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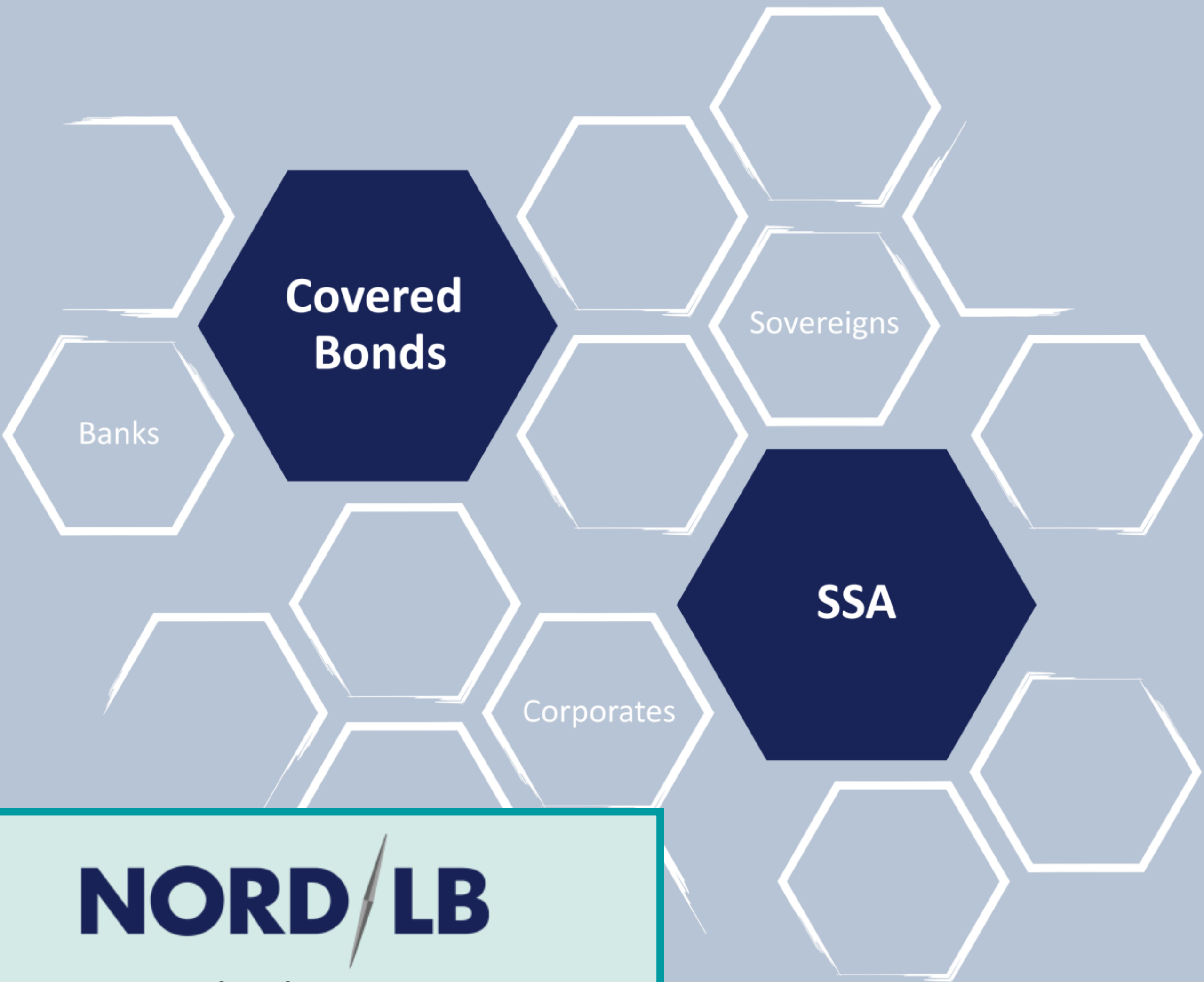

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

2 December 2020 ♦ 46/2020

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

Agenda

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Market overview Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

Outlook 2021: Negative net supply again anticipated for covered bonds

As announced in the previous instalment of this publication, this week's edition contains our Outlook for the covered bond market in 2021. In this article, we will shed light not only on the relevant factors set to influence the market over the course of the next 12 months, but also publish our issuance forecast for individual sub-markets in addition to our expectations with regard to spread trends. This outlook is supplemented by a separate article that covers the ECB meeting scheduled for 10 December in addition to determining the potential resolutions and monetary policy direction for 2021 emerging from this crunch summit.

Primary market already in traditional year-end mode

There have been no new EUR benchmark transactions to report since Wednesday last week, a situation which, among other factors, can be attributed to Thanksgiving celebrations in the USA last Thursday and the "bridge day" taken as holiday on Friday to create an extended weekend. Another reason for the dearth of new issuances is also likely to be that we are rapidly approaching the end of the year. For example, the market for covered bonds in the EUR benchmark segment is traditionally quiet by the last week in November, as most institutions are supposed to have completed their funding activities for the year. This situation is also likely to set the trend for market activity in December. In the past five years, just six new issuances (EUR 5.25bn) have been brought to market in December. Issuers are likely to access the primary market in very limited numbers, if at all. Moreover, the attention of market players is already likely to be directed towards Frankfurt and the eagerly anticipated ECB meeting on 10 December. Here, owing to advance communications, the expectations have for some time been that the PEPP volume will be adjusted (we expect it to be increased by EUR 400bn) and that the duration of the programme will be extended (from June 2021 to December 2021 is our estimate). The ECB will also probably opt to adjust its instrument for long-term central bank liquidity (TLTRO). An extension of the TLTRO III tender to beyond March 2021 (TLTRO III.7) in addition to potential adjustments to the modalities would be conceivable here, although the period of preferential interest rates (currently June 2020 to June 2021) and the interest rate itself may also be adjusted. The results of the last tender of the current year (TLTRO III.6) are set to be announced on the same day as the ECB meeting, although we believe it will not be excessively used. This assessment is based on the fact that, firstly, central bank liquidity has already been accessed to a huge degree in the current year and, secondly, market players may prefer to wait for the decisions taken at the ECB meeting before making their moves. Furthermore, it cannot be ruled out that the central bankers may adjust and introduce other instruments in an attempt to counteract the recent renewed escalation in the coronavirus situation immediately and appropriately in the new year. Finally, the signal sent by the ECB to the market again in implementing these measures should not be overlooked.

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

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

S&P offers view of the Dutch covered bond market

The rating experts at S&P are of the view that the Dutch covered bond market is in good shape and see stable ratings and outlooks over the medium term to the majority of Dutch issuers. These assessments were included in the rating agency's recently published Market Insights. Accordingly, the risk experts currently anticipate that the coronavirus pandemic will have only a moderate influence on the covered bond market, although they do highlight a significant degree of uncertainty for the further course of 2021 at the same time. In contrast, they are expecting a profound, albeit brief, impact on the Dutch economy. In view of the implementation of the requirements of the Covered Bond Directive in national law, the experts arrive at the conclusion that while there is definitely a certain need for adjustment, this is limited overall. The most important point here is likely to be the requirements with regard to extendable maturity structures, which in the Netherlands take the form of both soft bullet and CPT bonds. In fact, the Netherlands is the largest market for EUR benchmarks in CPT format. Of the overall volume of CPT deals totalling EUR 20.05bn included in the iBoxx EUR Covered, a total of EUR 10.05bn can be attributed to Dutch issuers. However, these bonds are subject to certain restrictions, not least due to the fact that the ECB has not bought bonds with such a structure for some time. In this context, NN Bank, which previously issued only CPT bonds, opted to place a EUR benchmark in soft bullet format for the first time in the current year. S&P ascribes this development to a decline in attractiveness of CPT bonds on the part of investors. This situation is also likely to have prompted AEGON Bank to consider setting up a soft bullet programme. At the present moment, the bank issues EUR benchmarks exclusively in CPT format.

