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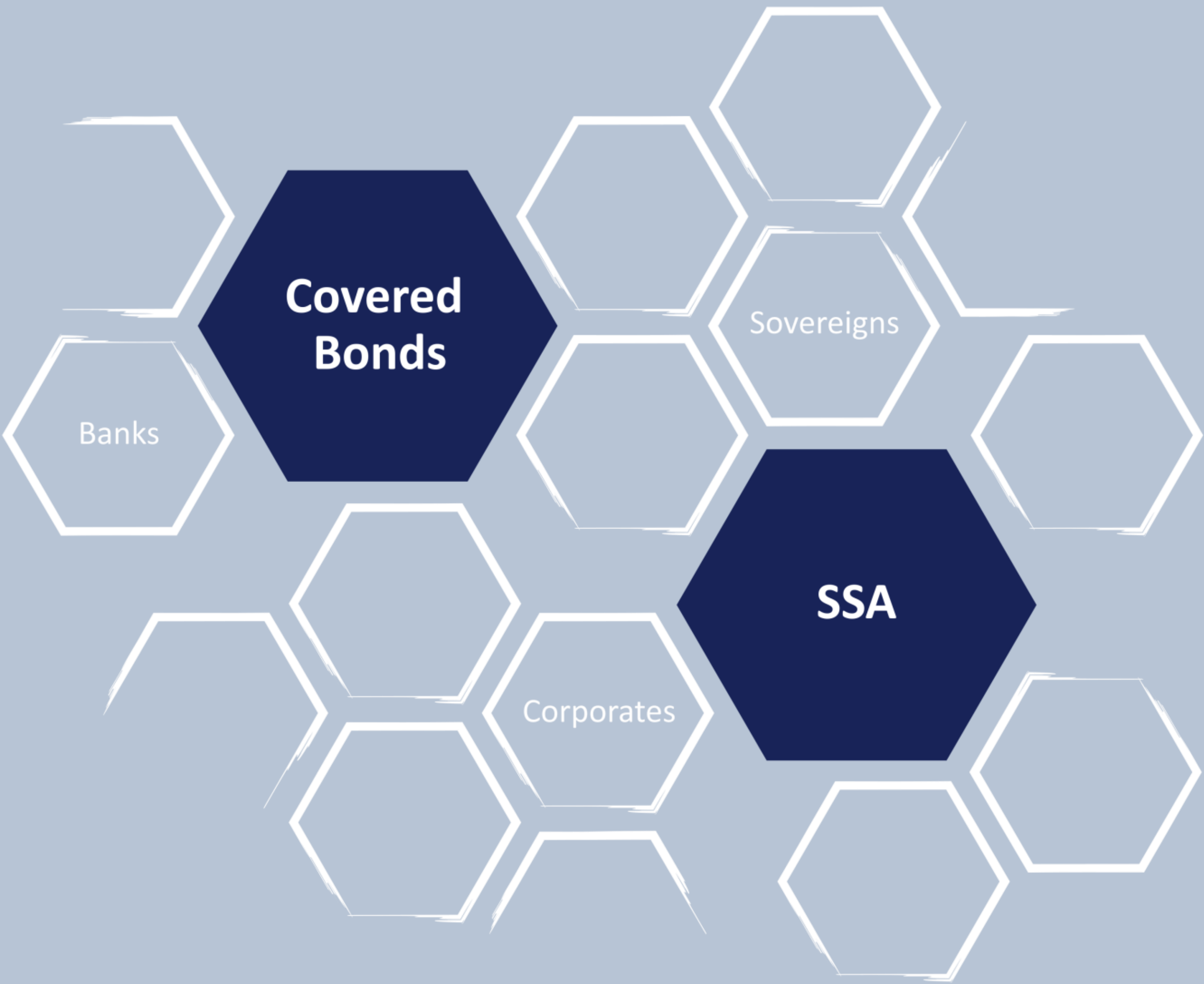

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

16 December 2020 ♦ 48/2020

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

Finanzgruppe

Agenda

As part of our last issue for the year 2020, we would like to thank all our readers and wish you and your families a Merry Christmas and a Happy New Year 2021!

The next Covered Bond & SSA View will be published on 13 **January 2021.**

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Market overview Covered Bonds

Author: Dr Frederik Kunze

Covered bond market still under the control of monetary policy

Although the primary market may have entered its winter hibernation phase, last week's ECB meeting is continuing to impact the markets. In our view, the announcements (cf. NORD/LB Fixed Income Special) categorically show that monetary policy will continue to be the main driver of developments on the covered bond market in 2021. This also applies to the supply of EUR benchmarks. The 12-month extension of the optimum TLTRO III terms undoubtedly speaks to the continued appeal of raising central bank liquidity. The continuation of collateral easing measures also facilitates refinancing via the recalibrated TLTRO III. With the addition of three extra TLTRO III tenders, the theoretical possibility that banks could roll over any funding raised to a new tender is opened up, while also indicating that favourable funding terms will be available will into 2024 (cf. TLTRO III article). On the demand side, the announced increase in the volume of the PEPP (by EUR 500m) will tend to have more of an indirect impact on covered bonds, while the continuation of the APP at EUR 20bn per month should result in monthly purchase activities of around EUR 2bn (or 10%) under the CBPP3. In combination with the reinvestment of redemptions from the CBPP3 (2021: around EUR 33bn), the ECB will also therefore continue to be a major player on the demand side. In terms of spread developments, the mixture of reduced supply and high demand on the part of the Eurosystem will therefore be maintained into 2021 as well. For 2020, this mix not least contributed to a situation in which spreads were able to return to their pre-crisis levels towards the end of the year. Further, albeit modest, spread tightening is on the cards for 2021.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
-	-	-	-	-	-	-	-

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

Moody's upgrades ratings of covered bonds from Hungary and Poland

Based on modified country-specific rating ceilings for Hungary (local currency and foreign currency bond ceiling switched from Baa1 to A2) and Poland (previously: Aaa3; now: Aaa1), the Moody's covered bond ratings for Hungarian and Polish covered bond programmes have also improved. In Hungary, the upgrades affect the mortgage covered bonds of OTP Jelzalogbank and UniCredit Jelzalogbank (each rising from Baa1 to A2), while for Poland the adjustments will impact the ratings of ING Bank Hipoteczny and PKO Bank Hipoteczny (from Aa3 to Aa1 in each case) as well as mBank Hipoteczny (previously: Aa3; now: Aa2). The rating upgrades are the result of a methodological adjustment for determining the country ceiling and are therefore not to be seen directly in the context of adjustments on the part of the issuers or cover pools. We would actually tend to see the upgrades more as a form of support for the covered bond markets in Hungary and Poland. The ratings ultimately serve as a significant classification characteristic both for many investors and regulatory bodies. For the covered bonds issued by OTP Jelzalogbank and UniCredit Jelzalogbank, for example, the upgrade – based solely on Moody's ratings – would be equivalent to an improvement from CQS3 to CQS2.

EBA risk assessment: Banking sector remains solid, although asset quality is declining...
A few days ago, the EBA presented the results of its most recent risk assessment in addition to the transparency exercise (cf. press release), highlighting that the banks included in the analysis certainly have solid capital ratios and liquidity. In addition, this solid starting position was identified as a reason for the possibility of financing the non-financial sector. Regulatory relaxations and public guarantees have additionally strengthened capital ratios and monetary policy has supported the liquidity profiles of the banking sector. In a preview for the coming quarters, however, the EBA is anticipating a decline in asset quality, which is also to be seen in the context of the expiration of regulatory relaxations implemented due to the COVID-19 crisis. Nevertheless, we do not anticipate any direct or immediate dramatic impact on the credit quality of the covered bond market based on the EBA's expectations. This applies to the credit quality on the issuer side as well as cover pools. In this way, for example, issuers should initially be in a position to provide for new or additional cover assets in the event of non-performing assets in the cover pools. At the same time, we have identified – as the rating agencies have also – a deterioration in the quality of securities over the medium to long term. Conversely, there are also a large number of cover pools that feature comparatively low LTVs and high OC ratios. However, there can be no doubt that the monetary policy outlined will have a direct influence on covered bond supply. The ECB measures, which are intended to ensure ongoing, comfortable liquidity positions for the banking sector, will, from our perspective, appreciably restrict issuance activity over the long term.

Outlook 2021: Rating agencies paint differentiated pictures
The expected impact on the credit quality of covered bonds is the core focus of the annual outlooks published by the rating agencies. The analysts at Moody's, for example, expect sustained support from the regulatory and monetary policy sides alike in its outlook for 2021, although the rating agency does, in this context, underline the possibility of dwindling systemic support for covered bonds too. While the expected deterioration in collateral performance, which is to be seen, among other aspects, as a consequence of the expiration of regulatory relaxations, should be mitigated by comfortable LTVs and OC ratios, Moody's takes the view that countries and banks are, on the whole, well prepared to combat the inevitable challenges that 2021 will pose. Looking at the primary market, the S&P analysts believe that retained covered bond deals will have a significant role to play up to 2023, which would also ultimately be reflected in fewer publicly placed bond deals too. In terms of credit quality, S&P (and Moody's also) has identified negative impacts for the commercial real estate sector in particular, although residential cover assets will be affected to a lesser extent. The analysts at S&P believe that covered bond ratings will remain stable for 2021, a situation which they likewise attribute to OC ratios and unused rating uplifts. Both agencies also highlight the importance of overarching developments – the growing ESG segment, for example – as well as issues specific to covered bonds. In this context, S&P discusses the barriers presented by the COVID-19 pandemic with regards to the necessary legislative adjustments, which must be implemented in national law by July 2021 within the framework of EU covered bond harmonisation efforts. The risk experts from Scope also underline that there is a possibility that not all national legislation will be adjusted accordingly before the deadline. Nevertheless, this should not result in any dramatic consequences, Scope states. Looking at its own risk assessments of covered bonds, Scope takes the view that ratings are highly likely to remain stable, while the ECB will in all probability continue to define the market environment.

Market overview SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

ECB Review

The monetary policy course for 2021 (and beyond) was outlined and explained last Thursday by the ECB's Governing Council led by Christine Lagarde: as far as the PEPP, which was launched specifically to combat the coronavirus pandemic, is concerned, the ECB has, as expected, expanded both the volume of securities it is prepared to purchase and extended the timescale for these purchases. It has now increased the envelope for the PEPP to EUR 1,850bn and extended the programme, which previously ran until June 2021, by a further nine months until March 2022. The fact that this is a minimum term and net purchases will be conducted as long as the ECB judges that the coronavirus crisis has still not been overcome remains unchanged. As a result of the extension to the term, the period for reinvestment under the PEPP was also adjusted. Accordingly, maturing redemptions will now be reinvested until at least the end of 2023, which is twelve months longer than was previously indicated. Besides interest rates, the asset purchase programme also remained unchanged: here, monthly net purchases of EUR 20bn will continue under the APP until just before any key interest rate hike. In our opinion, the newly announced adjustments to the TLTRO III tender were also to be expected. Accordingly, the programme will be extended by a further three funding operations (June, September and December) beyond March 2021 (III.7). This extension will be accompanied by an adjustment to the interest rates. Accordingly, the period for the preferential rate of 50bp below the deposit rate, i.e. currently -1.0%, has been adjusted and will now apply between June 2020 and June 2022. This equates to an extension of an additional twelve months, which doubles the period. The maximum amount per bank was also increased from 50% to 55% of eligible loans. The interest rates are only supposed to apply to those banks which meet an adjusted target figure for lending, which we will examine in greater depth in today's lead article.

ECB: organisational issues

The most important segment for the ECB in terms of its purchasing programme is the SSA segment that we shall cover here. The public sector accounts for approximately 93% of the portfolio in the PEPP, in particular. As it did in previous years, the Eurosystem will pause APP and PEPP purchases temporarily towards the end of the year in expectation of a sharp reduction in market liquidity. The last trading day before Christmas will be 18 December. Purchases will restart on 4 January 2021. The Eurosystem's securities lending facilities will still be available on all business days in December. To guarantee consistency with the publication of the Eurosystem's weekly financial statement (including quarterly adjustments of revaluations), the first monthly publication of APP and PEPP holdings in 2021 will take place on Tuesday, 5 January at 3.45 p.m.

German government and Laender still not providing facts

The German government's issuance schedule for 2020 appeared on 19 December in 2019. Since this is the last issue of our weekly publication in 2020, we shall have to do without the German government's facts. Since the debt brake has also been suspended in 2021, we assume that the German government will be issuing very substantial amounts. It is also impossible to forecast the exact implications of the renewed lockdown and the issuance schedule may be adjusted once again during the year. This certain degree of uncertainty also applies to the Laender. As we do not expect to see the Laender accessing the market for the rest of the year, it was recently reported that Brandenburg, for example, ceased its activities for 2020 as early as 13 November. The same news emerged from Saxony-Anhalt combined with the statement that details of the 2021 funding schedule would not be available until 12 January at the earliest. We anticipate that the German government is planning additional borrowing of EUR 180bn for 2021, while the Laender will seek funding of EUR 30bn in addition to having to refinance maturing bonds amounting to EUR 70bn. In its initial draft in September, the German government was still planning borrowing of EUR 96bn. It increased the financial reserve for the still incalculable costs of the coronavirus pandemic alone from EUR 20bn to EUR 35bn compared with the last figures produced by the German Ministry of Finance. New borrowing of such magnitude has never before been decided in a settlement meeting which handles the draft budget for the coming year, according to Manager-Magazin. Politicians with budgetary responsibility from various parties also believe that it would be fair(er) for the Laender to spread new borrowing of such magnitude across various entities, especially as the German government can raise funding more cheaply.

What we can expect from 2021

Baden-Wuerttemberg is planning to promote environmental projects by issuing sustainability bonds from 2021. According to Süddeutsche Zeitung, which cited a cabinet paper, the Ministry of Finance of BADWUR is planning a regular issuance programme with an annual volume of at least EUR 300m starting next spring. The Federal Republic of Germany launched two green bonds in 2020. As was reported, individual parliamentary groups approved the plans from the Ministry of Finance at their respective closed meetings. "Investments in environmental projects are investments in the future, so we, as the CDU parliamentary group, always play a leading role here," said Wolfgang Reihart, the leader of the CDU parliamentary group. "We only have some difficulty with the term 'green bond' because scarcely anybody outside of this industry really understands it. We would prefer it if we simply spoke of a 'sustainable bond'." In our opinion, institutional investors as a target group are familiar with both terms. Other issuers have prepared the ground for market penetration here, although the ESG field is a broad one and the term is not protected in any way. There is certainly an expanding range of other sustainable products on the market, for example, the EU aims to raise some EUR 60bn alone from social bonds to finance the SURE programme to combat the consequences of unemployment resulting from the pandemic. The EIB is also becoming greener, which will be reflected in its new issues. At some point, the EU will also start funding for the "Next Generation EU" programme, of which approximately a third will be green. Of the really major players, it is still only the ESM and EFSF that have provided specific funding targets for 2021. Both KfW and the EIB are in the final throes of agreeing figures internally. For the EU and the Bundeslaender, we are sticking to our estimates for 2021 and will look at the figures again in this publication as soon as we have more detailed information.

