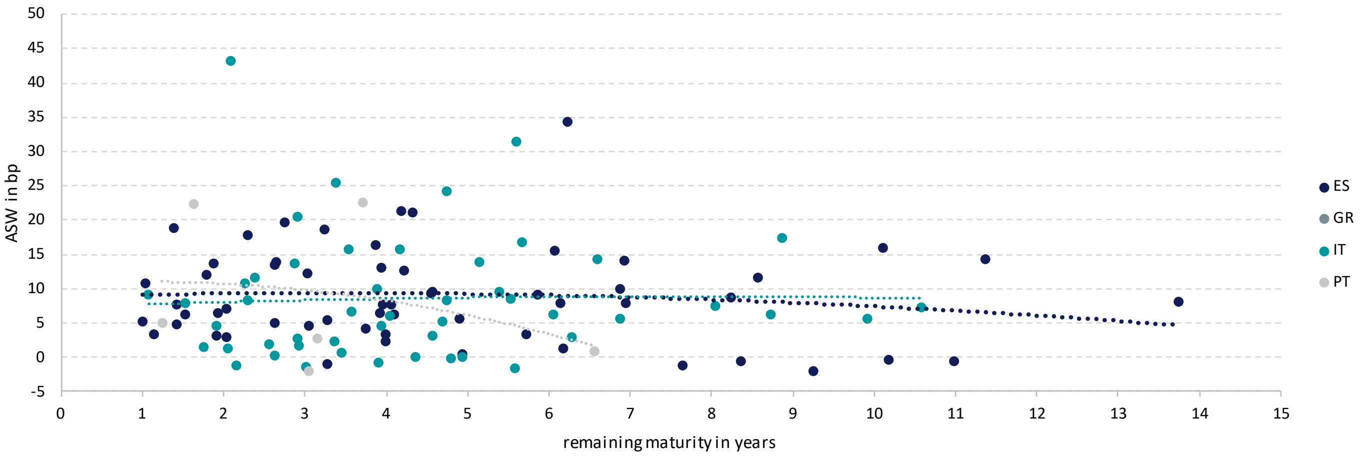


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity $1 \leq y \leq 15$

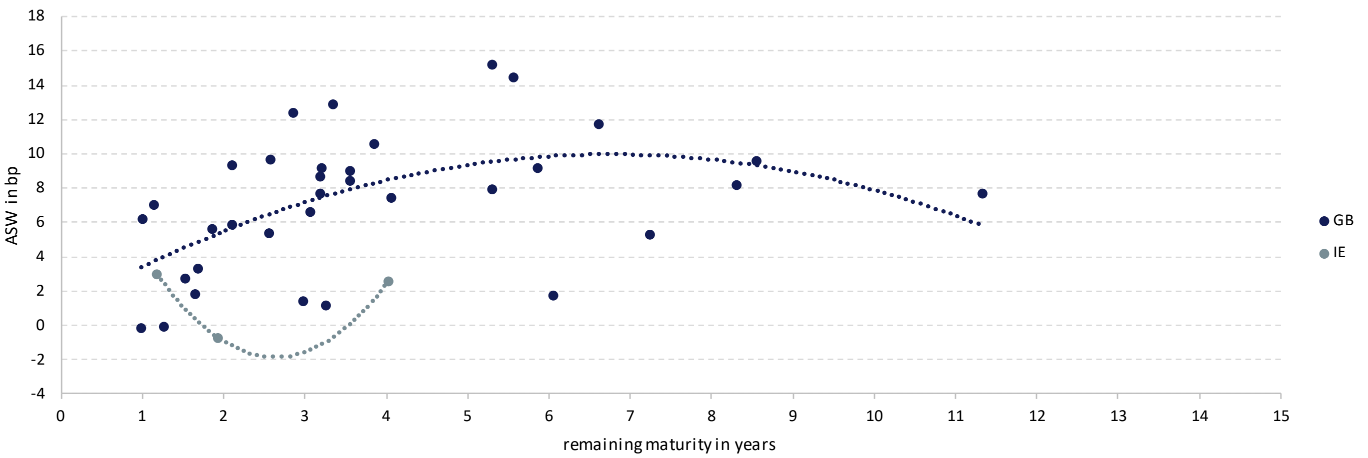
Nordics



Southern Europe