Swedish covered bond legislation: Moody's comments on adjustment proposal

As the deadline to incorporate the package of regulations pertaining to the directive for European covered bond harmonisation in the national laws of the member states moves ever closer, the proposals for legislative amendments are also increasing. In a recent Sector Report, the risk experts at Moody's commented on a proposal put forward by the Swedish government. Overall, the analysts identify an improvement in the Swedish framework with regard to the risk assessment of covered bonds arising from the adjustment. In Sweden, too, the mandatory introduction of the 180-day liquidity buffer should be mentioned in this context. In terms of eligible cover assets, the Moody's analysts evaluate the content of the proposal to the effect that by not additionally approving new cover assets over and above those currently authorised in Sweden (primarily mortgage and public sector assets), this would in turn imply increased credit quality of the country's covered bond issuances. Legally required minimum overcollateralisation will be increased to 5% (previously 2%) on a nominal and present value basis, which is a stricter requirement than that defined by the directive and deviates from the adjusted requirement pursuant to Article 129 CRR, which stipulates that the 5% requirement of the CRR does not have to be anchored as a legal minimum. In reference to extendable maturities, the proposal envisages an approach that would require the approval of the financial regulatory authority for each separate extension. This proposal deviates from other approaches – for example that of the German Pfandbrief Act (PfandBG) (cf. Covered Bond & SSA View of 14 October) – to a quite significant extent. Overall, the Moody's experts see a somewhat lower level of utilization of this regulation on the part of the issuers.

Market overview SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

Outlook for 2021

In today's edition of this publication, we are presenting our Outlook for 2021. In the case of the SSA segment, the outlook is determined to a large extent by the coronavirus measures being adopted by public-sector issuers as well as forthcoming monetary-policy adjustments expected at the meeting of the ECB Governing Council on 10 December. We also plan to present our outlook for institutional investors next week (Tuesday, 08 December 2020) as digital event. If you have not yet registered your interest and would like to take part, please send an e-mail to sales@nordlb.lu for a personalised invitation.

EU: Very SURE – EUR 39.5bn of EUR 100bn already raised

In its role as an issuer, the EU has already raised EUR 39.5bn in five transactions. This is far in excess of our expectations for 2020 (baseline scenario: EUR 25bn). At EUR 8.5bn, the last transaction was also substantially oversubscribed with a bid-to-cover ratio of 13.4x. Since the start of the programme, the five order books combined have attracted EUR 522bn. Moreover, with maturities of 5, 10, 15, 20 and 30 years, the EU has built up a social SURE curve in a very short space of time. All the bonds put in a strong performance after issuance. Although the new issue premium for each transaction fell slightly over time, this did not dim interest in any way, as illustrated by oversubscription rates last week and before. Over 70% of the latest transaction was placed with ESG-oriented investors. The EU will therefore still have to raise just over EUR 60bn of SURE funding in 2021, all of which will take the form of social bonds. This will make the EU the biggest issuer of EUR social bonds − at least in 2020 and 2021 − followed by UNEDIC and CADES. As a first step, the European Commission has paid out a total of EUR 17bn to Italy, Spain and Poland in the first tranche of financial support to Member States under the SURE instrument. As part of the first measure, Italy has received EUR 10bn, followed by Spain (EUR 6bn) and Poland (EUR 1bn). Once all SURE payments have been completed, Italy will have received a total of EUR 27.4bn, followed by Spain (EUR 21.3bn) and Poland (EUR 11.2bn; see following table). Over EUR 31bn was quickly distributed to the countries concerned and this is more or less in line with the funding prior to the latest transaction. As a reminder: The aim of support in the form of loans at advantageous conditions is to help Member States meet the huge rise in public spending to maintain employment. In particular, the loans will help cover costs directly connected with the financing of national short-time working programmes and other similar measures introduced in response to the coronavirus pandemic, especially for the self-employed. So far, EU heavyweights Germany and France have not applied for any support from the programme. However, should they still wish to do so − which we do not expect − there would be a maximum of EU 9.7bn left to split between the two countries. Smaller countries such as Finland, Luxembourg and Denmark have not applied for support either.

Financial support already agreed in 18 Member States (EUR 90.3bn)

Belgium	EUR 7,800m	**Lithuania**	EUR 602m
Bulgaria	EUR 511m	**Malta**	EUR 244m
Croatia	EUR 1.000m	**Poland**	EUR 11,200m
Cyprus	EUR 479m	**Portugal**	EUR 5,900m
Czech Rep.	EUR 2,000m	**Romania**	EUR 4,000m
Greece	EUR 2,700m	**Slovakia**	EUR 631m
Ireland*	EUR 2,500m	**Slovenia**	EUR 1,100m
Italy	EUR 27,400m	**Spain**	EUR 21,300m
Latvia	EUR 192m	**Hungary**	EUR 504m

* A decision is expected in the next few weeks regarding Ireland's application.
Source: European Commission, NORD/LB Markets Strategy & Floor Research

Primary market

As is often the case in this section, the regions were prominent players: BADWUR, WALLOO, BREMEN and GOVMAD were all active with drastically different variants. In chronological order, we start with Baden-Wuerttemberg which launched a EUR 400m tap of its 2040 bond at ms +2bp. The deal was oversubscribed and clearly both the name and maturity are still in demand. The Belgian region of Wallonia raised as much as EUR 1bn for 30 years, attracting an order book of over EUR 4.3bn. Ultimately, the spread was 37 basis points over the interpolated reference curve for Belgian sovereign bonds (OLOs). This equates to around ms +67bp. As we outlined in our article last week (Update: Belgian regions as investment alternatives), the benchmark bonds issued by Belgian regions can no longer be counted on the fingers of one hand. We expect further benchmarks from this segment in 2021. The Hanseatic City of Bremen also had a very successful deal with a EUR 250m tap (WNG) of its 2040 bond at ms +8bp. Although the spread was higher than in the case of BADWUR, the Bremen deal was more than four times oversubscribed, allowing it to tighten by one basis point against the guidance. Only 27% of the deal was allocated to investors in Germany/Austria. The last region to make an appearance in the market was the Portuguese island of Madeira, which raised precisely EUR 458m for 14 years. The deal came in at 88 basis points over the Portuguese reference curve, or at ms +124bp, with a yield of 1.141%. This mostly reflects the rating (Baa3). Moreover, Madeira bonds are part of the PSPP and PEPP purchase programmes. The biggest deal came from CADES at EUR 3bn, thus beating all the previously mentioned transactions combined. The five-year social bond was 16 basis points over the French curve at ms flat and attracted an order book of over EUR 4.3bn. Monday and Tuesday were then quieter on the primary market, giving EU finance ministers time to press on with the ESM reform and transformation, and to agree fresh Greece aid (EUR 767m).

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
GOVMAD	Other	26.11.	PTRAMBOM0010	14.0y	0.46bn	ms +124bp	- / Ba3 / -
CADES	FR	25.11.	FR0014000UG9	5.3y	3.00bn	ms flat	AA / Aa2 / -
WALLOO	Other	25.11.	BE0002754357	30.1y	1.00bn	ms +67bp	- / A2 / -