22nd meeting of the Stability Council scheduled for 18 December

The Federal Ministry of Finance has issued invitations to a video conference in the name of Olaf Scholz to hold the 22nd meeting of the Stability Council, which will be chaired by Doris Ahnen (RHIPAL). We are planning to provide a summary of this meeting in this publication either in mid-January or towards the end of the first month of 2021. For the first time this year, the Stability Council also looked at whether the German national budget would comply with the deficit ceiling laid down in the European Fiscal Compact for the period from 2020 to 2024. To guarantee a sufficiently valid data basis for the projection and a substantive assessment of the medium-term development of government budgets by the Stability Council, the German government's interim projection of macroeconomic development was taken into consideration, the press release explains. Consideration was also given to the tax estimate for the period from 2020 to 2024 based on this, the numerous budgetary policy measures adopted by the German government and the Laender since March 2020 until the end of the summer and the government's draft of the national budget for 2021 and financial plan up to 2024. In each case, the data is based on figures from September 2020. In its interim projection, the German government expects a fall in price-adjusted GDP of 5.8% this year. It subsequently assumes that there will be a recovery meaning that GDP is expected to return to its 2019 year-end level in H1 2022. Currently, the Stability Council considers it advisable to continue the measures adopted by the German government, Laender and local authorities to limit the economic impact of the pandemic and rapidly return the national economy to a sustainable growth path. On this basis the Stability Council established in autumn 2020 that the ceiling of the structural general government funding deficit would be breached permissibly until 2022. A balance of -3.5% of GDP is expected for both 2020 and 2021, which is likely to improve to -1.25% of GDP in 2022. Under normal conditions, the Fiscal Compact specifies a maximum annual deficit of 0.5% of GDP. The Stability Council welcomes the approach in European budgetary monitoring of maintaining the activation of the general escape clause for the Stability and Growth Pact in 2021 as well and therefore believes that the breach of the deficit ceiling is also permissible next year. The anticipated reduction in the structural general government funding deficit by more than 0.5% of GDP in 2022 will be sufficient to meet the guideline of the European budgetary monitoring for reducing the deficit. The Stability Council expects the deficit ceiling of 0.5% to be met again in 2023/24. The Advisory Board's assessment is that the German government's interim projection from September 2020, on which its fiscal projection is based, and the tax estimate are reasonable for this purpose. It considers use of the escape clauses defined within the budget rules as justifiable up to and including 2021. The deficit ceiling breach does not therefore constitute a breach of the fiscal rules in 2021 either.

Primary market

All quiet on the western front in the run-up to Christmas. All that remains to be said, despite the renewed lockdown and all the restrictions in place over the holiday period, is Merry Christmas and a Happy New Year – stay safe and healthy!

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
-	-	-	-	-	-	-	-

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

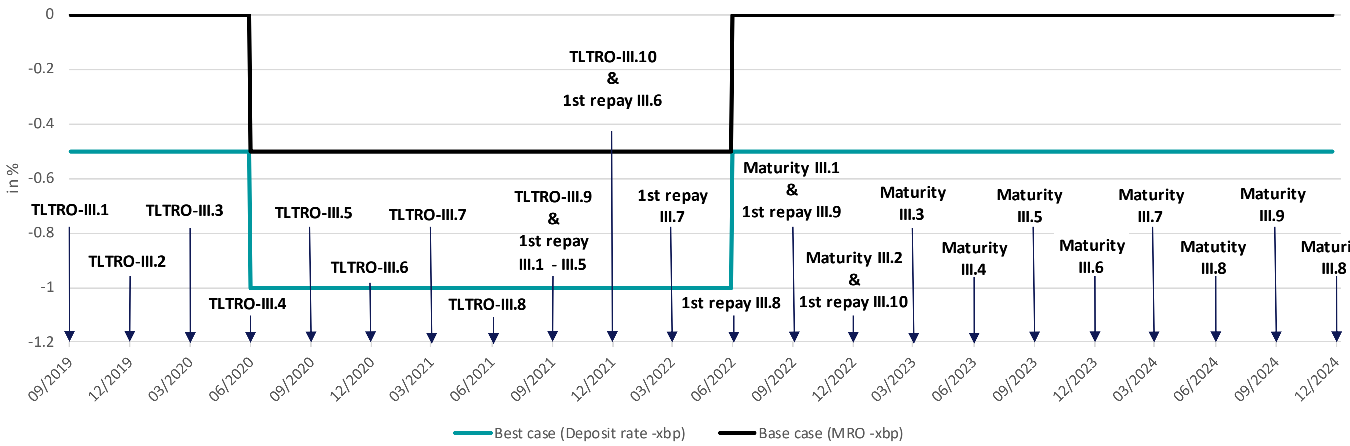
Covered Bonds
TLTRO III: ECB extends tender and also raises the threshold

Author: Henning Walten, CIIA

Three further tenders, limit raised and enhanced criteria for lending

At its meeting on 10 December, the ECB made the expected decision to amend the TLTRO III programme, which has been running for some time now. Following our initial assessment of the impact of the adopted measures in a Fixed Income Special, we propose to again delve deeper into the TLTRO III programme in the following article. The recalibration comprises: (i) the addition of three more tenders to the programme (III.8 in June, III.9 in September and III.10 in December 2021) up to the end of 2021, (ii) the extension of the favourable interest rate period by an additional 12 months up to June 2022, (iii) the adjustment of preconditions in order to benefit from these favourable interest rates and (iv) the raising of the borrowing allowance for counterparties under the TLTRO III programme from 50% to 55% of eligible loans. However, no modifications were made to the maturity of three years and the option of voluntary early repayment. While the ECB is extending the period of time over which banks can draw on central bank funding through the TLTRO III with its measures, it is at the same time increasing the obligation on banks with regard to lending to the real economy. In our view, the implications of the newly adjusted programme roughly correspond to the ECB influences on the covered bond market that we expected and had presented in our 2021 outlook. For the time being, we do not think it is necessary to amend our forecast. The previously obtained TLTRO III funds will also retrospectively benefit from the improved terms and conditions. Nonetheless, we eagerly anticipate the tender date in March, as this operation will generally tend to be made use of by banks that had initially decided against covered bond issuances at the start of the year.

TLTRO III timeframe



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

Favourable interest rates possible between June 2020 and June 2022…

With regard to the respective interest rates, a number of modifications were made which take various factors into account, including when – so with which tender – funds were obtained. Essentially, the interest rate applied over the period from 24 June 2021 to 23 June 2022 is the average main refinancing rate minus 50bp. At the present rate of 0.00%, the interest rate would be -0.50%. Counterparties who reach the lending performance threshold between 1 October 2020 and 31 December 2021 benefit from the favourable interest rate, which is 50bp below the average interest rate on the deposit facility (currently: -0.50%), though in any case not higher than -1.00%, as it is at the moment. With regard to the whole time in which an interest rate of -1.00% can be achieved, please note this is divided into two periods of 12 months. While the interest rate for the second 12 months is calculated as above, the relevant benchmark for 24 June 2020 to 23 June 2021 is based on lending between 1 March 2020 and 31 March 2021, with the lending performance threshold again 0%. As per the conditions, sufficient lending over this period then allows for an interest rate of at least the deposit rate minus 50bp between June 2020 and June 2021.

…after which the tender operation plays a role

Calculating the rate which becomes applicable after the favourable interest rate period (June 2020 to June 2022) is a little more complex. If the conditions for a favourable interest rate are met between June 2021 and June 2022 (net lending between October 2020 and December 2021 corresponds to 0%), the interest rate applied after June 2022 will be the average interest rate on the deposit facility (currently: -0.50%) over the life of the respective operation, though excluding the separate interest period. If the threshold for lending performance is not reached, the tender to which the rate applies is key. For tenders up to and including TLTRO III.7 in March 2021, the interest rate will be that established in accordance with the decision of 30 April 2020. However, for tenders III.8 to III.10, so those added on 10 December, the interest rate applied from June 2022 will be the average rate applied in the Eurosystem's main refinancing operations (currently: 0.00%) over the life of the respective operation, though excluding the separate interest period that is relevant for the tender interest rate.

TLTRO III terms and conditions (base case/best case)

Tender / Repaym.	TLTRO III.1 25.09.19	TLTRO III.2 18.12.19	TLTRO III.3 25.03.20	TLTRO III.4 24.06.20	TLTRO III.5 30.09.20	TLTRO III.6 16.12.20	TLTRO III.7 24.03.21	TLTRO III.8 30.06.21	TLTRO III.9 25.09.21	TLTRO III.10 22.12.21
29.09.21	-0.31/-0.81	-0.36/-0.86	-0.42/-0.92	-0.50/-1.00	-0.50/-1.00					
22.12.21	-0.33/-0.83	-0.37/-0.87	-0.43/-0.93	-0.50/-1.00	-0.50/-1.00	-0.50/-1.00				
30.03.22	-0.35/-0.85	-0.39/-0.89	-0.44/-0.94	-0.50/-1.00	-0.50/-1.00	-0.50/-1.00	-0.50/-1.00			
29.06.22	-0.36/-0.86	-0.39/-0.89	-0.44/-0.94	-0.50/-1.00	-0.50/-1.00	-0.49/-0.99	-0.49/-0.99	-0.49/-0.99		
28.09.22	-0.33/-0.83	-0.36/-0.86	-0.40/-0.90	-0.44/-0.94	-0.43/-0.93	-0.43/-0.93	-0.41/-0.91	-0.39/-0.89	-0.37/-0.87	
21.12.22		-0.33/-0.83	-0.36/-0.86	-0.40/-0.90	-0.39/-0.89	-0.38/-0.88	-0.36/-0.86	-0.33/-0.83	-0.03/-0.80	-0.25/-0.75
29.03.23			-0.33/-0.83	-0.36/-0.86	-0.35/-0.85	-0.33/-0.83	-0.31/-0.81	-0.28/-0.78	-0.25/-0.75	-0.20/-0.70
28.06.23				-0.33/-0.83	-0.32/-0.82	-0.30/-0.80	-0.28/-0.78	-0.25/-0.75	-0.21/-0.71	-0.17/-0.67
27.09.23					-0.29/-0.79	-0.27/-0.77	-0.25/-0.75	-0.22/-0.72	-0.19/-0.69	-0.14/-0.64
20.12.23						-0.25/-0.75	-0.23/-0.73	-0.20/-0.70	-0.17/-0.67	-0.13/-0.63
27.03.24							-0.21/-0.71	-0.18/-0.68	-0.15/-0.65	-0.11/-0.61
26.06.24								-0.16/-0.66	-0.14/-0.64	-0.10/-0.60
25.09.24									-0.12/-0.62	-0.09/-0.59
18.12.24										-0.08/-0.58

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

Base case vs. best case: main refinancing rate vs. deposit facility rate

Although the terms and conditions for the respective best-possible modalities have changed slightly, the thresholds for the conditions remain the same. So, in the best-case scenario (all obligations are met) up to May 2020, the average deposit facility rate is key (currently: -0.50%). Between June 2020 and June 2022, a rate of at least -1.00% can be achieved (deposit facility rate minus 50bp). After this period, the previously relevant interest rate is again of relevance (average deposit facility rate). However, if the terms for special conditions are not met, all calculations refer to the main refinancing rate rather than the deposit facility rate (currently: 0.00%), which is why the interest rate will be 50bp higher in each case. Based on configurations for the base case and best-case scenarios, the above table shows the relevant interest rates. The cost of obtaining TLTRO III is lowest when the crossover between life of the operation and favourable period is as long as possible. This above all applies to the TLTRO III.4 and III.5 tenders, if these are repaid early and therefore in the favourable interest rate period. Additionally, this circumstance applies to two repayment dates under TLTRO III.6 and the first-possible repayment date of TLTRO III.7.

Reaching lending performance threshold likely to become more difficult

While the ECB has configured the terms and conditions for obtaining TLTRO III funds even more favourably, this is at the same time associated with more stringent obligations. In this context, it is likely to become more difficult for banks to keep their lending between October 2020 and December 2021 over the threshold of 0%. Within the framework of its Bank Lending Survey back in October, the ECB already identified a tightening of credit standards on loans. The economic outlook, in particular, was leading to a tightening of credit standards and therefore a decrease in lending rates. Due to recent developments related to the coronavirus pandemic, a return to higher lending seems rather unlikely. As a result, no end is in sight for the credit expansion seen over the course of the first wave and this in turn might impede the ability of loans to support the real economy. Against this background, the adjustment of terms by the ECB for a favourable interest rate certainly provide an incentive for lending to be expanded or maintained between October 2020 and December 2021 in order to receive favourable central bank liquidity in return.

Targeted longer-term refinancing operations III (TLTRO III)

Tender	Announcement	Allotment	Settlement	Maturity date	Settlement of first voluntary early repayment	Allotted amount (in EUR bn)
TLTRO-III.1	17-Sep-2019	19-Sep-2019	25-Sep-2019	28-Sep-2022	29-Sep-2021	3.40
TLTRO-III.2	10-Dec-2019	12-Dec-2019	18-Dec-2019	21-Dec-2022	22-Dec-2021	97.72
TLTRO-III.3	17-Mar-2020	19-Mar-2020	25-Mar-2020	29-Mar-2023	30-Mar-2022	114.98
TLTRO-III.4	16-Jun-2020	18-Jun-2020	24-Jun-2020	28-Jun-2023	29-Jun-2022	1,308.43
TLTRO-III.5	22-Sep-2020	24-Sep-2020	30-Sep-2020	27-Sep-2023	28-Sep-2022	174.46
TLTRO-III.6	8-Dec-2020	10-Dec-2020	16-Dec-2020	20-Dec-2023	21-Dec-2022	50.41
TLTRO-III.7	16-Mar-2021	18-Mar-2021	24-Mar-2021	27-Mar-2024	29-Mar-2023	
TLTRO-III.8	*22-Jun-2021*	*24-Jun-2021*	*30-Jun-2021*	*26-Jun-2024*	*28-Jun-2022*	
TLTRO-III.9	*21-Sep-2021*	*23-Sep-2021*	*29-Sep-2021*	*25-Sep-2024*	*27-Sep-2022*	
TLTRO-III.10	*14-Dec-2021*	*16-Dec-2021*	*22-Dec-2021*	*18-Dec-2024*	*20-Dec-2022*	

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

Demand for TLTRO III.6 and early repayments under TLTRO II
As can be gleaned from the above table, funds of the TLTRO III.6 tender were also allocated on the day of the ECB meeting. Overall, 156 banks sought liquidity totalling EUR 50.41bn. A figure that – with the exception of the first TLTRO III round – represents the lowest demand recorded within the current programme. It is not just the TLTRO III programme that has seen action recently. Today, on Wednesday, the TLTRO II.3 tender reaches final maturity and a total of EUR 5.13bn is being repaid early under the now last outstanding TLTRO II tender (II.4). The funds still outstanding under the tender will mature on 24 March 2021, and on this date the TLTRO II will then be consigned to history.

PELTRO programme also being expanded
For the sake of completeness, we do not want to skip over the PELTRO (pandemic emergency longer-term refinancing operations) programme, which was created on 30 April 2020. This programme was also expanded last week. Alongside the TLTRO tenders, this is currently the ECB's second instrument for longer term refinancing operations. In addition to the previously made seven tenders, banks will therefore have four further opportunities to obtain short-term central bank funding between March and December 2021. The interest rate will remain 25bp below the average rate over the life of the respective PELTRO, so is currently -0.25%. With a total of EUR 26.6bn having been obtained thus far, the volume is comparatively low versus the TLTRO III and in our view does not represent any notable substitutional relationship to covered bond issuances.