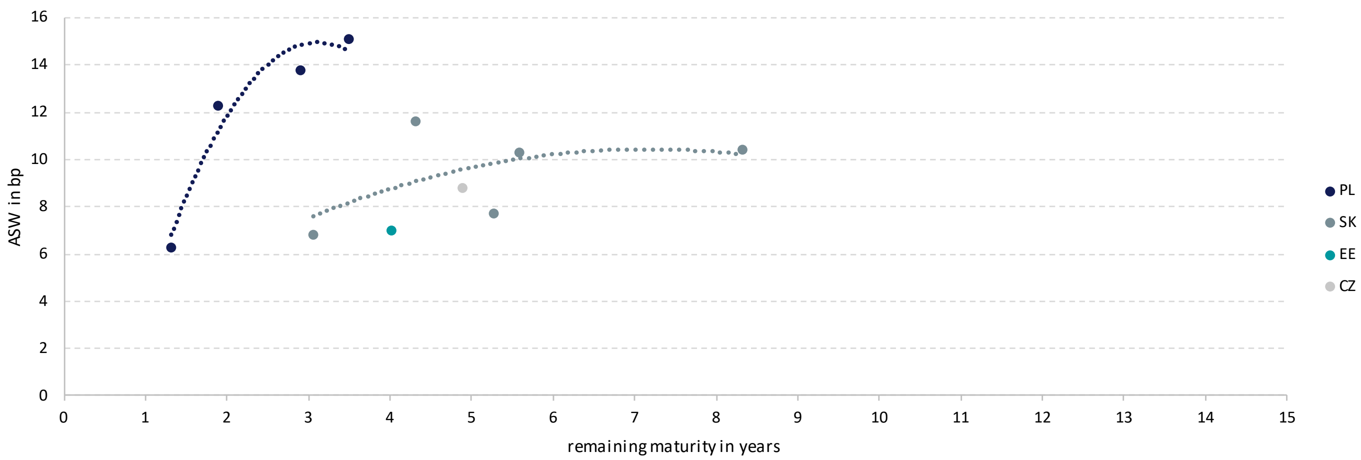


UK/IE

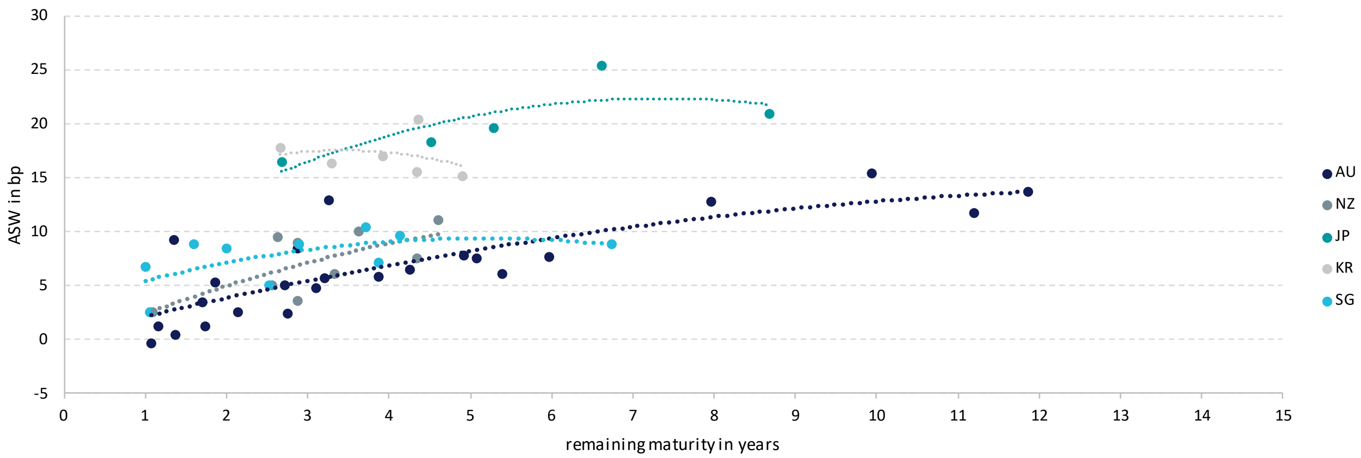


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

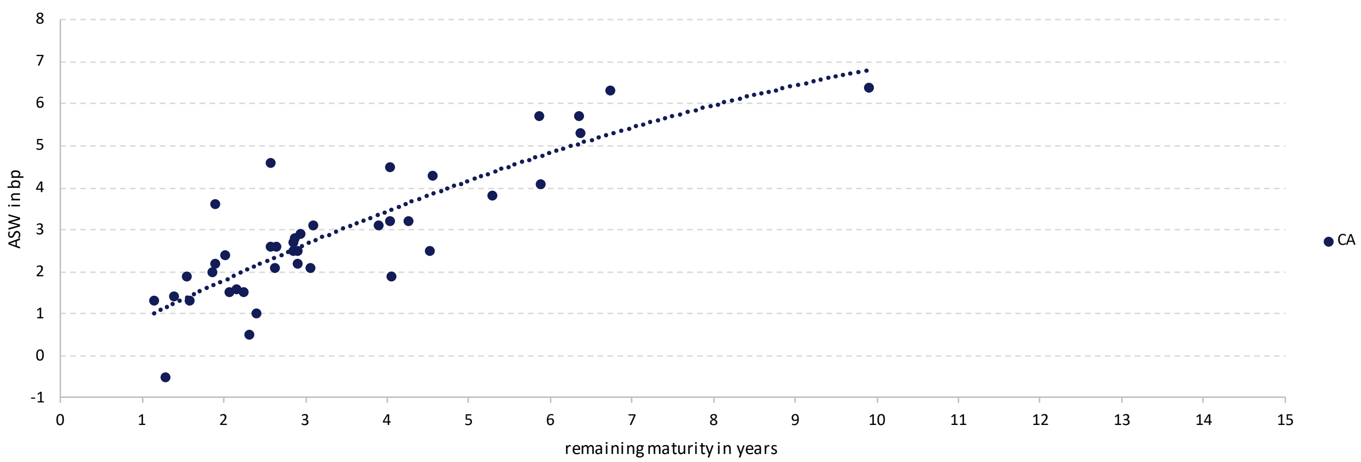
CEE



APAC