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

Covered Bonds/SSA
The ECB ahead of its course-setting meeting for 2021

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

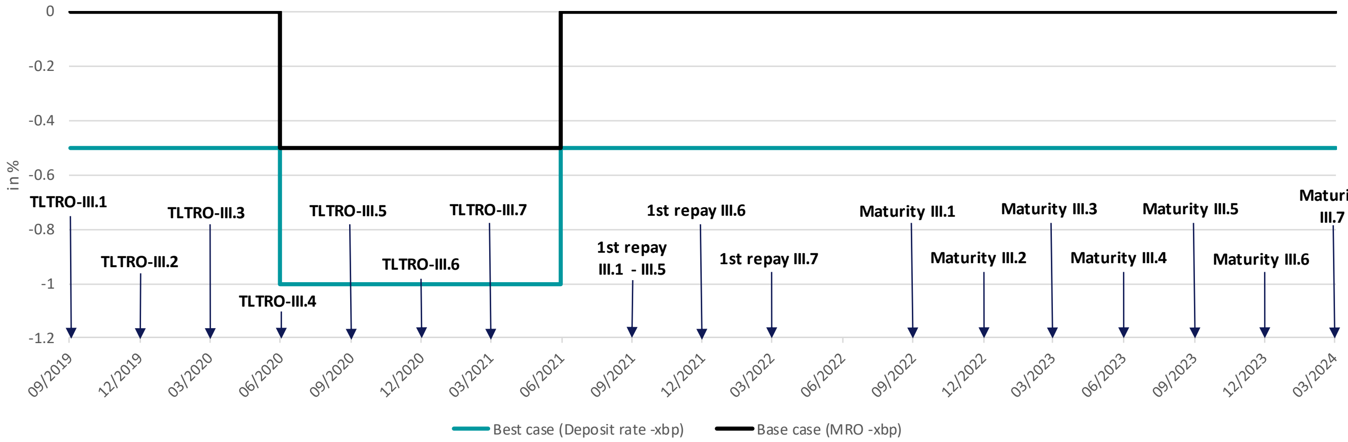
ECB meeting on 10 December likely to set the tone for 2021

In our view, the interest-rate decision to be announced by the European Central Bank (ECB) in eight days' time is likely to reveal significant adjustments to the monetary policy direction adopted by the central bankers, which will have a direct (and indirect) impact on the fixed-income segment. As far as we understand, this view of the situation is derived in particular from a review of the ECB's current unconventional monetary-policy instruments such as the asset purchase programmes (PEPP and APP) and targeted longer-term refinancing operations (TLTRO). Nevertheless, the pressing question more recently has been to what extent the European Central Bank will be in a position over the next few months or even years to adjust its own monetary policy in such a way that its influence on rate products − and above all public-sector bonds and covered bonds − will also diminish. The inflation rate of EMU consumer prices shows unmistakeably that the ECB's inflation target (under, but close to 2% in the medium term) is a very long way off and the inflation expectations of market participants do not indicate any rapid turnaround in this respect either. From a purely economic point of view, earlier and future negative effects on the labour market – not least in the context of a rise in Covid-19 cases seen in Q4 2020 – can be expected to lead to restraint in demand. In the context of the present section, we propose to discuss the influence of likely adjustments in key monetary policy control parameters by the ECB on both the SSA segment and the covered bond market.

Adjustments to PEPP and TLTRO can probably be deemed a fait accompli

In line with projections already communicated by a number of high-ranking central bankers ahead of the last ECB meeting this year, we now also expect adjustments in the PEPP and TLTRO III conditions. From our perspective, a EUR 400bn increase in the PEPP volume seems just as appropriate as an extension of the temporary purchase programme by at least six months until the end of 2021, since the ECB does not expect the coronavirus pandemic and its effects to be done and dusted by the middle of next year either. Moreover, in relation to the provision of central bank liquidity by the ECB, we can also expect fairly major impetus for the market on 10 December, as we shall outline in the following. Likewise, in our view, there could also be further adjustments to existing instruments, and possibly even the establishment of new instruments, as the ECB had suggested in the last few weeks that it would carry out an extensive review of the entire monetary-policy toolbox. The current escalation is likely to have added some urgency to this, even though Executive Board Member Isabel Schnabel recently drew attention to the fact that it was less a question of bringing about a further easing of monetary policy than of bolstering or even adjusting measures which had already been put in place to cope with the fresh escalation of the situation. Any measures taken by the ECB would therefore be more of a reaction aimed at ensuring that monetary policy keeps pace with the situation.

TLTRO III timeline



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

TLTRO: new modalities and adjustments conceivable

Of the current TLTRO III operations, two tenders, TLTRO III.6 (December 2020) and TLTRO III.7 (March 2021) are still in the pipeline (see table). Moreover, voluntary repayments of TLTRO III.1 to TLTRO III.5 cannot start until September 2021 at the earliest. According to announcements made so far, it is fair to assume that the current TLTRO III programme will be adjusted at the next ECB Governing Council meeting. There could be an extension of the programme beyond March 2021 (TLTRO III.7), and likewise, adjustments could be made to the modalities. In this respect, the ECB could extend the timeframe for the preferred interest rate (currently applicable between June 2020 and June 2021) and/or reduce the interest rate even further. It is likely that a marked improvement in conditions would lead to a lower primary market supply of covered bonds and therefore that it would provide support for spreads. Another possibility would be a new version of the TLTRO, which would then be a potential TLTRO IV programme, although we do not yet expect any impetus for this in the context of the meeting on 10 December. After all, previous rounds have shown that the respective new TLTRO was used to roll over older tenders, so that corresponding repayments were made even prior to their due date. The question of whether there will be a fourth or even fifth TLTRO round (IV/V) comes immediately after the issue of the format/modalities of new operations. After all, it is precisely key parameters such as maturity and interest rate which would have an influence on the covered bond segment. In general, longer maturities and lower interest rates would have a dampening effect on primary market activity. We would see a date around the end of Q3/beginning of Q4 2021 as the earliest date for any TLTRO IV, since it would coincide with a first roll date from TLTRO III into TLTRO IV. In such a case, however, we would expect a corresponding announcement much earlier. The launch of TLTRO III on 07 March 2019 was announced around six months prior to its first tender. In line with this argument, an ECB announcement on TLTRO IV would not come up before the end of Q1 2021.

What could induce the ECB to fresh measures/updates?

The ECB's monetary policy direction is determined by its primary objectives of maintaining price stability and an inflation rate of 2%. However, maintaining financial stability is also part of the central bankers' remit. As regards the escalation of the coronavirus crisis at the beginning of the year, Lagarde recently underlined the fact that the central bank's measures have successfully contributed to calming the markets. Accordingly, any assessment of the future monetary policy should not rule out necessary reactions to fresh shock events – either economically or pandemic-led economic dampeners. At its last meeting, the ECB announced that it planned to review its entire instrument toolbox. However, we rule out a further rate cut at the meeting in December; moreover, hikes are likely to be out of the question for some years. It is also important to bear in mind that the ECB had already priced in successes in vaccine development in its last economic forecasts, and in this respect likewise that the economic recovery process is likely to be uneven and characterised by breaks. Consequently, the focus in eight days' time is once again likely to be mainly on an adjustment of the quantitative measures − a fact that would probably rule out any downright swing.

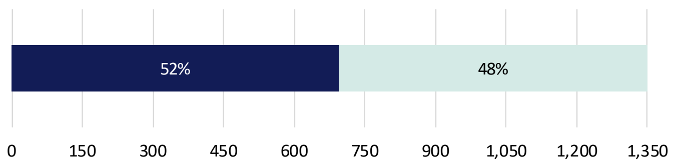
Tiering multiplier: adjustment in 2021 conceivable

Negative interest rates are a burden on the banking sector. The ECB has tried to provide relief through the introduction of a tiered interest rate and tiering for the calculation of interest on excess liquidity holdings with the ECB. Nevertheless, the current multiplier of six times the individual banks' mandatory minimum reserves which is applied to calculate the corresponding amount of excess liquidity, which will attract a 0.00% interest rate, goes back to 12 September 2019. Since the outbreak of the coronavirus crisis, the combined excess liquidity for the eurozone has increased by 61.5% to EUR 3,085bn (as at: 30 September 2020) from an already high level (31 March 2020: EUR 1,910bn). Although the burden on commercial banks from excess liquidity is also to be seen against the background of generous TLTRO III terms and conditions, in this respect, we believe that the relationship between TLTRO III volume and excess liquidity shifts to the detriment of the banking sector. In order to continue to provide significant relief for this burden, an adjustment of the multiplier would be increasingly likely – especially assuming further increases in excess liquidity. Whereas such a move would mean an improved earnings situation for the banking sector as a whole, a significant adjustment could mean a decline in demand from bank treasuries, especially for the covered bond segment. This would apply in particular to those issues which have a negative yield.