Pandemic Emergency longer-term Refinancing Operations (PELTROs)

Announcement	Allotment	Settlement	Maturity date	Tenor (in months)	Allotted amount (in EUR bn)
19-May-2020	20-May-2020	21-May-2020	30-Sep-2021	16.6	0.85
19-Jun-2020	22-Jun-2020	24-Jun-2020	30-Sep-2021	15.4	15.61
4-Aug-2020	5-Aug-2020	6-Aug-2020	30-Sep-2021	14.0	5.68
1-Sep-2020	2-Sep-2020	3-Sep-2020	26-Aug-2021	11.9	0.79
6-Oct-2020	7-Oct-2020	8-Oct-2020	26-Aug-2021	10.7	1.01
3-Nov-2020	4-Nov-2020	5-Nov-2020	29-Jul-2021	8.9	0.75
1-Dec-2020	2-Dec-2020	3-Dec-2020	29-Jul-2021	7.9	1.88
23-Mar-2021	24-Mar-2021	25-Mar-2021	31-Mar-2022	12.4	
21-Jun-2021	22-Jun-2021	24-Jun-2021	30-Jun-2022	12.4	
28-Sep-2021	29-Sep-2021	30-Sep-2021	29-Sep-2022	12.1	
14-Dec-2021	15-Dec-2021	16-Dec-2021	26-Jan-2023	13.5	

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

Conclusion
As expected, the ECB has modified the terms and conditions of its TLTRO III programme. Alongside the addition of three further tenders to the programme, it extended the period of favourable interest rates. At the same time, the central bank tightened the obligations that must be fulfilled to benefit from the further improved conditions. In line with the ECB's aim, we consider this to be something of a challenge for banks as lending has lost momentum recently and is likely to become even more restrictive given economic developments that are to be expected in 2021. With these amended terms and conditions, the ECB is in our view creating an incentive at the very least in an attempt to help maintain lending between October 2020 and December 2021.

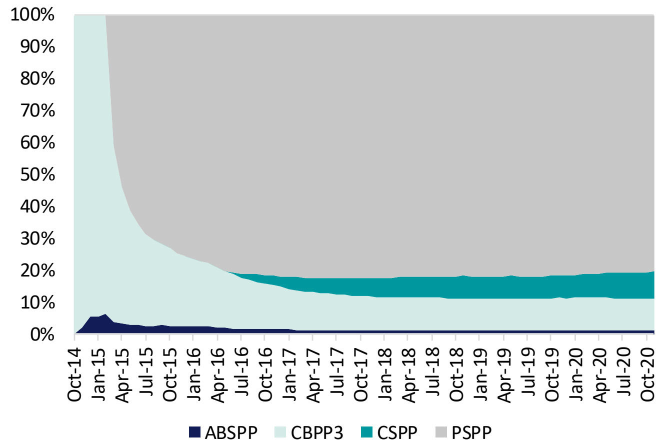
ECB tracker

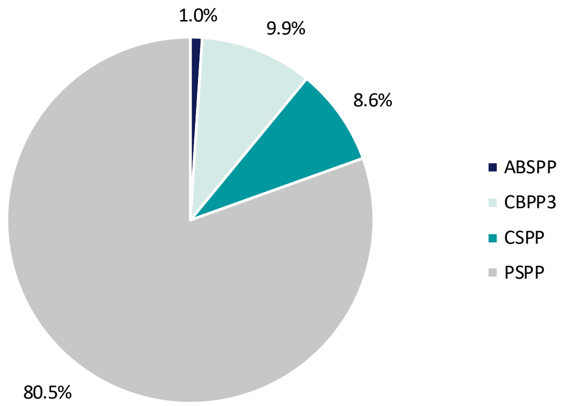
Asset Purchase Programme (APP)

Holdings (in EURm)

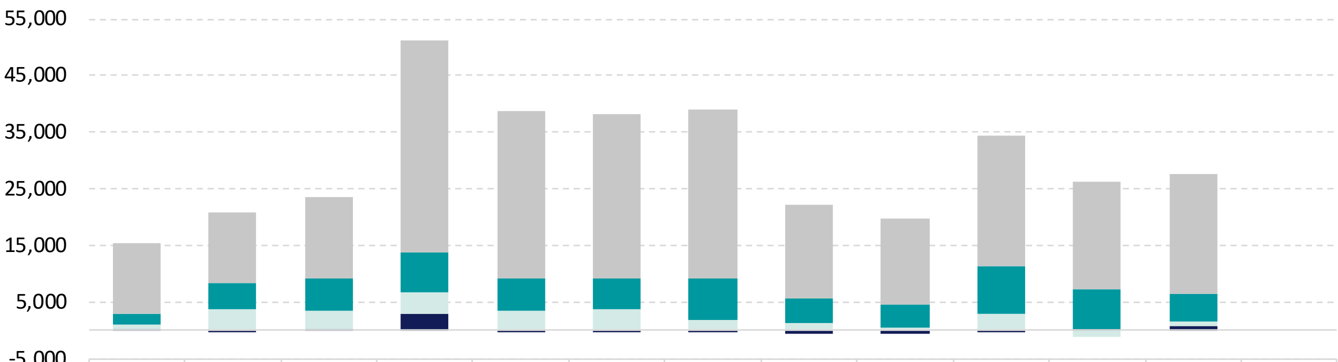
	ABSPP	CBPP3	CSPP	PSPP	APP
Oct-20	29,337	285,811	243,331	2,309,322	2,867,802
Nov-20	30,161	286,458	248,340	2,330,562	2,895,521
Δ	+824	+646	+5,009	+21,241	+27,720

Portfolio structure





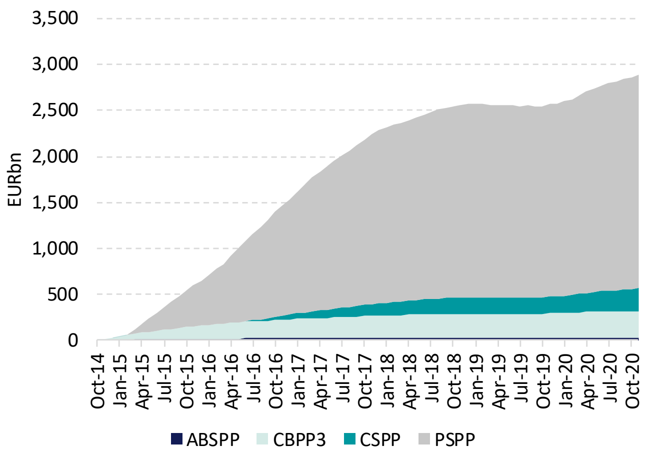
Monthly net purchases (in EURm)



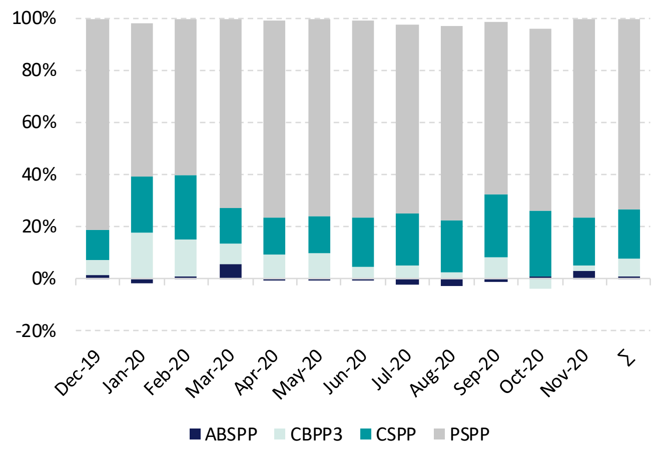
	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	∑
APP	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	353,494
PSPP	12,515	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	19,182	21,241	259,811
CSPP	1,799	4,611	5,738	6,965	5,560	5,438	7,515	4,502	4,004	8,496	6,983	5,009	66,620
CBPP3	865	3,684	3,334	3,931	3,582	3,785	1,731	1,198	500	2,839	-1,041	646	25,054
ABSPP	229	-328	221	2,923	-325	-14	-255	-541	-527	-423	225	824	2,009

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

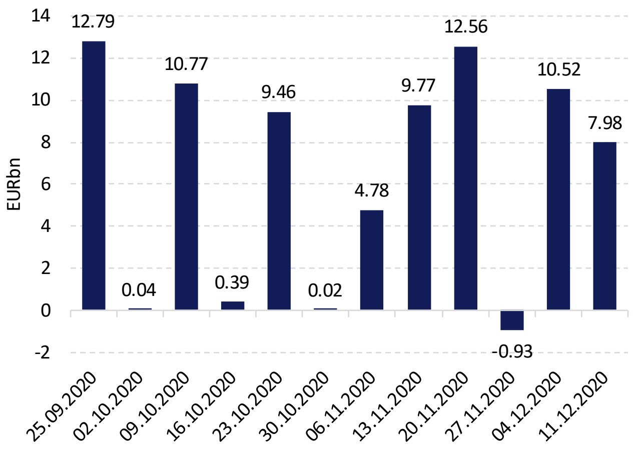
Portfolio development



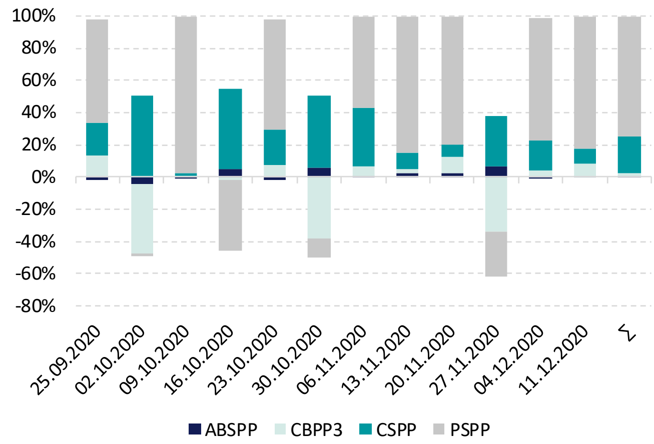
Distribution of monthly purchases



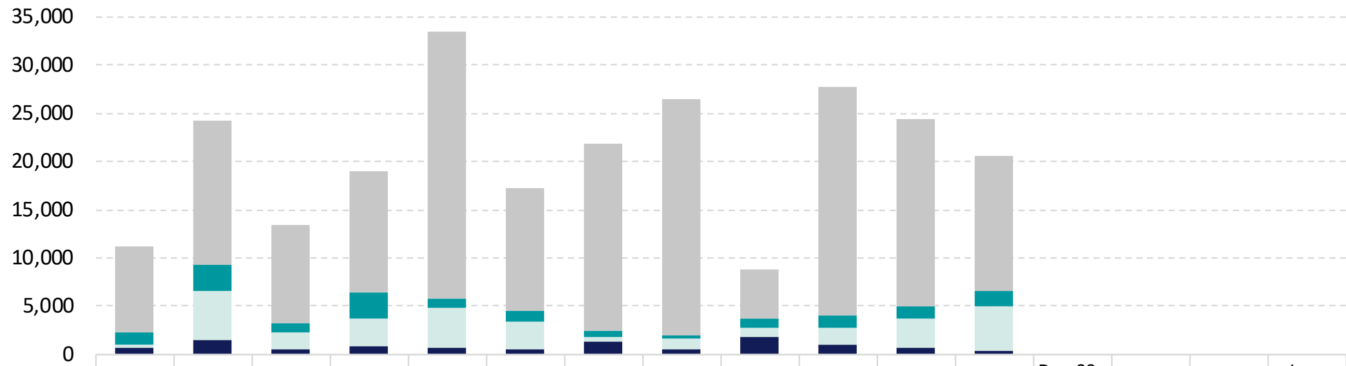
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

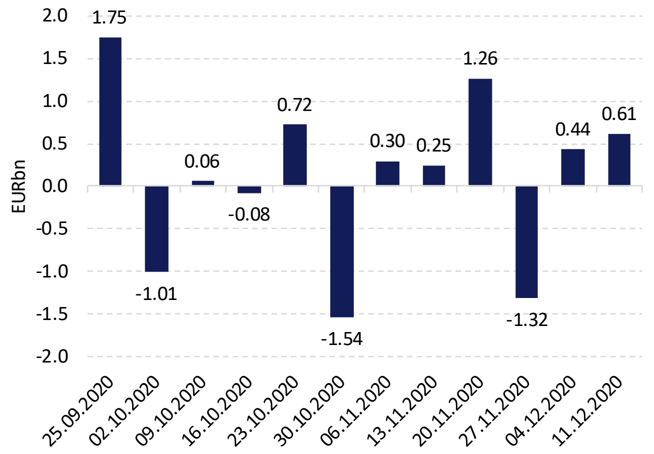


	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-20 - Nov-21	2019	2020	Jan - Nov-21
APP	11,198	24,285	13,433	19,072	33,511	17,307	21,945	26,552	8,861	27,696	24,457	20,638	248,955	204,542	261,068	237,757
PSPP	8,871	15,041	10,268	12,671	27,682	12,812	19,519	24,526	5,118	23,638	19,523	13,989	193,658	167,334	201,482	184,787
CSPP	1,296	2,620	846	2,728	981	1,144	686	334	966	1,272	1,309	1,673	15,855	7,070	18,134	14,559
CBPP3	302	5,148	1,824	2,800	4,214	2,894	367	1,132	1,002	1,833	3,020	4,591	29,127	21,948	32,291	28,825
ABSPP	729	1,476	495	873	634	457	1,373	560	1,775	953	605	385	10,315	8,190	9,161	9,586

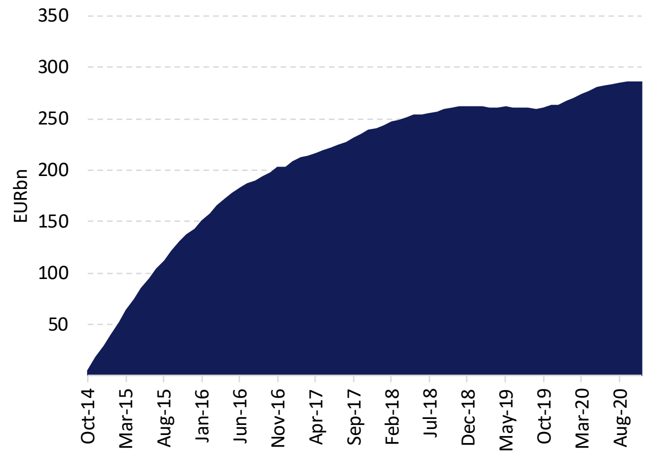
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