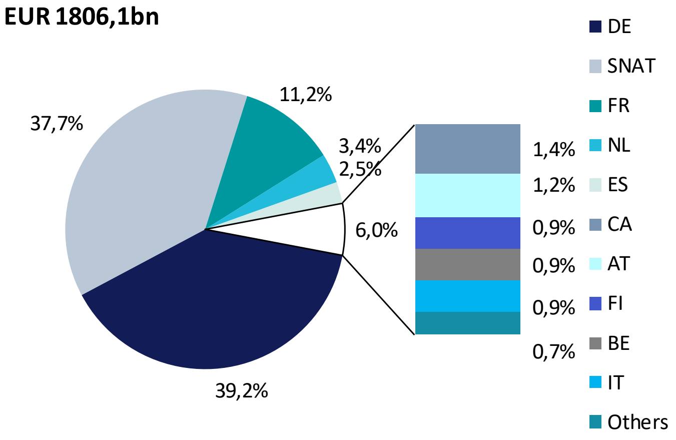
North America



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

Charts & Figures
SSA/Public Issuers

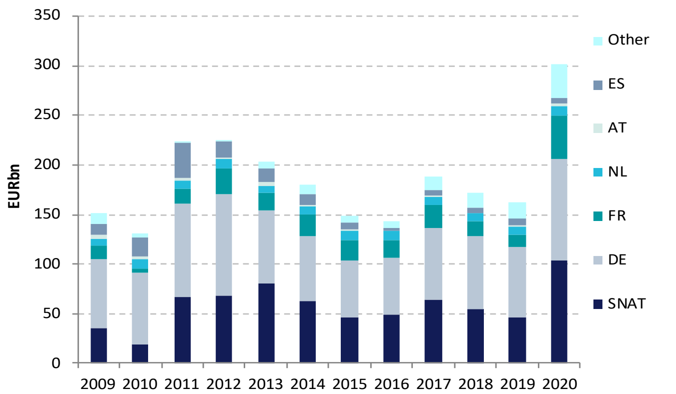
Outstanding volume (bmk)