Volume of PEPP asset purchase programme (in EUR m)

	PEPP
Sep-20	567,183
Oct-20	629,169
Δ	+61,985

Volume already invested (in EUR bn)



Estimated portfolio development

Assumed future purchase pace	Weekly net purchase volume	PEPP Limit hit in...
Average net weekly purchase volume so far	EUR 19.9bn	33 weeks (16 July 2021)

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

ECB expected to increase PEPP further at the end of the year

Based on the fact that the situation is now serious again with regard to the increase in coronavirus cases and the " lockdown light" − and not just in Germany, we currently only see a small likelihood that the ECB would already have come to the conclusion at the end of June 2021 that the pandemic is under control or has even come to an end, and therefore that it would end net asset purchases under the PEPP. In our view, it is much more likely that the ECB will now increase the size of the PEPP once more by a further EUR 400bn and at the same time that it will have to extend the duration of the programme. Some sources have already indicated that any figure under EUR 500bn would be disappointing. We take a more relaxed and at the same time more conservative view. Any measures will have to be targeted in order to be effective, and not excessive. As in the case of the first increase, the signal effect is therefore likely to be important and to be understood as the ECB communicating the extent of its room for manoeuvre. A reinvestment of maturities beyond 2022 would not come as a surprise to us either.

Possible PSPP extension overshadowed by PEPP

Only a quarter of economists surveyed by news agencies such as Reuters or Bloomberg recently expected the older and less effective quantitative easing programme (APP) to be extended. Overall, the APP amounted to EUR 2,867.9bn at the end of October, i.e. still four times as big as the PEPP. However, the latter will close the gap with the heavyweight much more rapidly month on month during the course of 2021 with at least EUR 1,750bn. In addition, it is also important to make a clear distinction between the sense and purpose of the two programmes. The APP is not aimed at fighting the crisis caused by the pandemic and is much less flexible. However, the assets purchased are a fairly similar bond universe. It is important, and not just according to the ECB, that PEPP purchases are kept separate from APP purchases and not consolidated with APP purchases. This means that the PEPP remains a distinct monetary-policy measure in comparison with the APP. In line with these safeguards, the APP will not inherit the characteristics of the PEPP either. At least this is how Yves Mersch put it on 02 November in Frankfurt. Unfortunately, the ECB does not stick to this strict separation when it comes to the published ISIN lists, as a result of which the lists are consolidated and mixed up, but not the portfolios. For months now, we would have liked this to be different in order for the separation to be underlined even more clearly.

Conclusion and comments

Today, we have prefixed/prefaced our 2021 outlook for the SSA and covered bond fixed-income segments with our preview of the ECB’s last and crucial meeting this year. In the last few weeks, the ECB announced that it planned to carry out an extensive review of all the instruments at its disposal. In addition, following appearances and interviews, high-ranking representatives of the ECB have already made the wider public aware of a number of possible considerations. It is one of the reasons why we are awaiting the meeting of 10 December with eager anticipation. In our baseline scenario for the last scheduled meeting of the ECB Governing Council of 2020 and subsequent press conference, we expect an increase in the PEPP of EUR 400bn. We are also forecasting an extension of net asset purchases until at least the end of 2021 (hitherto: 30 June 2021) and an extension of the reinvestment horizon (hitherto: end of 2022). Adjustments to the TLTRO programme are likely to be a fait accompli. In this respect, we also expect an extension and adjustment of conditions for accessing central bank liquidity. The package of measures to be decided at the meeting will occupy us well beyond the end of 2020 since the pandemic has escalated to a second wave spilling over into December. The ECB is more or less being forced as part of its monetary-policy decision process to take energetic steps in the face of the situation. In this respect, the PEPP is gradually overshadowing the older and less efficient APP, for which we do not expect any adjustments for the moment, and therefore a correct forecast would only have a homeopathic effect on the Eurosystem's inflation target in this instance. It is important to bear in mind that successes in vaccine development were already implicitly factored into the ECB's calculation of economic expectations. In addition, we are still a long way off herd immunity, which is another reason why the economic recovery process is by no means likely to be progressing fully and steadily in 2021. The year 2020 comes to an end in just over four weeks, but it is not just the forthcoming ECB interest rate decision which will still have us in its grip towards the turn of the year; coronavirus will as well, not least because of this lack of herd immunity.

Covered Bonds
Outlook 2021: Waiting for the game changer?

Authors: Dr Frederik Kunze // Henning Walten, CIIA

COVID-19 will remain a crucial factor in 2021 as well

While the beginning of the current year can still be described as normal as far as primary market activities are concerned, the coronavirus pandemic resulted in a previously unexpected twist from the end of February. While it was initially the general uncertainty on the market, the massive countermeasures adopted by central banks and governments later set a course that will remain the determinant factor for the (covered bond) market into 2021 as well. Within the framework of our Covered Bond Outlook for 2021, we provide our assessment of the primary market activity to be expected next year and our expectations concerning the trend in spreads below. Once again, these expectations are subject to a forecasting risk, which is far greater during a pandemic than it is anyway in “normal” times. The second wave of coronavirus infections currently raging throughout Europe shows, for example, that the temporarily more relaxed situation in late summer must definitely be viewed as a delusion. Besides the current infection rates, the focus is therefore likely to shift increasingly to the medium to long-term consequences for the economy in 2021, since the short-term effects of the crisis have been addressed with significant efforts in 2020. The situation in 2021 is therefore likely to remain just as gripping as it is challenging. The factors influencing international covered bonds markets resulting from this are also extremely complex. Accordingly, the monetary policy adopted by central bankers and the crisis-related tools added to central banks’ toolkits will influence both the supply of and demand for covered bonds. For a variety of reasons, the question of how long the economic recovery will take is also a decisive factor regarding the need for funding and consequently in terms of banks’ issuance activity. In this context, the question arises, among others, of how banks’ loan books will change in response to customer demand. For some jurisdictions, growth in deposits or tightening spreads on senior unsecured bonds are also significant factors behind a decline in funding via covered bonds while elsewhere lending – despite possibly greater demand – is likely to be more restrained as a result of a more conservative approach in response to a possible increase in NPL ratios. However, with regard to the question of how attractive covered bonds will be to investors as an asset class, the forces resulting from monetary policy and the course of the pandemic must also be taken into account in 2021. The ECB is also likely to intervene massively in an already undersupplied market over the next twelve months and keep spreads low. Negative yields will continue to shape the benchmark segment with the anticipated swap levels and could have an adverse impact on demand from real money investors, while public sector issuance activity is also likely to remain a major influencing factor from a relative value perspective. Within the framework of our outlook, we take account of these and other factors, and present our expectations for 2021. In doing so, we also look at other trends, which will shape the covered bond segment beyond 2021.

With an anticipated issuance volume of EUR 105bn, the EUR benchmark segment will shrink in 2021

While the EUR benchmark volume issued in 2020 (approximately EUR 92bn) was approximately 30% less than in 2019 (around EUR 136bn), we currently expect a recovery compared with 2020, although still no return to the amounts achieved in 2019. Consequently, we forecast EUR benchmark issues of EUR 105bn for the primary market in 2021. Based on anticipated maturities of EUR 132bn, the market for benchmark bonds denominated in euro is likely to decline by EUR 27bn in 2021. In the first half of the year, in particular, the net supply will remain negative, as it has been in the second half of 2020. At present, however, we expect an almost balanced net supply for the second six months of next year. Conversely, looking at the issuance volumes at jurisdiction levels, the picture over the whole of the year is very mixed due to factors such as upcoming maturities, market maturity but also the differing impact of economic recovery and monetary policy, among others.