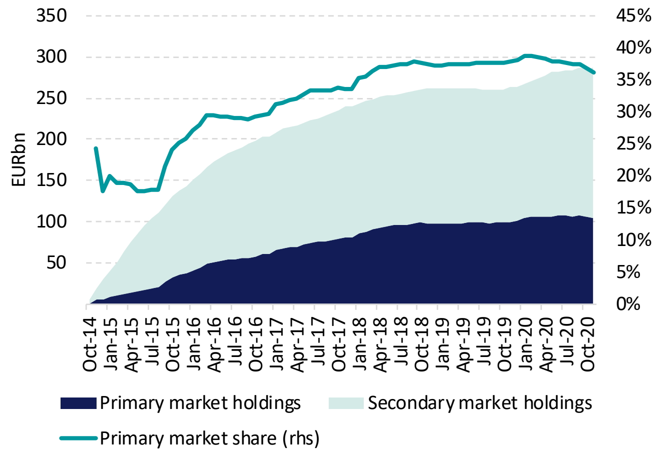
Weekly purchases



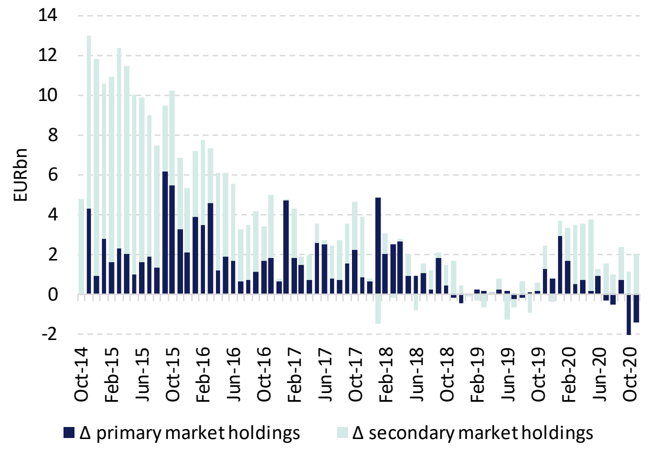
Development of CBPP3 volume



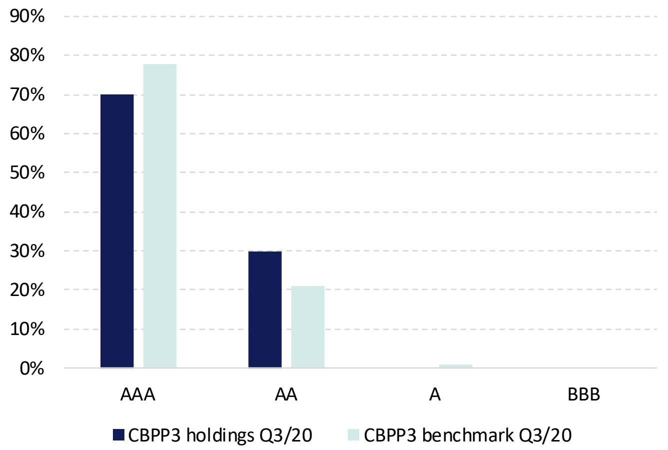
Primary and secondary market holdings



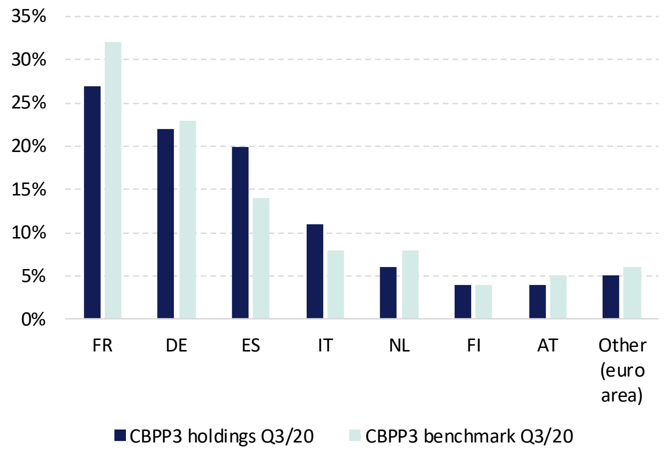
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



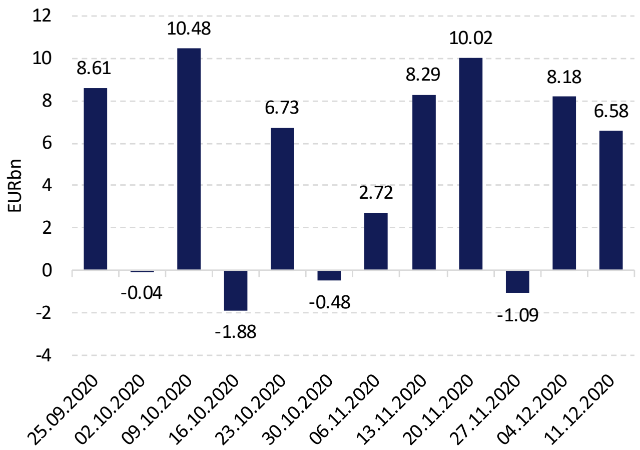
Distribution of CBPP3 by country of risk



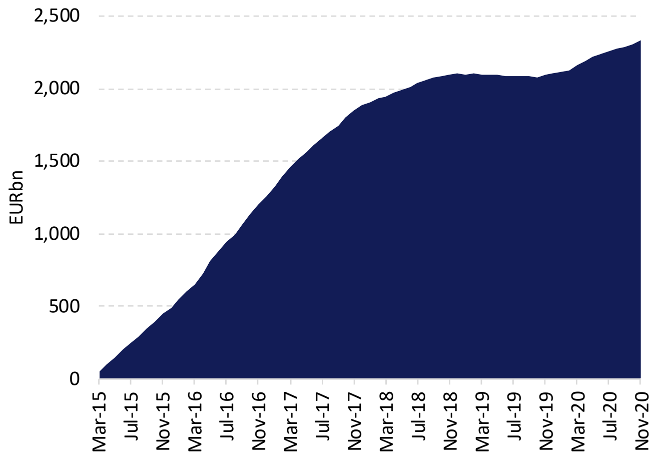
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



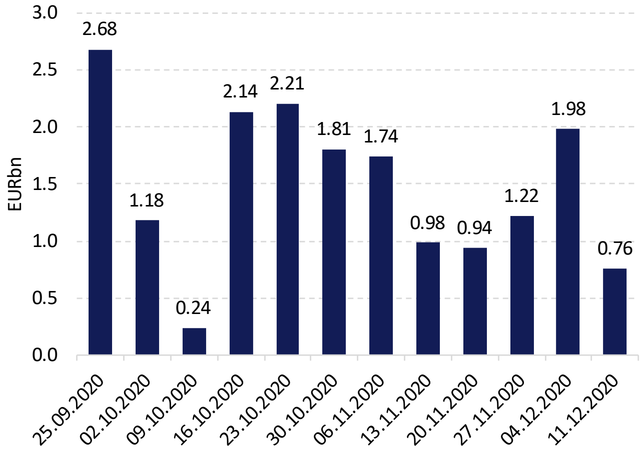
Overall distribution of PSPP buying at month-end

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**

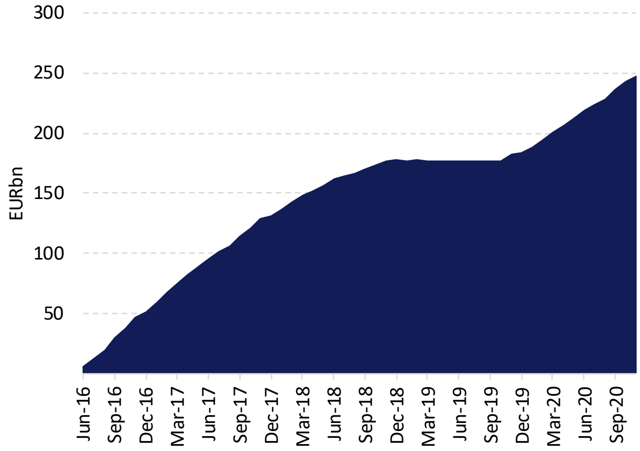
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

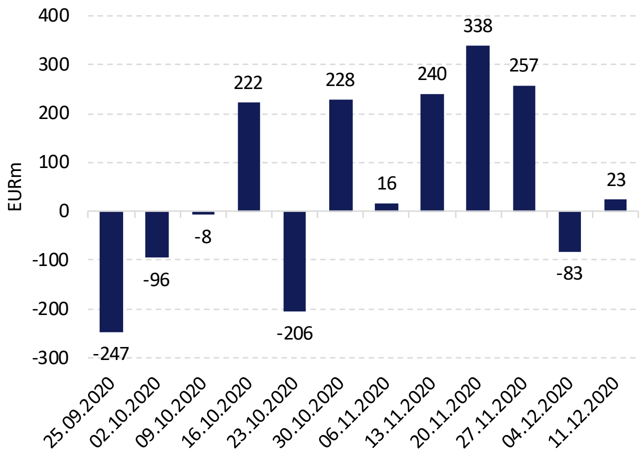


Development of CSPP volume

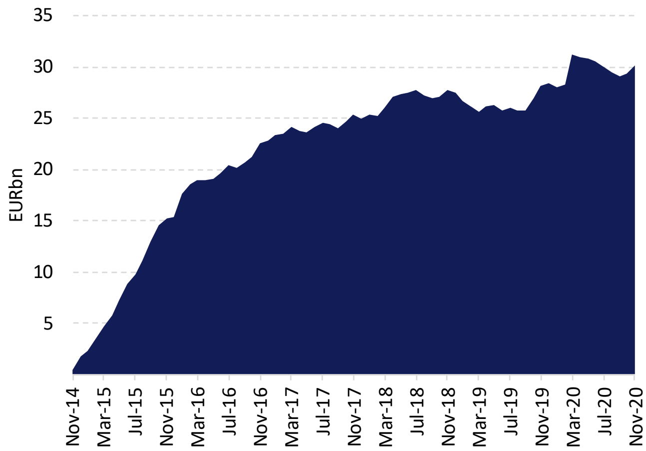


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



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

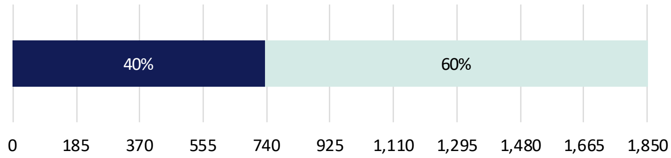
NORD/LB

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Oct-20	629,169
Nov-20	700,003
Δ	+70,835

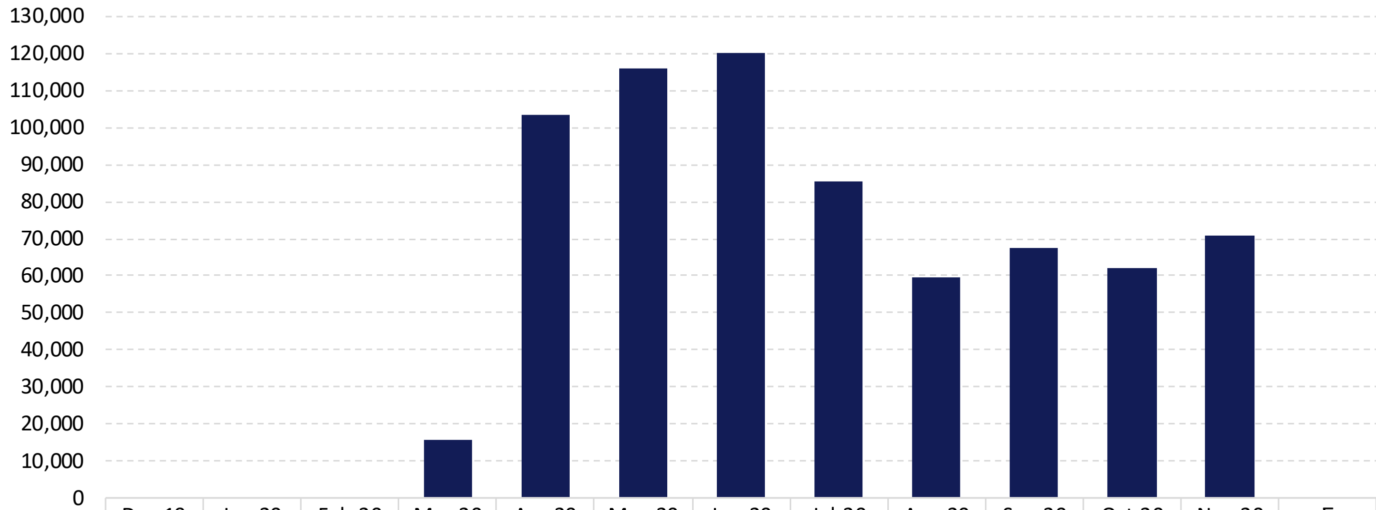
Volume already invested (in EURbn)



Estimated portfolio development

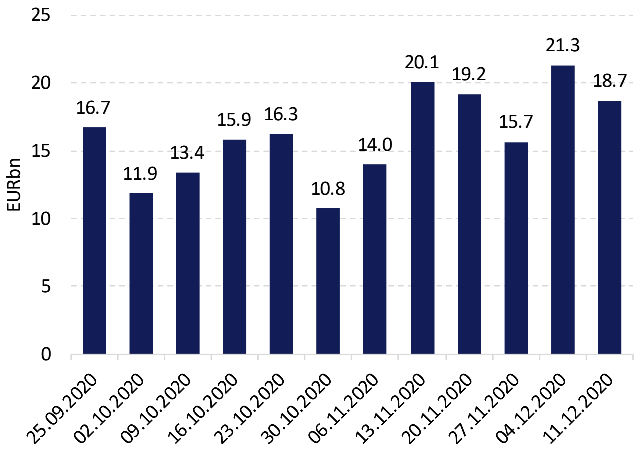
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 19.9bn	56 weeks (07.01.2022)

Monthly net purchases (in EURm)

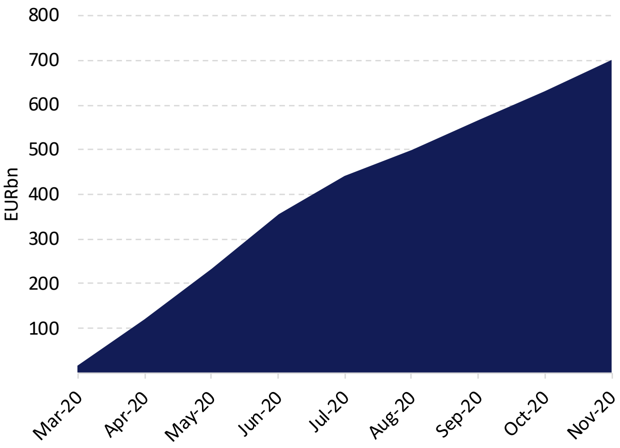


	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	∑
PEPP	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	700,003

Weekly purchases



Development of PEPP volume

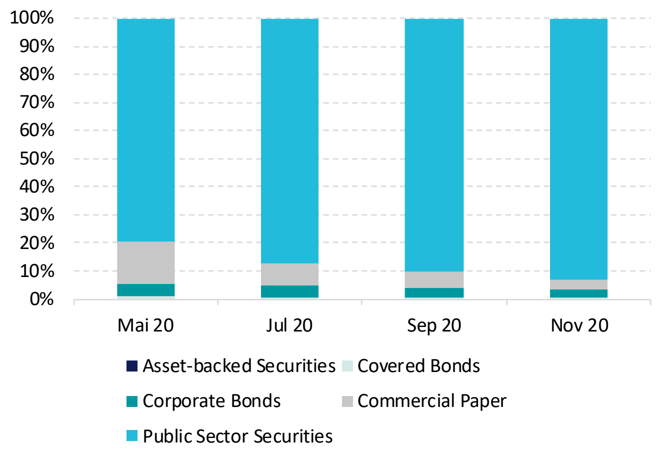


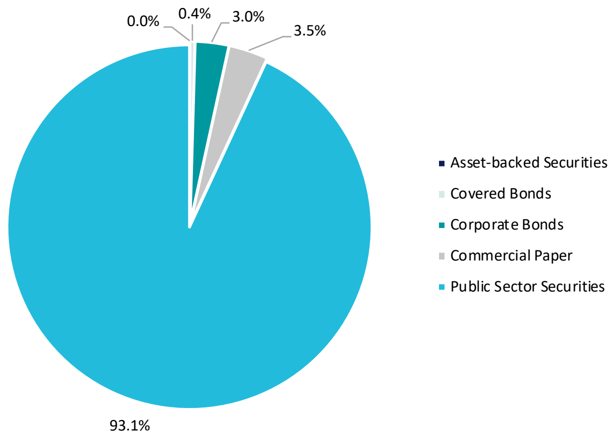
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