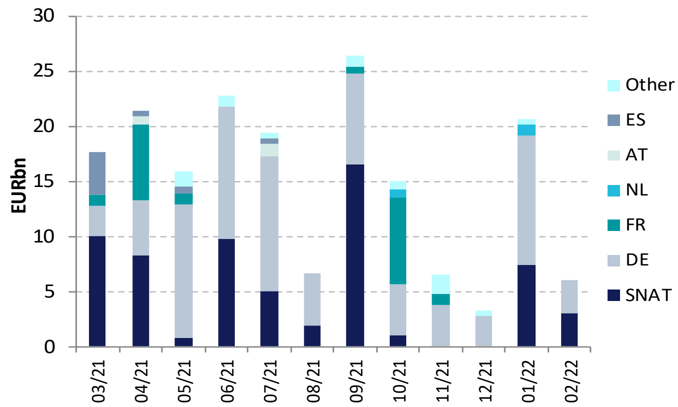
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	708,6	554	1,3	6,7
SNAT	680,1	179	3,8	7,8
FR	202,8	140	1,4	5,3
NL	61,7	63	1,0	6,5
ES	45,1	53	0,9	4,3
CA	25,0	18	1,4	5,5
AT	22,5	24	0,9	5,2
FI	16,5	21	0,8	6,1
BE	16,3	19	0,9	14,0
IT	15,8	20	0,8	5,9

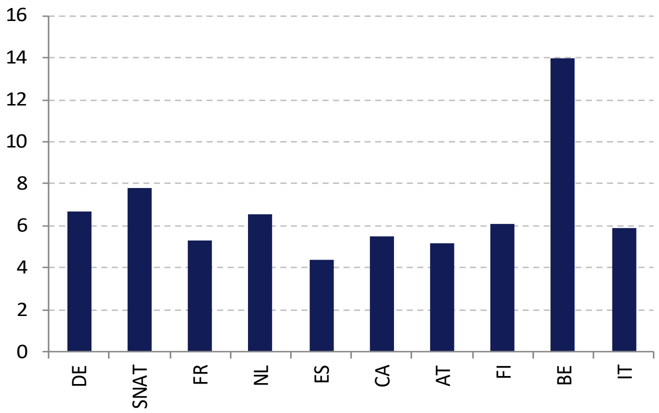
Issue volume by year (bmk)



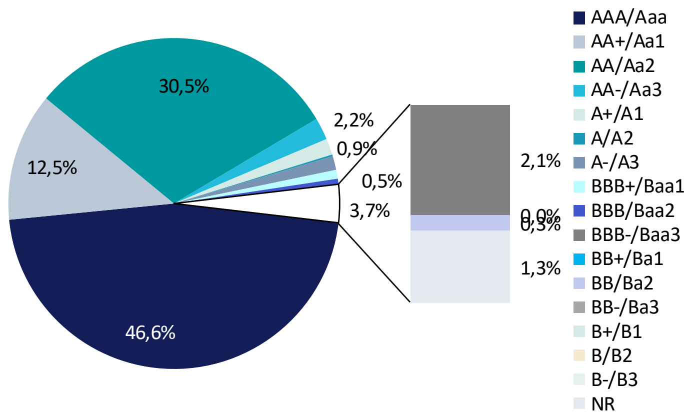
Maturities next 12 months (bmk)