Supply and maturities in 2021 (EUR bn)

Jurisdiction	Outstanding volume	Maturities 2021	Issues 2021e	Outstanding 12/2021e	Net supply 2021e
AT	33.00	4.50	6.50	35.00	2.00
AU	29.50	5.50	2.00	26.00	-3.50
BE	19.50	3.25	2.50	18.75	-0.75
CA	56.75	7.50	9.00	58.25	1.50
CH	4.75	3.50	0.00	1.25	-3.50
DE	151.86	12.34	17.00	156.52	4.66
DK	8.50	2.50	1.00	7.00	-1.50
EE	0.50	0.00	1.00	1.50	1.00
ES	94.26	15.91	4.50	82.85	-11.41
FI	30.75	3.50	4.00	31.25	0.50
FR	225.12	28.47	24.00	220.64	-4.47
GB	41.56	12.37	5.00	34.19	-7.37
GR	0.50	0.00	0.00	0.50	0.00
HU	0.00	0.00	0.50	0.50	0.50
IE	4.68	1.22	0.00	3.46	-1.22
IT	54.28	5.60	2.00	50.68	-3.60
JP	4.10	0.00	1.50	5.60	1.50
KR	3.00	0.00	2.00	5.00	2.00
LU	2.00	0.50	0.50	2.00	0.00
NL	59.77	3.75	7.50	63.52	3.75
NO	50.45	7.60	6.00	48.85	-1.60
NZ	9.00	2.00	0.50	7.50	-1.50
PL	2.70	0.60	0.50	2.60	-0.10
PT	5.75	0.00	0.50	6.25	0.50
SE	37.08	10.00	4.00	31.08	-6.00
SG	6.25	0.50	1.50	7.25	1.00
SK	2.50	0.00	1.50	4.00	1.50
TR	0.50	0.50	0.00	0.00	-0.50
Σ	**938.59**	**131.62**	**105.00**	**911.98**	**-26.62**

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

ECB influences both supply and demand

We would like to discuss the factors, appreciation of which has led us to the above-mentioned forecast, below. With regard to the development of the covered bond market in 2021, the policy of the European Central Bank must be highlighted as the key catalyst in our opinion. The last meeting of the ECB's Governing Council this year on 10 December is likely to send a clear signal of the path it will adopt in 2021. At the same time, the adjustments decided there should not under any circumstances be considered final. The ECB has demonstrated a high degree of flexibility in the past, particularly with regard to the provision of central bank liquidity (including in the form of TLTRO funding), and modified the terms of the current TLTRO III tender several times in response to events. The adjustments to its purchase programmes have also shown that the ECB is prepared to react to changes in the market at any time. In principle, however, it is clear already that any intervention in the market by the ECB will support spreads on covered bonds in 2021, whether via the provision of liquidity, which would be reflected on the supply side by a fall in the number of bonds issued on the primary market, or through its role as a covered bond investor which in turn entails significant demand for issues in both the primary and the secondary market. Both approaches have been observed on numerous occasions in the current year. Besides its prominent decisions regarding liquidity and the purchase programmes, the ECB was, however, also active via additional instruments such as the tiering factor and a temporary haircut reduction in 2020, and will probably embrace this flexibility in 2021 as well irrespective of any decisions taken on 10 December.

Dynamism of the economic recovery and the future course of the pandemic also crucial

When using monetary policy instruments to fulfil its mandate, the ECB also includes its own expectations in relation to the economic recovery. Anticipated real economic activity also constitutes a crucial factor determining issuance activity in 2021, which is attributable to the fact that banks' business activity but also the banking sector's attitude to risk are dictated to a significant extent by it. Higher NPL ratios, an increase in unemployment or higher insolvency ratios would be only some of the possible medium to long-term consequences, which would also have repercussions on banks' funding requirements since these factors would, under certain circumstances, result in higher savings ratios and consequently an increase in deposits with banks, but could curb lending through an increase in potential defaults and could therefore also reduce the funding requirement. On the other hand, the economic recovery process could gain momentum through a national programme of vaccinations involving Covid-19 compounds. This would then imply a more favourable trend in issues because of the above-mentioned interrelations. Under our forecast, we do not expect such a benign scenario until the second half of 2021 at the earliest.

Regulatory-related senior funding to have curbing impact

In addition to taking the above-mentioned factors affecting banks' funding requirements into account, substitutional relationships, especially those of covered bonds and senior unsecured bonds, must also be assessed. In this context, considerations as to their relative advantageousness in terms of price but even more so regulatory requirements will play a significant role over the next few months in particular. Accordingly, commercial banks will be doing their best to comply for the first time with the provisional MREL and TLAC ratios, of which banks will be notified individually by the responsible supervisory bodies at the beginning of 2021. Subsequently, we expect to see an expanding market for senior unsecured bonds in 2021 and assume that senior non-preferred, in particular, will experience comparatively strong growth. We are convinced that this will curb covered bond market activities – at least in terms of issuance volume.

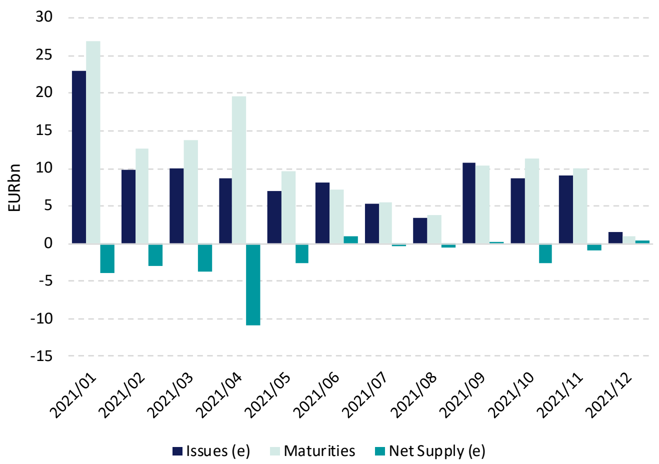
Foreign currency issues offer an alternative to some extent

As another substitutional relationship, we consider the option available to some issuers of placing foreign currency issues as an alternative to EUR benchmark bonds. For example, Canadian banks among others placed deals in USD, CHF and AUD in addition to bonds denominated in euros in 2020. In conjunction with CAD issues, in particular, Canadian issuers represent an anomaly since the majority of the placements took place during the first coronavirus wave. Nevertheless, non-EUR benchmark issues remain a possible option for Canadian banks as well as for other issuers (both in the Asia-Pacific region and in Europe), which is not only justified for banks with original funding requirements in the issue currency. In the past, it was often considerations regarding their advantageousness in terms of price that led to an issue in foreign currency. In this respect, in our opinion, it will depend in particular on the costs of the currency exchange and therefore on movements in the cross-currency basis swap spreads. In addition to transactions in USD, deals in GBP are also likely to make their mark in 2021. In the Nordics, there is also a market that is receptive to issues in domestic currency, especially in Sweden, and can therefore facilitate funding via covered bonds outside the euro. For 2021, we expect the relative distribution across currency zones to be relatively stable, meaning that we would not initially assume some of the extraordinary factors affecting 2020 would apply to the next twelve months. This is particularly true of the massive issues by Canadian banks in their domestic currency. A currently expected sideways trend, especially for EUR/USD (but also EUR/GBP) cross-currency basis swap spreads, is also not likely to contribute to a massive shift in issuance activity into the USD or GBP currency zone either.

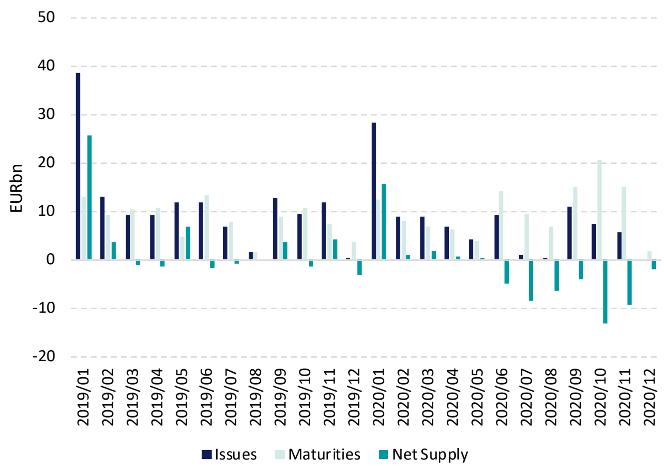
Net supply over the course of the year as a spread indicator: robust primary market seasonality?