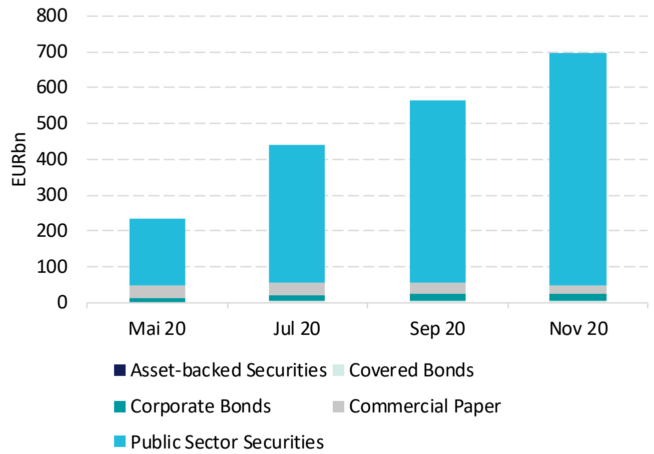
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Nov-20	0	3,123	20,760	24,306	650,272	698,461
Δ	0	0	342	-7,682	140,160	132,820

Portfolio structure

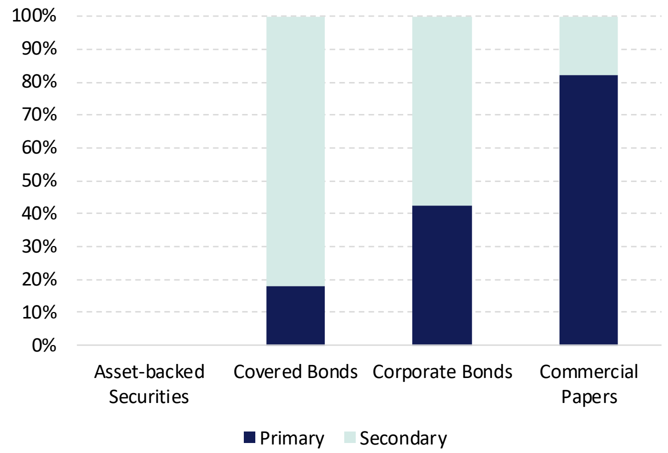




Portfolio development



Share of primary and secondary market holdings



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

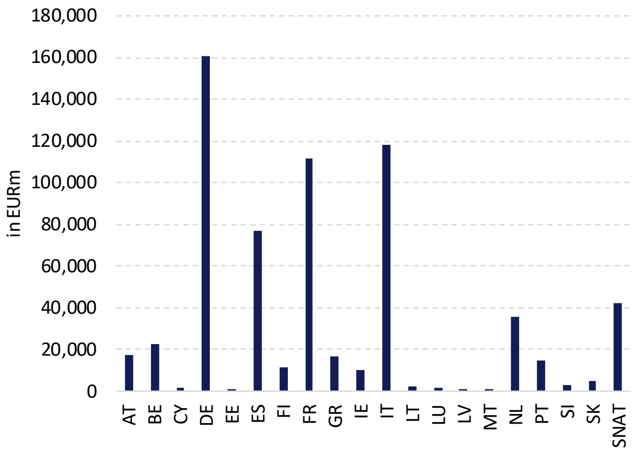
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Bestand in EURm	0	0	557	2,566	8,842	11,918	20,001	4,305
Anteil	0.0%	0.0%	17.8%	82.2%	42.6%	57.4%	82.3%	17.7%

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

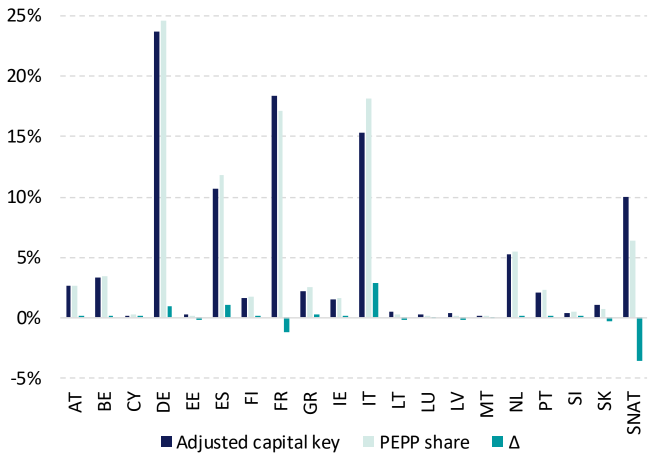
Breakdown of public sector securities under the PEPP

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



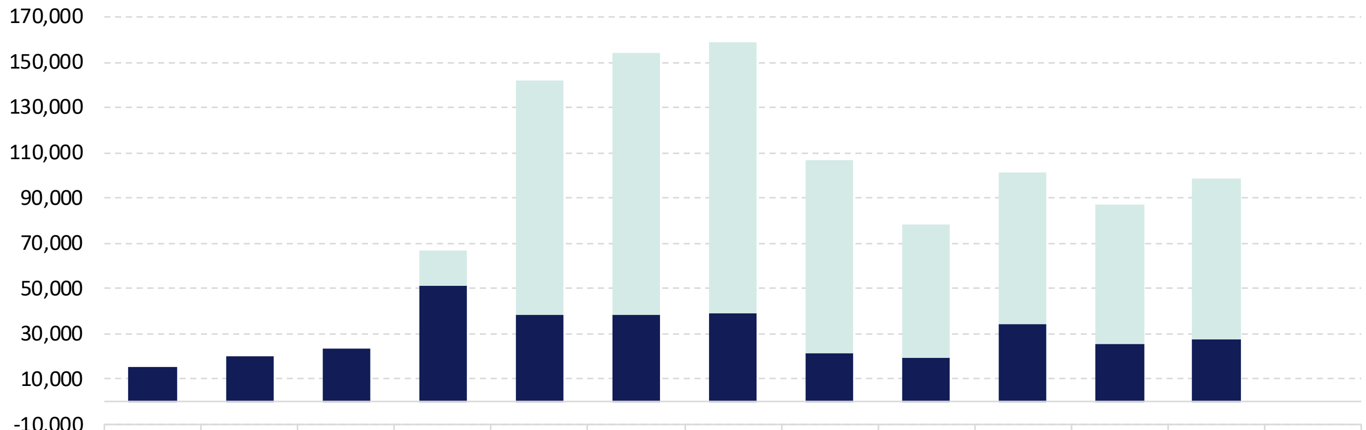
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

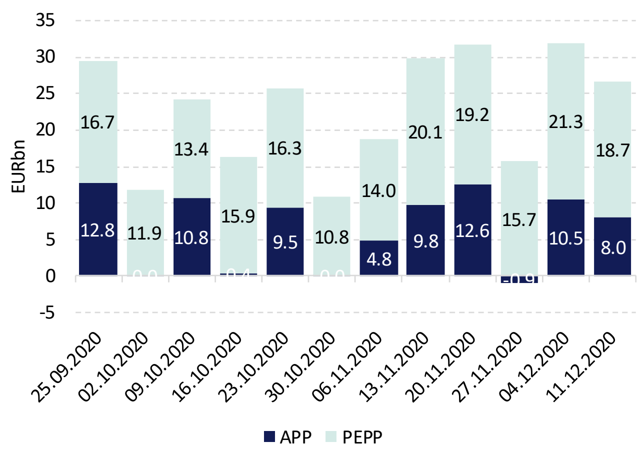
	APP	PEPP	APP & PEPP
Oct-20	2,867,802	629,169	3,496,971
Nov-20	2,895,521	700,003	3,595,524
Δ	+27,720	+70,835	+98,555

Monthly net purchases (in EURm)

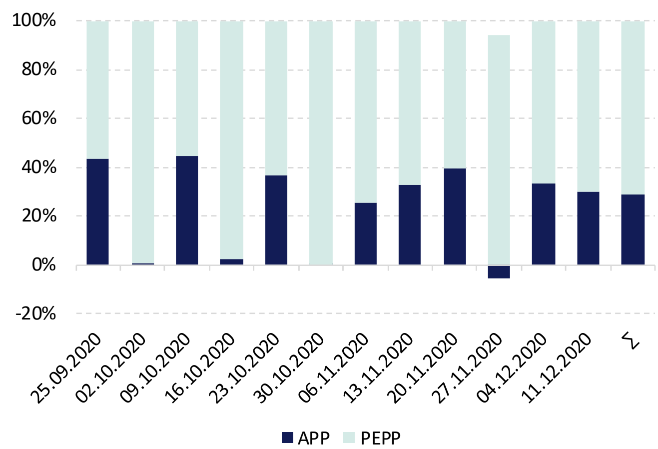


	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	∑
∑	15,408	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,322	87,334	98,555	1,053,49
PEPP	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	700,003
APP	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	353,494

Weekly purchases



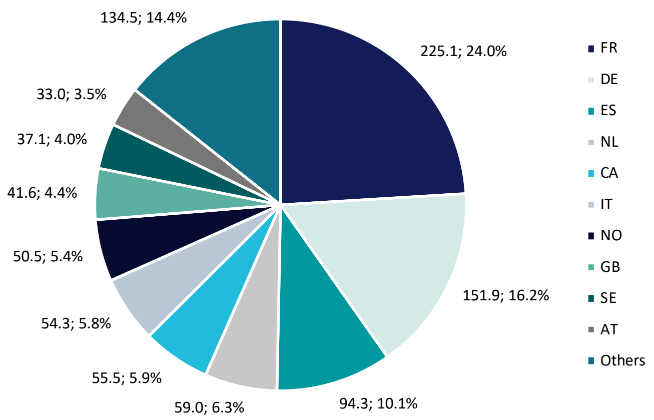
Distribution of weekly purchases



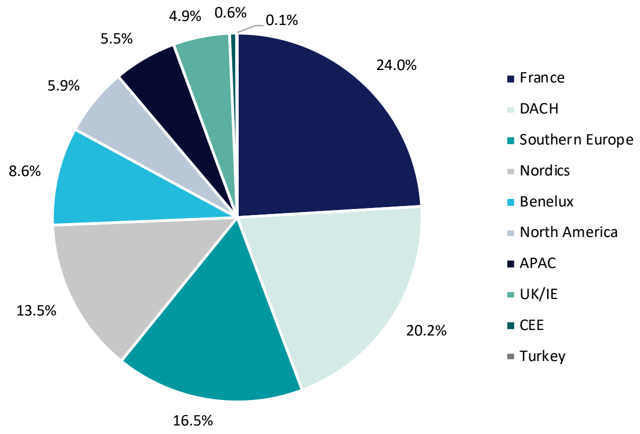
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



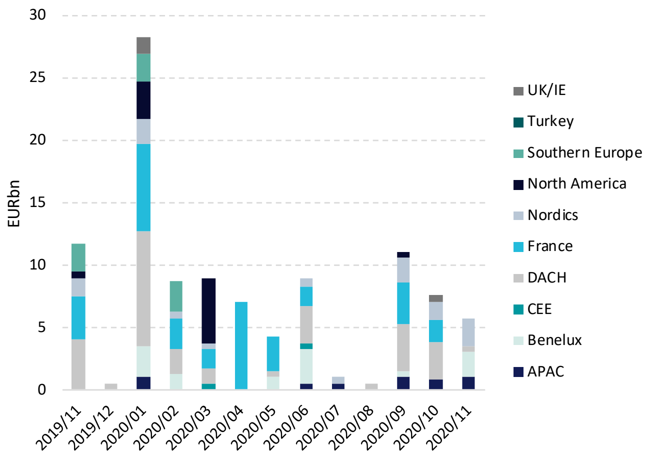
EUR benchmark volume by region (in EURbn)



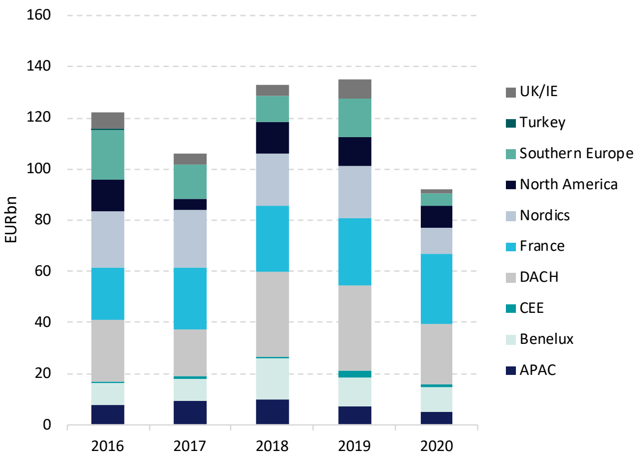
Top-10 jurisdictions

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	225.1	204	7	0.97	10.1	5.4	1.26
2	DE	151.9	226	12	0.61	8.2	4.7	0.51
3	ES	94.3	75	3	1.15	11.4	3.9	1.90
4	NL	59.0	58	0	0.97	11.1	7.4	0.98
5	CA	55.5	47	0	1.15	5.9	2.9	0.31
6	IT	54.3	62	0	0.85	8.9	4.2	1.59
7	NO	50.5	57	6	0.89	7.1	3.6	0.62
8	GB	41.6	45	0	0.94	8.3	3.1	1.23
9	SE	37.1	42	0	0.88	7.3	3.3	0.56
10	AT	33.0	59	0	0.56	9.4	5.8	0.80