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

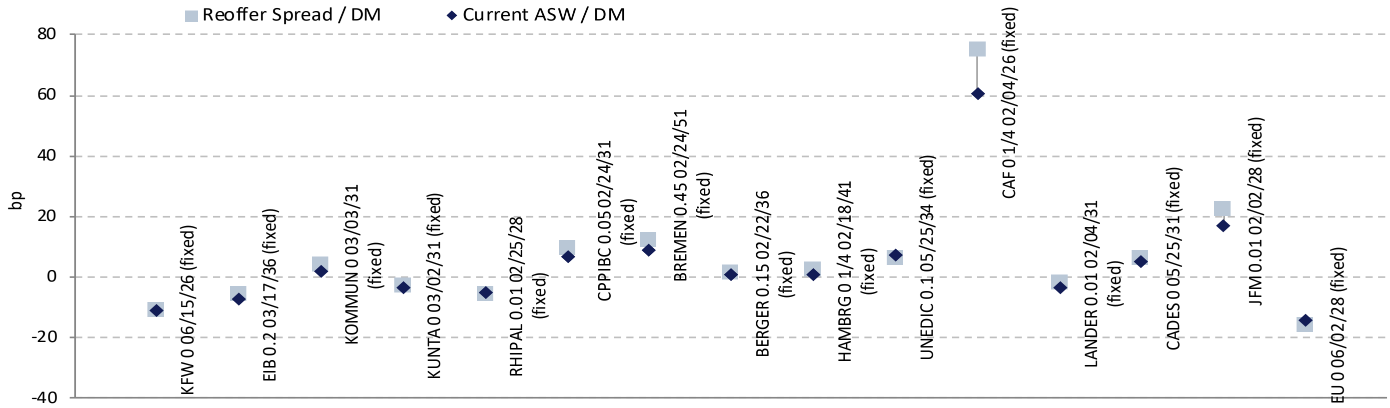


Rating distribution (vol. weighted)

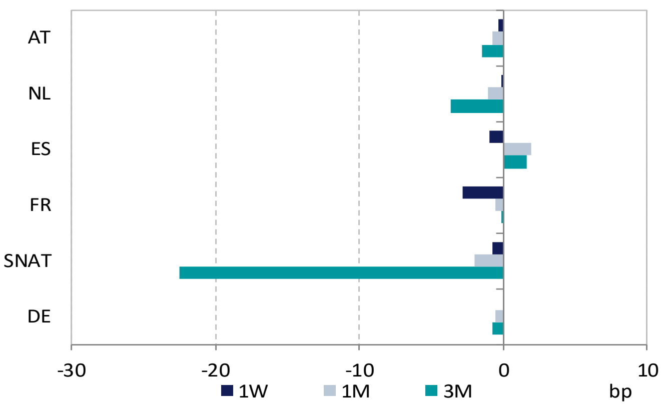


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

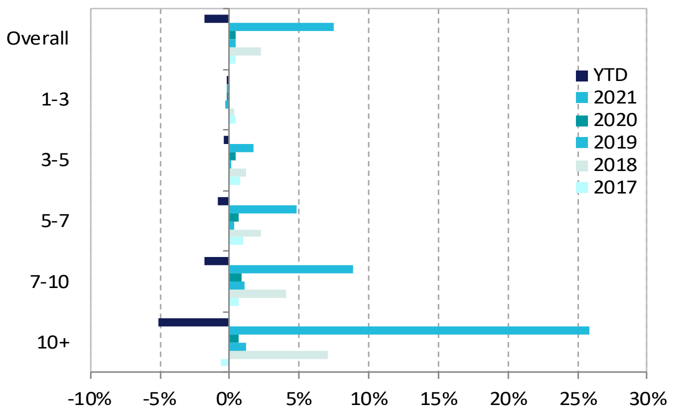
Spread development (last 15 issues)