With regard to the anticipated movements in spreads in particular, the trend in market-related factors – and here, above all, the net supply – is of major significance. In this context, we take account of the fact that primary market activities on the covered bond market are subject to a certain seasonality for our spread forecast. In the past, it was the beginning of the year in particular, as well as September, which were characterised by a surge in primary market activity. Even for 2020, which is somewhat of an outlier, especially in terms of issuance volume, the above-mentioned seasonality was nevertheless apparent. Based upon (and in particular because of) this historically robust issuance pattern, we have deduced the change in net supply in the course of 2021, taking account of the anticipated maturities in each case for the months January to December. On the basis of this assessment, a marked negative net supply must be expected for the first half of the year in particular.

Net supply forecast 2021



Trend in net supply



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

Spread development in 2021: spread support ahead

Based on the previously mentioned factors and the net supply for 2021 resulting from this, in our opinion, we expect spreads to be supported through technical factors affecting the market in the first half, although fundamentally justified and, in particular, sentiment-driven fluctuations cannot be ruled out here. In both cases, these are likely, if they occur, to imply a countermovement and lead to spreads widening. The focus is likely to be concentrated on covered bonds from the periphery in particular. Conversely, UK benchmarks could also tighten significantly, as we will explain below. With an almost balanced net supply in the second half of 2021, spreads are conversely, we currently believe, likely to trend largely sideways, since we would not ascribe any unlimited tightening potential to the market either in view of the current yield level.

Spread forecast 2021

Current levels

in bp	3y	5y	7y	10y
AT	1.5	2.7	3.3	3.8
AU	6.1	9.3	12.5	16.2
BE	0.5	1.0	1.4	2.6
CA	4.5	6.8	7.8	
DE	-1.1	0.2	1.4	2.6
DK	12.0	11.9	6.7	
EE	12.3	12.3		
ES_Multi	16.5	22.4	26.8	19.1
ES_Single	10.8	9.8	8.0	9.6
FI	-3.9	-2.5	-0.4	1.7
FR	-0.8	0.9	2.4	5.5
GB	9.9	13.7	13.2	11.5
IE	1.9	3.3		
IT	11.5	13.3	13.3	13.7
JP	20.9	24.3	26.5	26.7
KR	26.4	25.8		
LU	17.5	20.3	22.4	
NL	3.8	6.2	5.9	4.1
NO	2.2	4.8	7.6	9.0
NZ	7.8	10.4		
PL	21.8	25.7		
PT	19.3	11.0	6.8	
SE	1.1	3.2	4.8	7.6
SG	11.6	13.7		
SK	18.1	16.1	21.5	28.9

as of 31/12/2021(e)

in bp	3y	5y	7y	10y
AT	-2.0	-1.0	0.0	1.0
AU	2.0	6.0	9.0	14.0
BE	-3.0	-2.0	-2.0	0.0
CA	1.0	4.0	4.0	
DE	-5.0	-3.0	-2.0	0.0
DK	8.0	9.0	3.0	
EE	8.0	9.0		
ES_Multi	13.0	19.0	23.0	16.0
ES_Single	7.0	7.0	5.0	7.0
FI	-8.0	-6.0	-4.0	-1.0
FR	-5.0	-2.0	-1.0	3.0
GB	6.0	10.0	10.0	9.0
IE	-2.0	0.0		
IT	8.0	10.0	10.0	11.0
JP	17.0	21.0	23.0	24.0
KR	22.0	23.0		
LU	14.0	17.0	19.0	
NL	0.0	3.0	3.0	1.0
NO	-2.0	2.0	4.0	6.0
NZ	4.0	7.0		
PL	18.0	22.0		
PT	15.0	8.0	3.0	
SE	-3.0	0.0	1.0	5.0
SG	8.0	10.0		
SK	14.0	13.0	18.0	26.0

Expected spread change

in bp	3y	5y	7y	10y
AT	-3.5	-3.7	-3.3	-2.8
AU	-4.1	-3.3	-3.5	-2.2
BE	-3.5	-3.0	-3.4	-2.6
CA	-3.5	-2.8	-3.8	
DE	-3.9	-3.2	-3.4	-2.6
DK	-4.0	-2.9	-3.7	
EE	-4.3	-3.3		
ES_Multi	-3.5	-3.4	-3.8	-3.1
ES_Single	-3.8	-2.8	-3.0	-2.6
FI	-4.1	-3.5	-3.6	-2.7
FR	-4.2	-2.9	-3.4	-2.5
GB	-3.9	-3.7	-3.2	-2.5
IE	-3.9	-3.3		
IT	-3.5	-3.3	-3.3	-2.7
JP	-3.9	-3.3	-3.5	-2.7
KR	-4.4	-2.8		
LU	-3.5	-3.3	-3.4	
NL	-3.8	-3.2	-2.9	-3.1
NO	-4.2	-2.8	-3.6	-3.0
NZ	-3.8	-3.4		
PL	-3.8	-3.7		
PT	-4.3	-3.0	-3.8	
SE	-4.1	-3.2	-3.8	-2.6
SG	-3.6	-3.7		
SK	-4.1	-3.1	-3.5	-2.9

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

Growth markets, new issuers and potential mergers

Having reported both a new addition to the EUR benchmark jurisdictions (Estonia) and numerous new issuers in existing markets, we expect this development to continue in 2021 despite the current market environment. For instance, we expect another Canadian issuer in the EUR benchmark segment, namely HSBC Bank Canada, whereas the possible additions from the Baltics or Slovakia, for example, are less certain. Both markets are comparatively young and dynamic and are likely to produce more issues in future. The same is true of the Asian markets in Japan and South Korea, each of which only had one EUR benchmark issuer prior to 2020, although both added another bank to its respective circle of issuers over the course of the year. In Japan, the introduction of a legal basis for the issue of covered bonds could also take place, which, depending on the specific features of the legal framework, definitely has the potential to reduce the spreads for statutory covered bonds from Japan over the long-term (especially in comparison with the contractually-based EUR benchmarks currently outstanding). We would therefore identify a certain growth path with the potential for more banks here as well. In Singapore, the recent increase in the issuance limits could conversely mean that more issuers look at funding via covered bonds. Standard Chartered Singapore is a promising candidate from our perspective. Furthermore, more issuers could turn away from the CPT structure in the Netherlands and switch to bonds with a soft bullet structure. Finally, we see a market in Hungary that could celebrate its potential revival in the EUR benchmark segment in 2021 and therefore expand the group of active EUR benchmark jurisdictions. Mergers of covered bond issuers is also likely to be another factor influencing the market, albeit in the opposite direction. The merger of Intesa Sanpaolo and UBI Banca in Italy is already a done deal, while several banks are also discussing mergers in Spain. This is a trend that, given the consequences of the pandemic and the existing challenges already facing banks, is unlikely to be limited to southern Europe and could increase the pressure for consolidations across the global banking sector over the next few years.