EUR benchmark issue volume by month

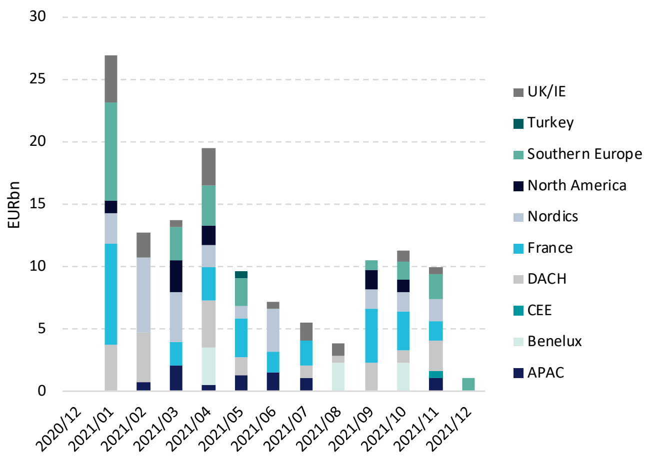


EUR benchmark issue volume by year

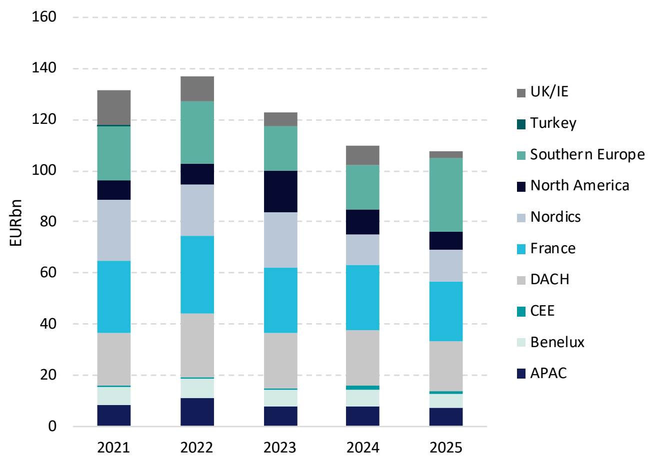


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

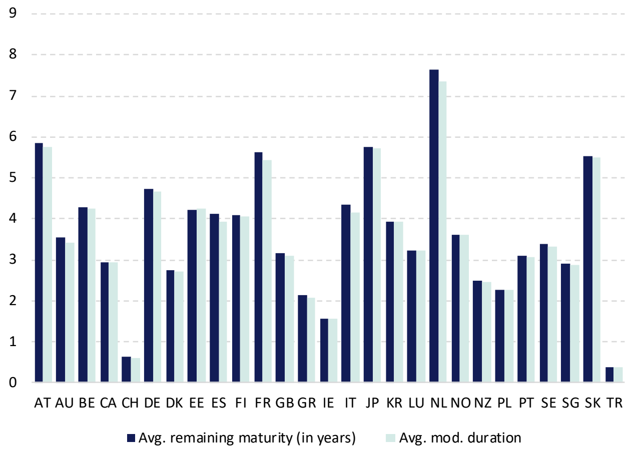
EUR benchmark maturities by month



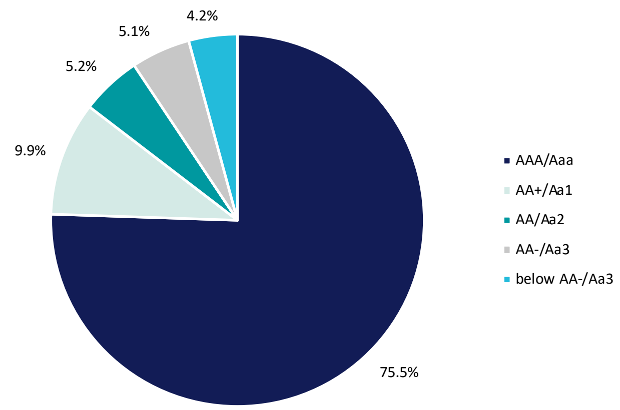
EUR benchmark maturities by year



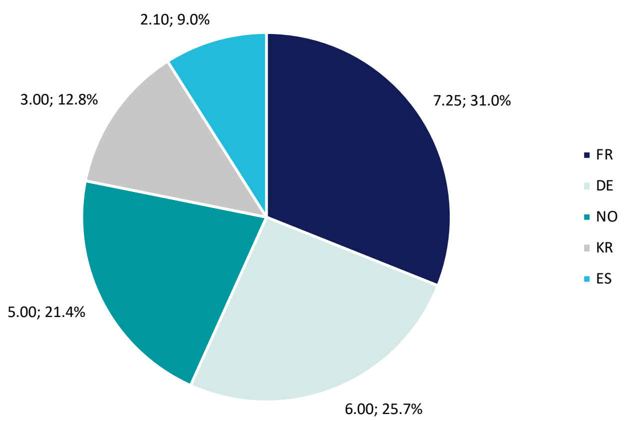
Modified duration and time to maturity by country



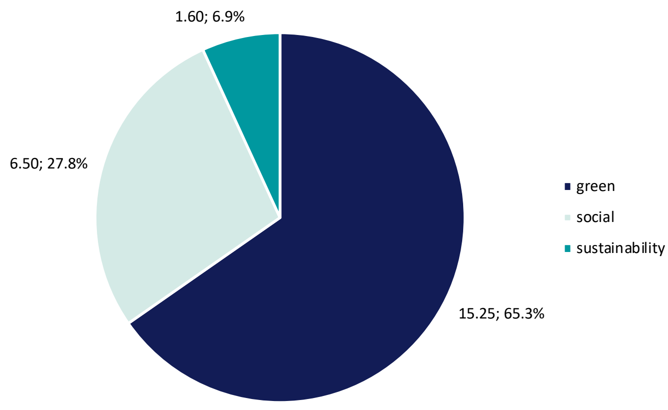
Rating distribution (volume weighted)



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

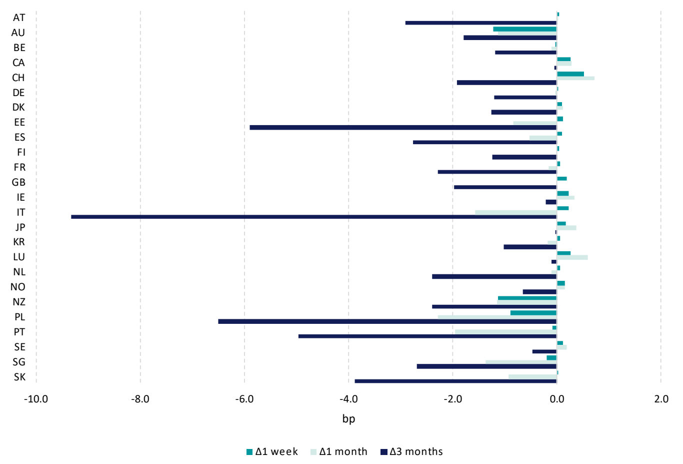


EUR benchmark volume (ESG) by type (in EURbn)

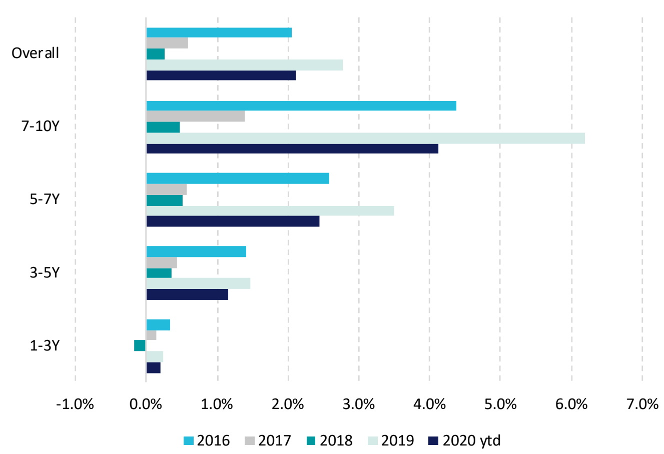


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

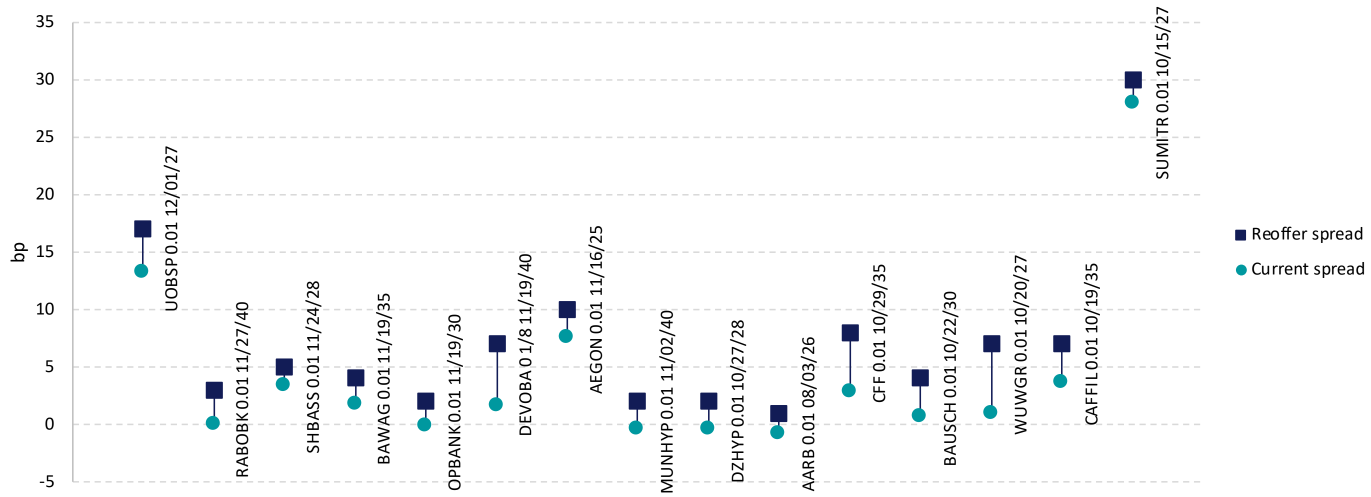
Spread development by country



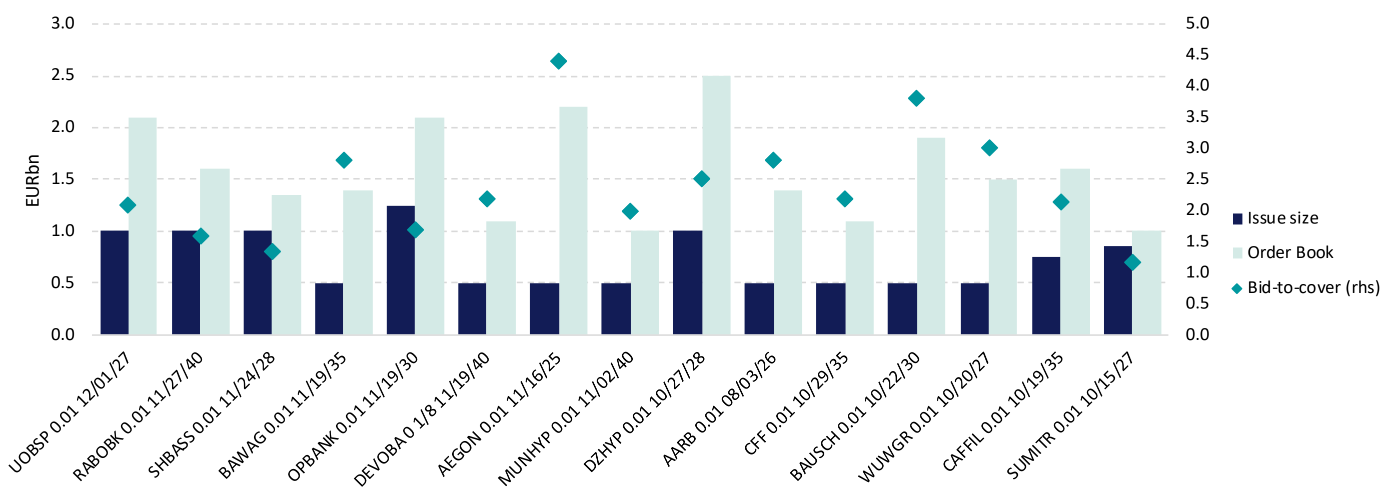
Covered bond performance (Total return)



Spread development (last 15 issues)



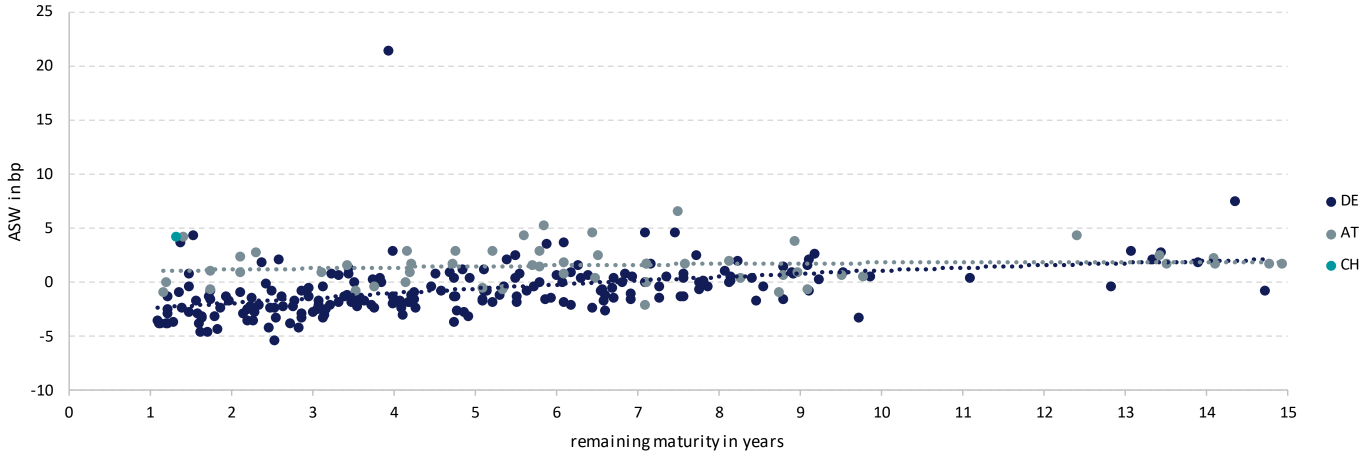
Order books (last 15 issues)



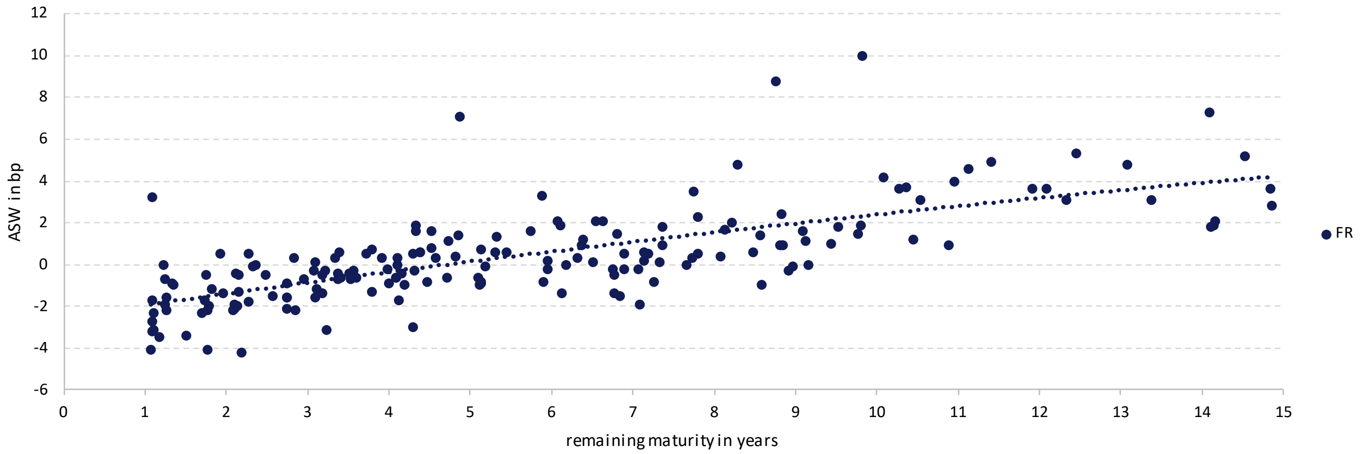
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