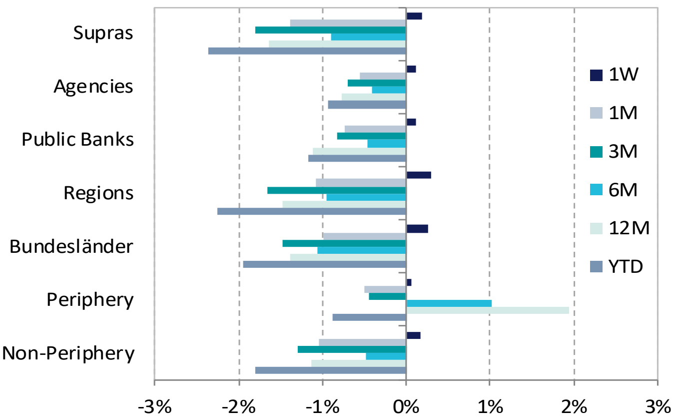
Spread development by country



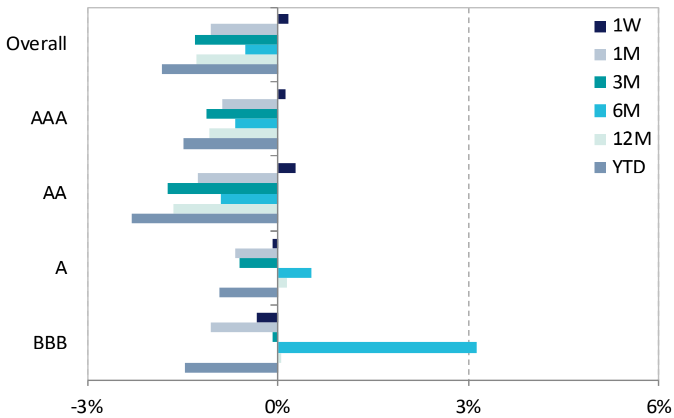
Performance (total return)



Performance (total return) by regions

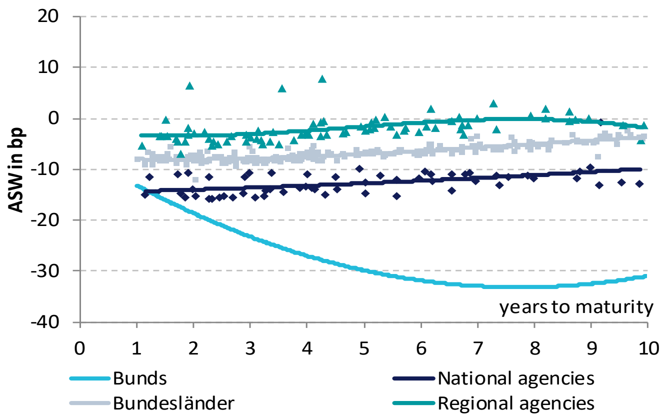


Performance (total return) by rating

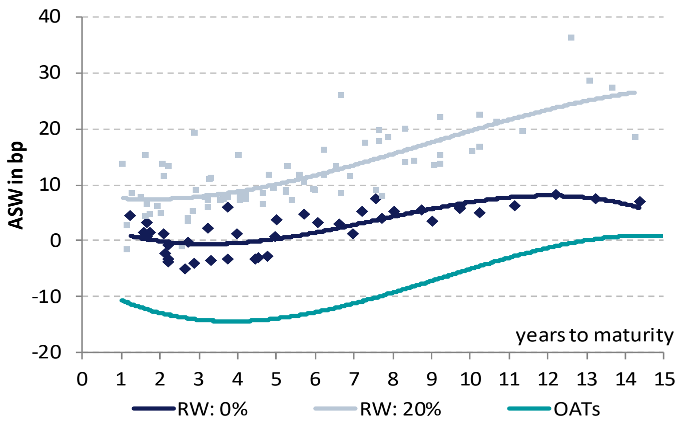


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

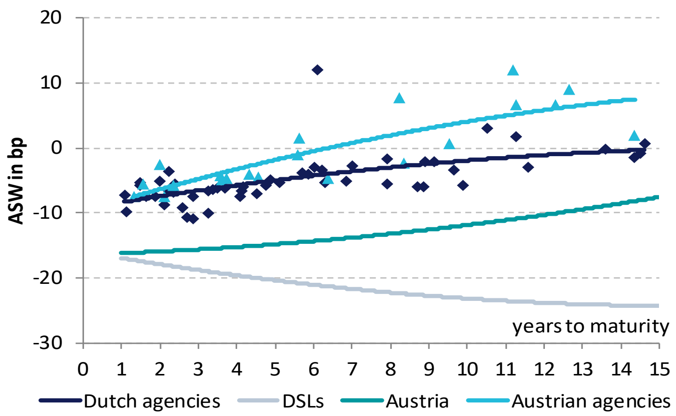
Germany (by segments)