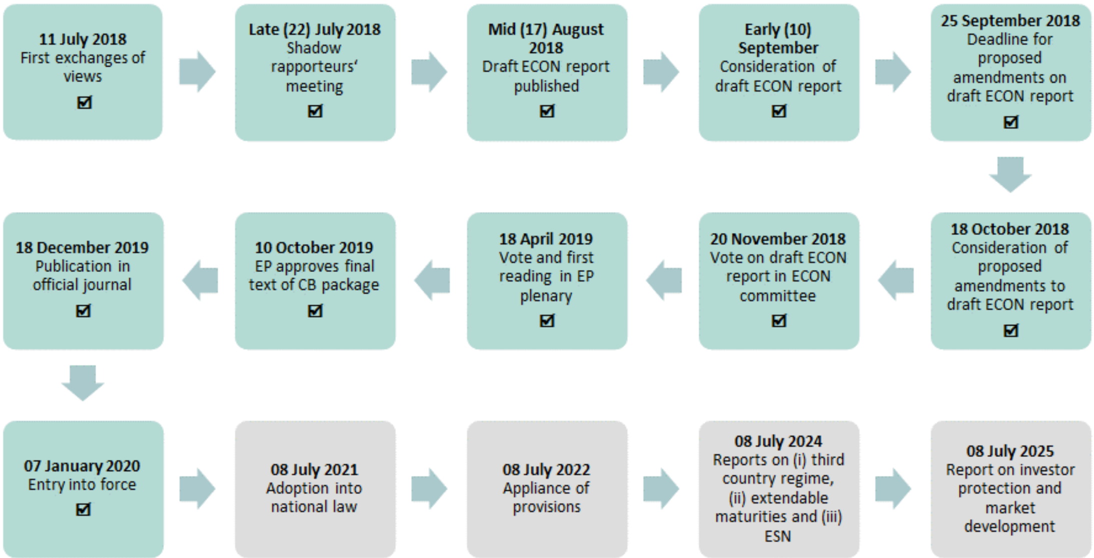
Growth in ESG bonds also likely to continue in 2021

Following the placement of ESG covered bonds amounting to EUR 6.0bn and EUR 6.5bn respectively in the EUR benchmark segment in 2018 and 2019, deals worth EUR 7.75bn were placed in 2020 despite the ongoing crisis. Three of these deals (EUR 2.25bn) were first-time issues in the ESG segment. In keeping with the overall market for ESG bonds, we forecast a further increase in covered bond deals of an environmental, social and sustainable nature in 2021 even if the overall market for EUR benchmarks shrinks in 2021. Besides the banks that have already featured on the market, other EUR benchmark issuers are likely to look at issues in this sub-segment and approach their investors in 2021. In addition to the environmental and social aspects of ESG bonds, it should not be forgotten that covered bonds in ESG format can extend their own group of investors, as ESG transactions can also appeal to investors whose interest is concentrated on sustainable investments and for whom the asset class is less important than its ESG characteristics, in addition to traditional covered bond investors. However, in our opinion, there is no sign of any significant influence on both the supply and pricing for ESG bonds at present.

Covered bond harmonisation: major deadline in July 2021

Following the enactment of the package of measures to harmonise the European bond market – consisting of a Directive and a Regulation – at the beginning of the current year, the next key milestone in this initiative is coming up in July next year. As of 8 July 2021, national legislators must have adopted the requirements of the Directive into national law. Application of those requirements is, however, not mandatory until 8 July 2022, since the requirements of the Regulation, the content of which does not require adoption in national law and is directly applicable to all Member States of the European Economic Area, do not have to be applied until this date. However, since 8 July 2022 is the last possible date for mandatory application of the requirements, the national legislators can make application of their adjustments mandatory at an earlier date. Accordingly, parts of the changes proposed in Germany (such as the introduction in law of the option to extend the maturities of Pfandbriefe) are expected to come into effect no later than 8 July 2021, whereas other parts of the legal adjustments will only become effective from 8 July 2022. The year 2021 promises a large number of adjustments, such as in relation to extendable maturity structures, as far as the legal basis for issuance is concerned. However, we do not currently expect this to have a significant impact on the trend in spreads and/or primary market developments in the short term. Rather we see the requirements of the Covered Bond Directive, which we would describe more as minimum standards and less as harmonisation, as providing long-term benefit, which should lead to a more transparent market and is therefore likely to have a positive impact on the volume issued as well as the number of issuers and jurisdictions.

Timetable for the harmonisation efforts



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

Brexit and its consequences for UK benchmarks

The UK's withdrawal from the European Union will also have consequences for UK benchmarks. This circumstance is clear from looking at the movements in spreads for UK covered bonds. Nevertheless, the regulatory classification of UK benchmarks with a risk weight of 20% according to CRR that will be applicable following the end of the transition period or our expectation of eligibility as a level 2A asset in the context of LCR calculations does not justify the current spread levels entirely. After all, issues by Canadian institutions (also 20% risk weight and LCR level 2A) definitely have lower spreads. In this respect, we believe that the spread levels are driven by sentiment and are not justified fundamentally. This is the case based on the assumption that, despite possible economic setbacks resulting from Brexit, there will be no significant and sustained deterioration in the credit quality of UK benchmark programmes.

Covered bond demand in 2021: ECB will continue shaping events

The ECB's purchase programmes will shape events in 2021 as well. The Eurosystem will feature as a purchaser, especially under the CBPP3, on both the primary and secondary market. Generally speaking, the crowding out of real money investors will continue. In addition to purchasing activities, other measures by central bankers have the potential to affect demand for covered bonds. These include the generally low interest rate level and the yields associated with this, but also graduated interest rates, which imply less demand for investments offering a negative yield for banks with free capacity in relation to liquidity reserve positions exempted from interest at the deposit rate. On the other hand, the trend in ESG issues is also likely to affect demand for covered bonds by shifting demand towards covered bonds issued on the basis of environmental or social frameworks.

Conclusion

With a figure for EUR benchmarks of EUR 105bn in 2021, we expect the market to recover in comparison with 2020 next year but do not expect it to return to the level of 2019. Both supply and demand will remain significantly influenced by the ECB’s monetary policy and the future course of the pandemic. Looking at the trend in spreads, past seasonality patterns and the negative supply forecast for the first half mean that the market is likely to be characterised by a further tightening in spreads. For the second half, however, we currently expect an almost balanced supply/demand situation, which should result in spreads trending sideways. At the same time, our forecasts are exposed to a greater forecasting risk than in previous years, since the course of the pandemic in the second half of 2020 in particular has proved how difficult it is to make accurate forecasts.

SSA/Public Issuers
Outlook 2021: Coronavirus and ECB dominate public-sector segment

Author: Dr Norman Rudschuck, CIIA

Public issuers between pandemic and ECB purchase programmes

Our outlook for the last ECB meeting of the year is preceded by the assumption in the baseline scenario that the ECB will not only rethink its toolbox, but also take action. It looks like they will once again opt to top up the Pandemic Emergency Purchase Programme (PEPP) and extend its duration (cf. separate article). It would then be almost of secondary importance whether and how the Expanded Asset Purchase Programme (EAPP), where securities from public sector issuers are also primarily acquired (Public Sector Purchase Programme; PSPP), would also be enlarged and/or extended. This would mean that the bulk of the demand side would be covered by a single player. The ECB will continue to act as a "hoover" in the SSA secondary market beyond 2021. Public sector financing through the front door, as is the case on the primary market, will continue to be prohibited. However, institutional investors are also prepared: certainly not only to invest in the ESG segment (investment criteria: environment, social, governance), but also to manage their LCR portfolios or to carry out asset liability management and thus to match the asset and liability sides of the balance sheet. For example, the EU's five SURE transactions to date showed that they were more than 13 times oversubscribed, and although the order books amounted to EUR 522bn, "only" EUR 39.5bn was allocated. We refer to the vast majority of the remainder – despite potentially inflated order books – as "dry powder" for 2021. Therein lies the investment emergency facing institutional investors, when even after years of low interest rates, bonds with clearly negative yields and/or spreads are still (have to be) subscribed to.

ECB: The more the better?