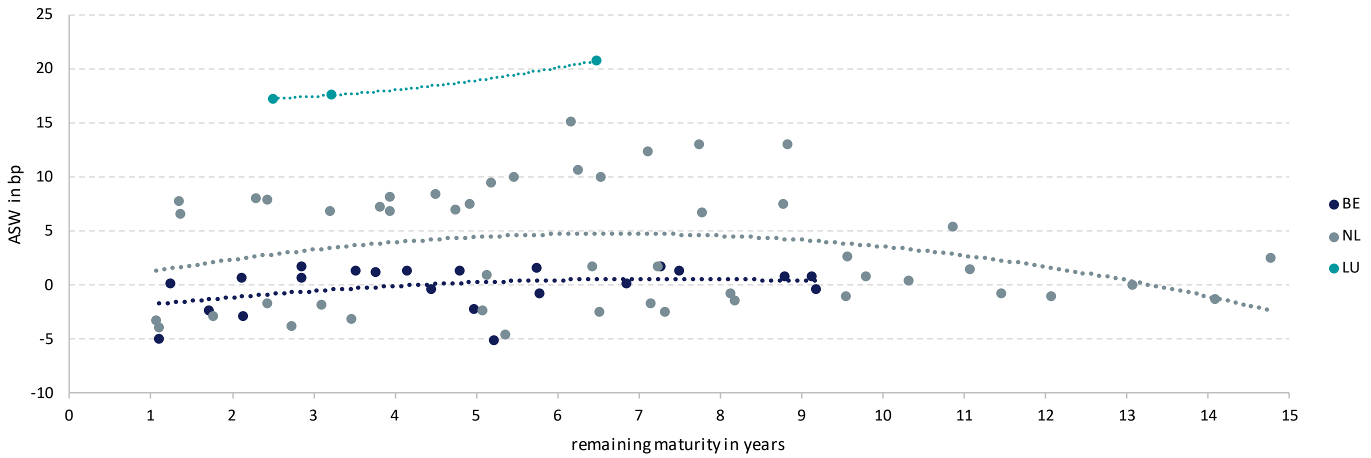
DACH



France

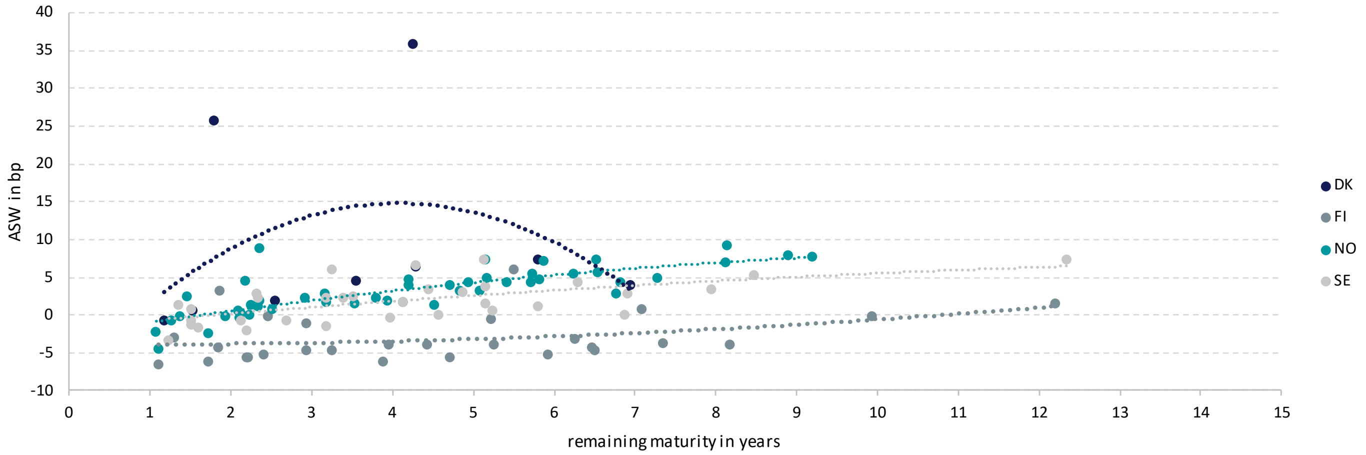


Benelux

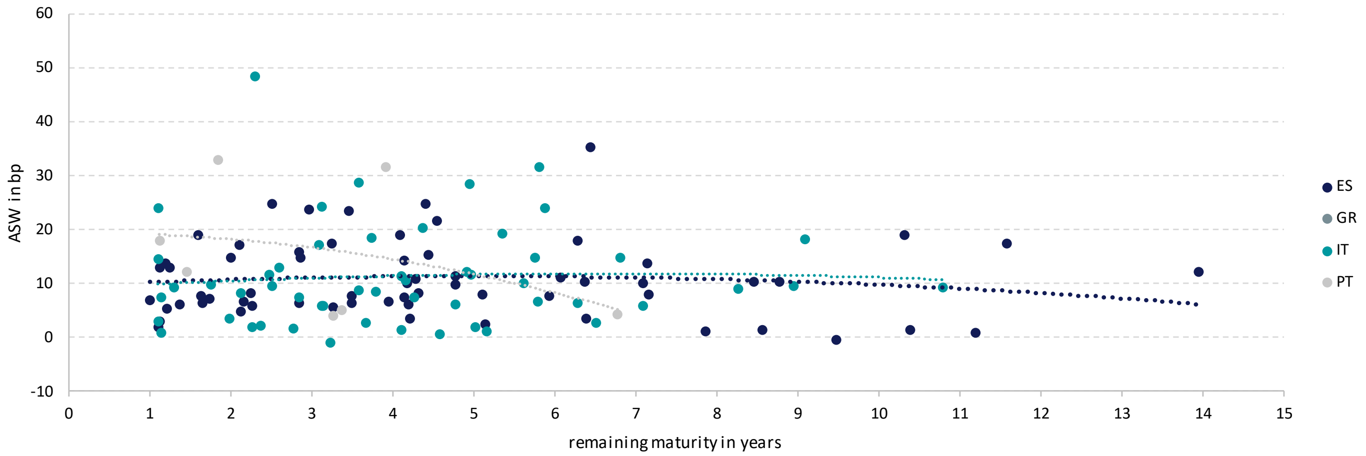


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

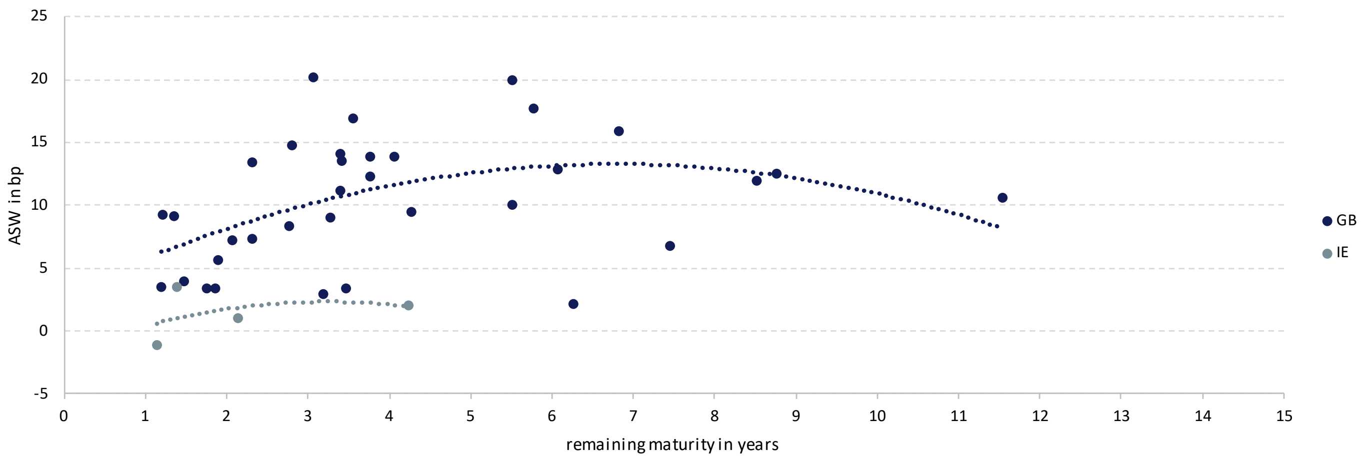
Nordics



Southern Europe

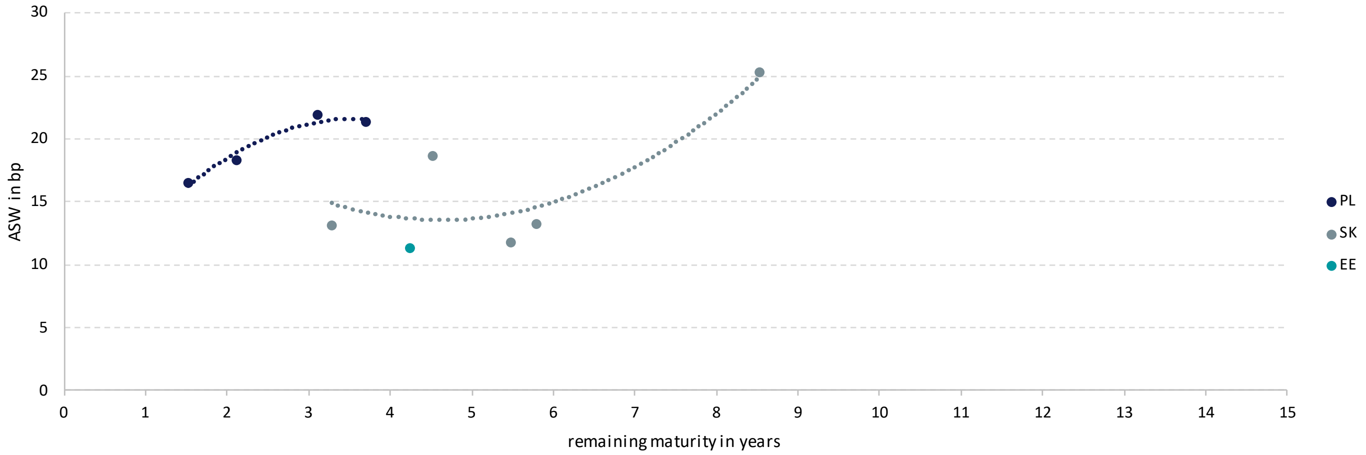


UK/IE

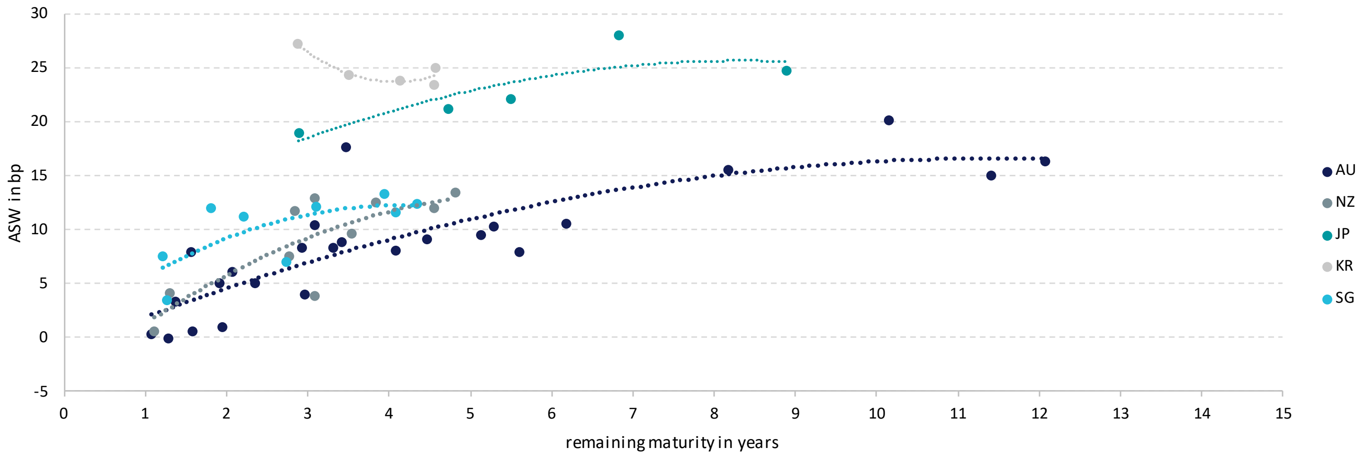


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

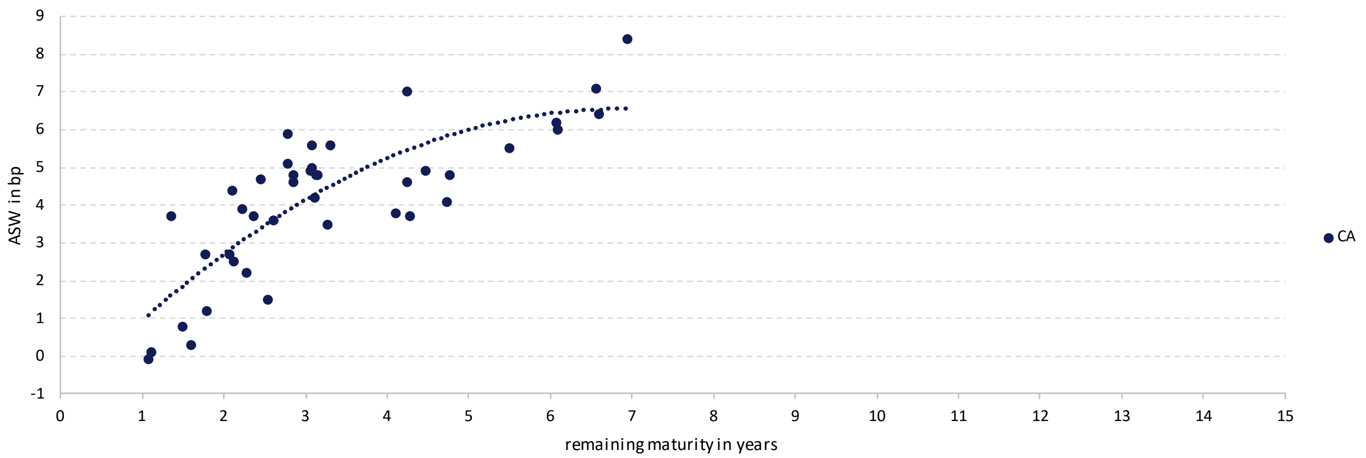
CEE



APAC



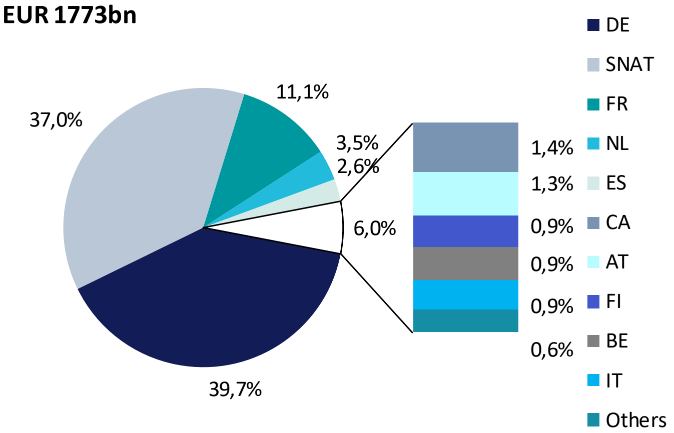
North America



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

Charts & Figures
SSA/Public Issuers

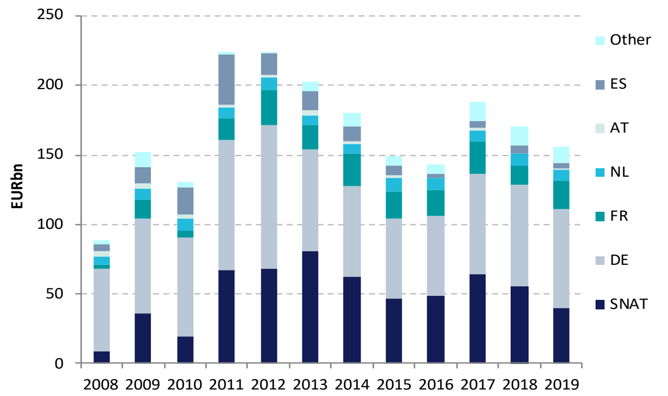
Outstanding volume (bmk)