France (by risk weight)



Netherlands & Austria



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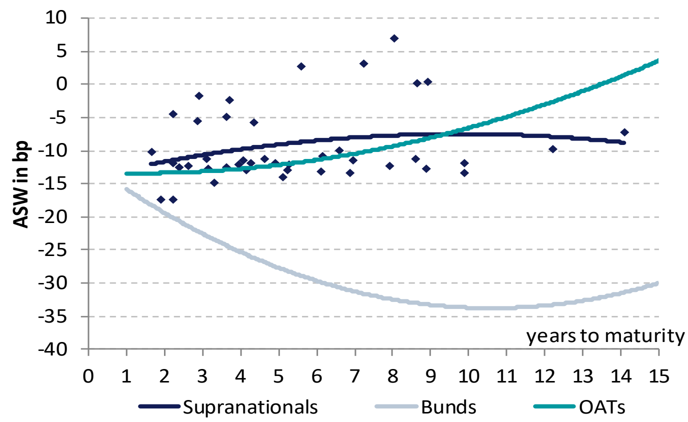

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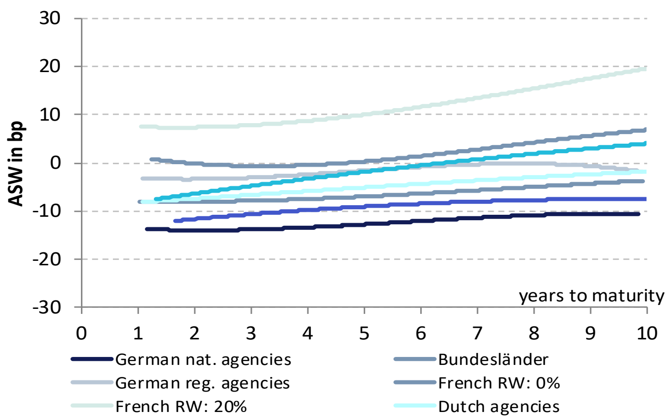
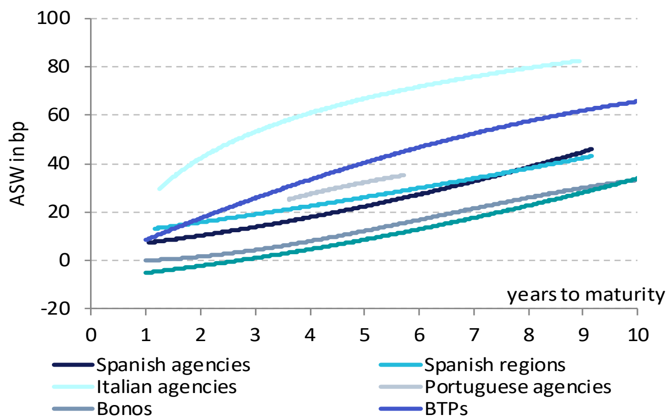


Periphery



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

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
07/2021 ♦ 24 February	▪ An overview of the EUR sub-benchmark segment ▪ ECB: crowding-out effects take hold ▪ PEPP vs. PSPP: Similarities and differences
06/2021 ♦ 17 February	▪ Insights into the iBoxx EUR Covered ▪ Development of the German property market
05/2021 ♦ 10 February	▪ PEPP reporting: upswing in public sector assets continues; covered bonds inconsequential
04/2021 ♦ 03 February	▪ Argenta Spaarbank expands Belgian market for EUR benchmarks ▪ An overview of the Fitch covered bond universe ▪ January 2021 packs a punch to kick off the new year
03/2021 ♦ 27 January	▪ An unusual – albeit expected – start to the year? ▪ A look at USD benchmarks ▪ ESM reform – restructuring continues
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

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]

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Issuer / security	Date	Recommendation	Bond type	Cause