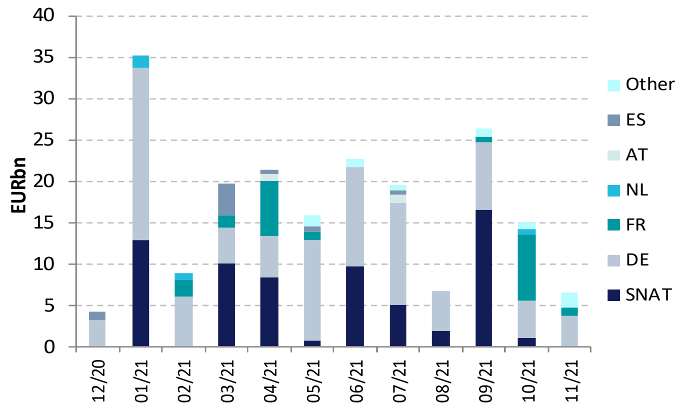
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	704,5	551	1,3	6,3
SNAT	655,9	172	3,8	7,5
FR	197,0	138	1,4	5,2
NL	62,4	64	1,0	6,3
ES	46,1	54	0,9	4,5
CA	25,0	18	1,4	5,7
AT	22,5	24	0,9	5,4
FI	16,4	20	0,8	6,0
BE	16,3	19	0,9	14,3
IT	15,8	20	0,8	6,1

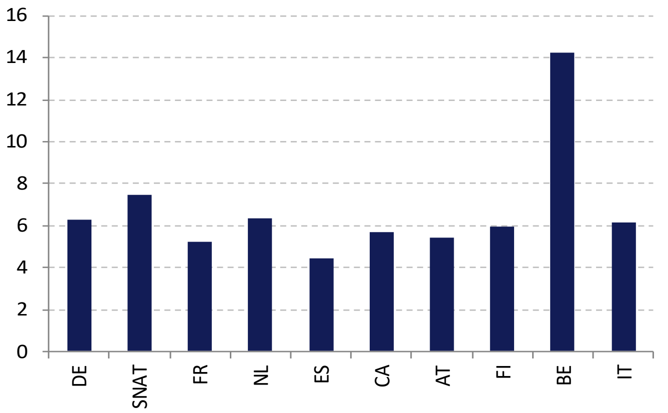
Issue volume by year (bmk)



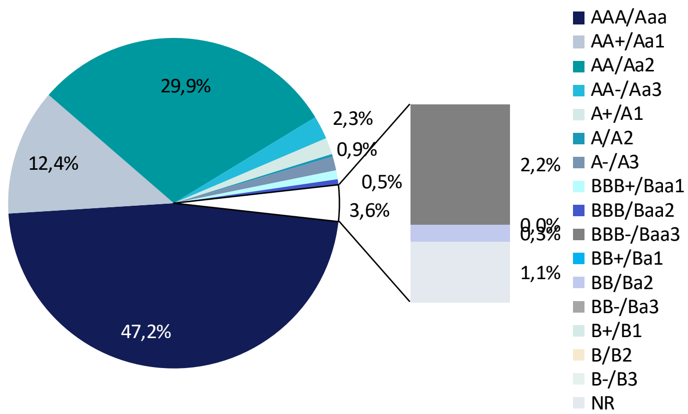
Maturities next 12 months (bmk)



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

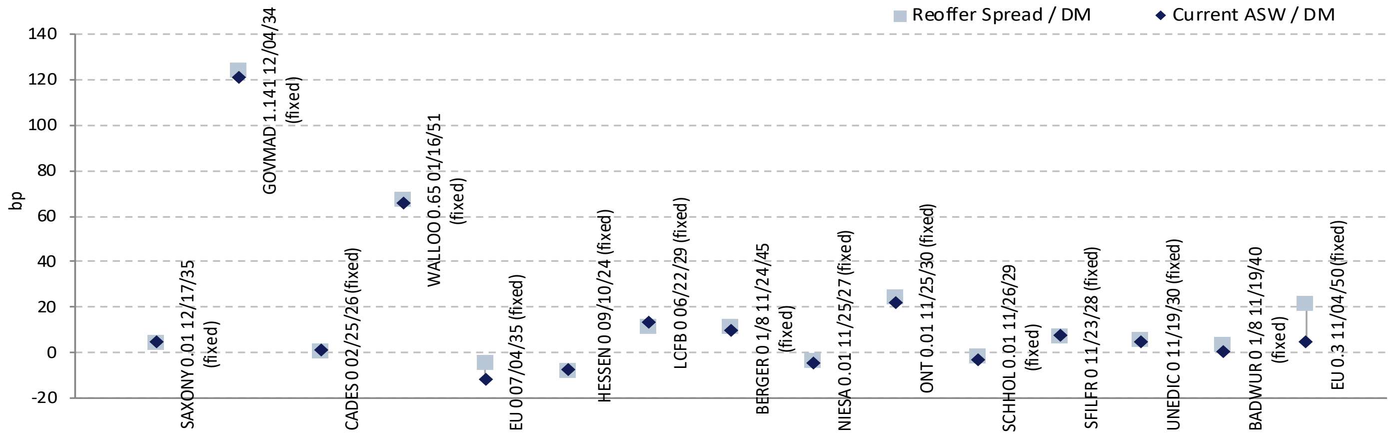


Rating distribution (vol. weighted)

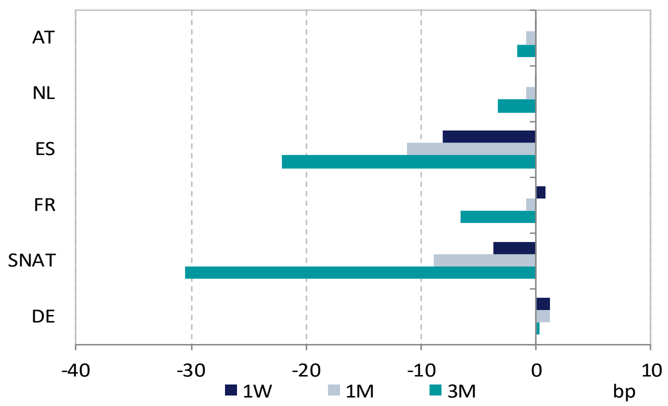


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

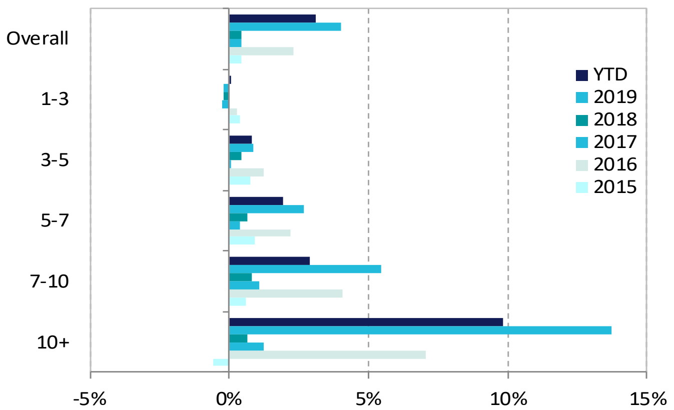
Spread development (last 15 issues)



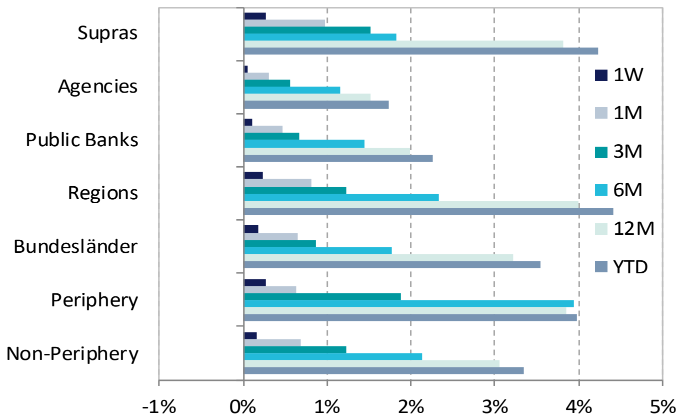
Spread development by country



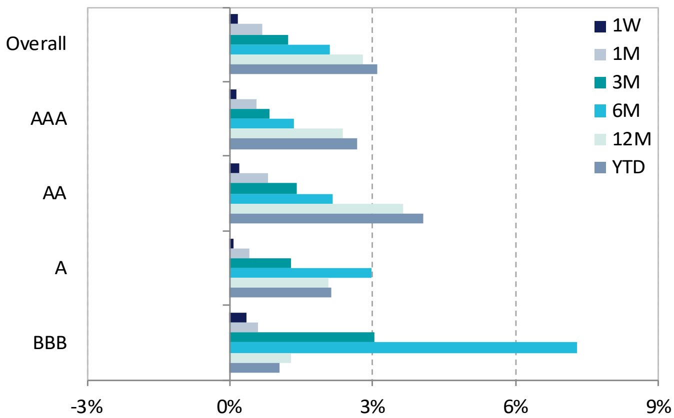
Performance (total return)



Performance (total return) by regions

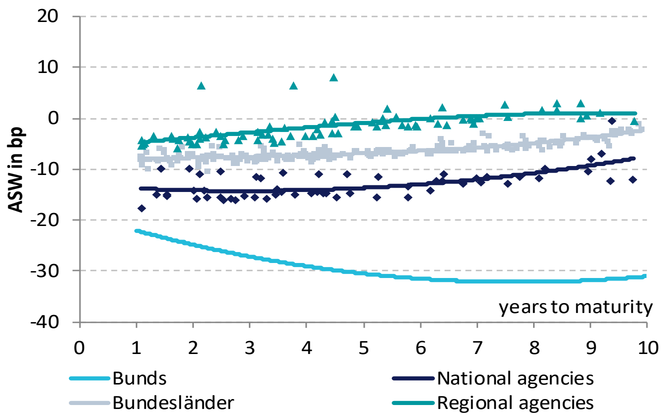


Performance (total return) by rating

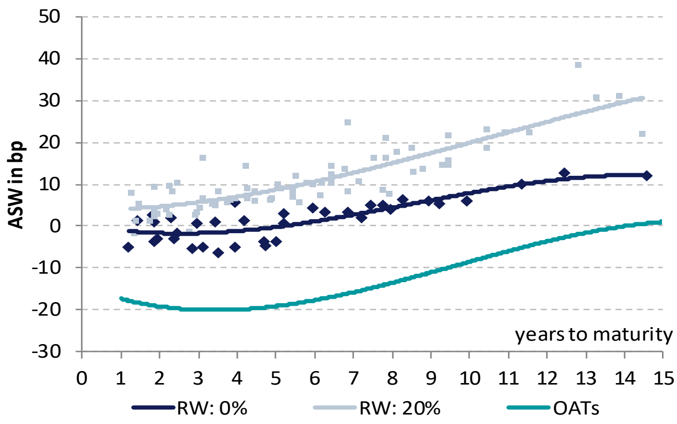


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

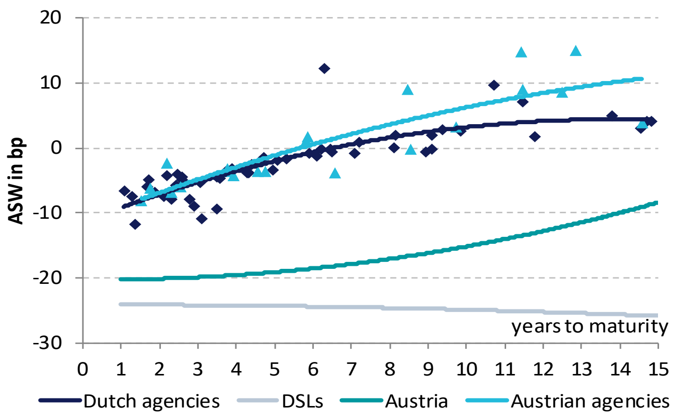
Germany (by segments)



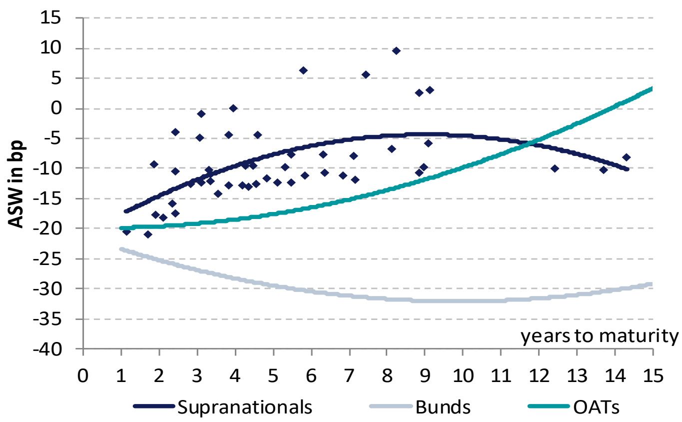
France (by risk weight)



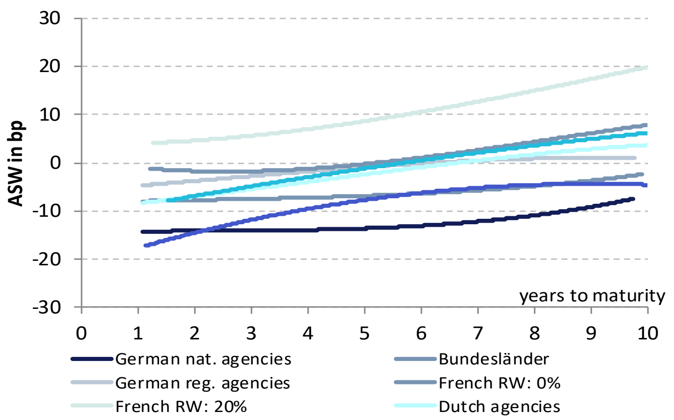
Netherlands & Austria



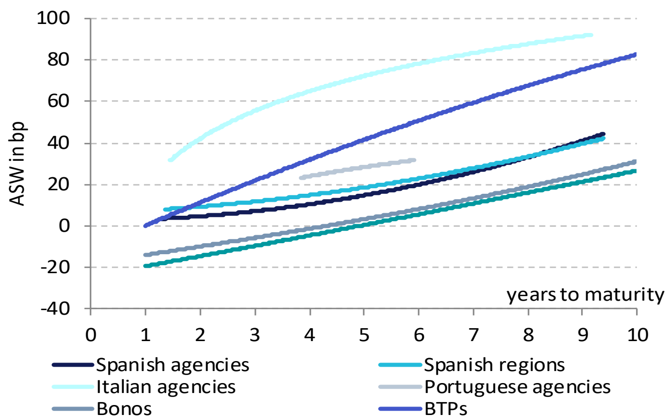
Supranationals



Core



Periphery



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

NORD/LB

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
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
35/2020 ♦ 16 September	▪ Moody's covered bond universe: an overview ▪ Update Down Under: Victoria (TCV)
34/2020 ♦ 26 August	▪ Covered bonds as central bank-eligible collateral – European Central Bank presents Q2 2020 figures ▪ Update: New South Wales (NSWTC)
33/2020 ♦ 19 August	▪ German Pfandbrief savings banks in Q2 2020 ▪ ECBC publishes annual statistics for 2019

NORD/LB:	NORD/LB:	NORD/LB:	Bloomberg:
Markets Strategy & Floor Research	Covered Bond Research	SSA/Public Issuer Research	RESP NRDR <GO>

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

Appendix
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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
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

Sales Wholesale Customers

Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

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Additional information
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None

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Issuer / security	Date	Recommendation	Bond type	Cause