In 2021 too, the SSA segment is therefore likely to be dominated by the ECB's expansionary monetary policy course. According to our analyses, we have a long way to go before the ECB suspends its monthly securities purchases. The ECB is therefore paving the way for sideways-trending spreads for the whole of 2021. At least we do not expect a technically driven widening of spreads in the bond market, although a sentiment-driven widening would be possible in the event of a third wave (e.g. coronavirus shock as it was in March/ April 2020). This applies in particular to the European supranationals and agencies we focus on as well as German Bundeslaender. However, other regions within the eurozone with a significantly lower supply of bonds (such as Belgian or French regions) are also affected. Overseas regions such as Canada or Australia/NZ are also benefiting from the low-interest environment for their refinancing, but are in some cases also more affected by the pandemic than Germany. This also applies to natural disasters that cannot be predicted such as forest fires, as a result of which in the past the issuance volume already increased several times during the course of a year. The members of the ECB's Governing Council and the Executive Board chairing the Council have so far avoided clear statements and postponed all decisions until the final meeting in 2020. In the following, we shall be independently presenting our predictions for 2021.

(Net) Supply must be viewed in an even more differentiated way than in the past
Most issuers have now (largely) completed their refinancing for the current year or are on the funding home straight. All in all, EUR benchmark issues (of the SSAs we analyse) are likely to be in excess of EUR 300bn in 2020. After, for example, around EUR 190bn in 2017 and EUR 166bn in 2019, this is a considerable increase due to the pandemic. At the beginning of 2020, we did not foresee that some German Bundeslaender would submit two supplementary budgets in their respective parliaments. We also did not expect that not only the ECB would be operating with and handling unimaginable sums of money; the European Union has also acted decisively to date and still has a lot to do until 2026. This will also have a significant impact on the funding volume in 2021 (and beyond). In the coming year we therefore expect – subject to a certain degree of uncertainty – EUR benchmark issues of just under EUR 400bn. Looking back over the past decade, or perhaps even all time, this would correspond to a two-year cumulative volume. Due to the pandemic situation, after an initial spread shock, a very high level of action was observed, especially in EUR benchmarks. Even BAYERN and SAXONY returned to the capital market – two genuine and, at the same time, rare alternatives in the best rating segment. Since supply will coincide with unchanged high demand, spreads may not react much at all at the beginning of the year especially. Otherwise, a disproportionately high supply would come up against reduced (central bank) demand. However, the ECB has failed to start phasing out the quantitative measures through no fault of its own due to the pandemic. Depending on the vaccine situation, the spreads could even narrow further before stabilising at around the current level and moving sideways in a rather narrow channel until the end of the year.

Credit authorisations of German Bundeslaender: 2020 vs. 2021e (EUR bn)

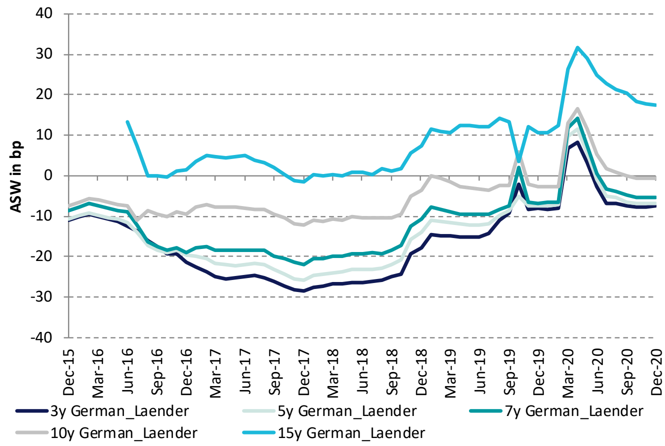
	2020	2021e
Baden-Wuerttemberg	17.63	14
Bavaria	22.33	5
Berlin	11.30	6
Brandenburg	4.30	3
Bremen	4.94	4
Hamburg	5.06	3
Hesse	9.82	7
Mecklenburg-Western Pomerania	2.35	2
Lower Saxony	16.18	11
North Rhine-Westphalia	40.17	25
Rhineland-Palatinate	5.11	8
Saarland	2.00	2
Saxony	6.79	2
Saxony-Anhalt	2.10	3
Schleswig-Holstein	4.97	4
Thuringia	1.59	2
Total	**156.64**	**101**

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

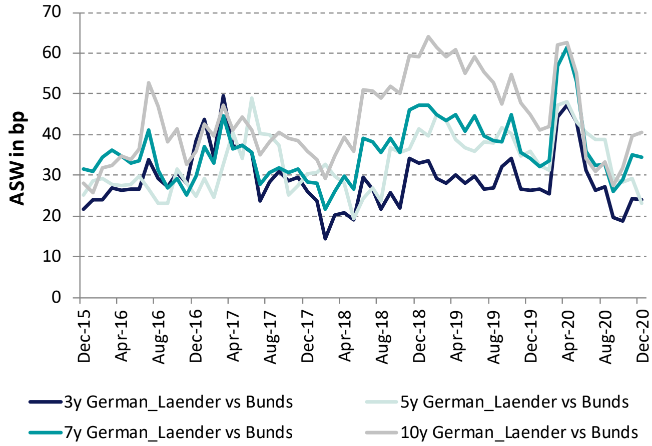
Bundeslaender with lower funding than expected in 2021, but higher than 2019

In the area of regional bonds, the bonds of German Bundeslaender represent by far the most important sub-sovereign market – in 2020, the 16 Laender have again increased their lead and therefore their importance as well. Before that, however, a decline in funding volumes had been observed for years. For 2021, we expect new bonds worth more than EUR 100bn to be placed in gross terms. This compares with maturities of just under EUR 75bn. In both cases, these are not only benchmark bonds, but also point to a positive net supply trend, once again underlining the relevance of German Laender bonds in this segment. In previous years, the budgets of the Bundeslaender benefited from the solid economic development in Germany. Both the pre-coronavirus macroeconomic development and the forward-looking sentiment indicators pointed to a continuation of the robust macroeconomic environment, which, until the pandemic, had effected a positive impact on the revenue and expenditure situation of public budgets. On the other hand, in light of the debt brake that has been in force at Laender level since 2020, the budgetary discipline of the Bundeslaender is already much more pronounced than in the past. In the year when the debt brake was activated, even the greatest pessimists would probably not have imagined that it would have to be lifted immediately due to an emergency situation. This was planned in advance by law, in the hope that this clause would never or rarely have to be used, and if so, then more likely due to a "normal" recession. The primary market supply that we expect for 2021 and which, although lower compared to 2020, is still extremely high historically, should in our view mean that demand&supply-induced spread movements in this segment will remain very limited. Since a stronger focus on long maturities has been evident in recent years with regard to the refinancing operations of the Bundeslaender, we believe that this will continue in the coming year. As of 30 November 2020, over 440 different German bonds had been purchased since 2015. This compares with less than 90 ISINs from other European regional issuers (including VDP, IDF, WALLOO, FLEMSH, MADRID, among others).

Spread movements of German Bundeslaender



German Bundeslaender spreads vs. Bunds



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data from 30 Nov. 2020 eod

Other European regions within the PSPP

While the German Bundeslaender will probably already be acting as described, we also keep looking at the French regions of Île-de-France (IDF) and Ville de Paris (VDP) or the Belgian regions (FLEMSH and WALLOO, among others; cf. last week's publication). The French, in particular, have also repeatedly distinguished themselves as green issuers. Madrid was also a major source of supply, with 19 different ISINs having been entered in the Eurosystem's books from this region. The Generalitat de Catalunya will continue to fall through the cracks in 2021. The rating of the Autonomous Community of Catalonia (ticker: GENCAT) from Spain is still not investment grade and is therefore not eligible for purchase by the Eurosystem. Other Spanish regions, on the other hand, have already been snapped to a significant degree, as shown in the table below. Lesser-known tickers such as the Belgian LCFB and BRUCAP also make an appearance here. We expect funding activity to pick up in these regions in 2021, as recently underlined by the benchmark bonds from NIEDOE, WALLOO and LCFB. However, GOVMAD and AZORES also strengthened the trend with their sub-benchmarks. It remains interesting to note that not a single bond from an Italian region was acquired. It is likely that the overall market for Italian government bonds is sufficiently large not to have to deviate from BTPs and still be able to comply with the capital key. This also applies to Austria.

ECB purchase list for the PSPP - regional European issuers

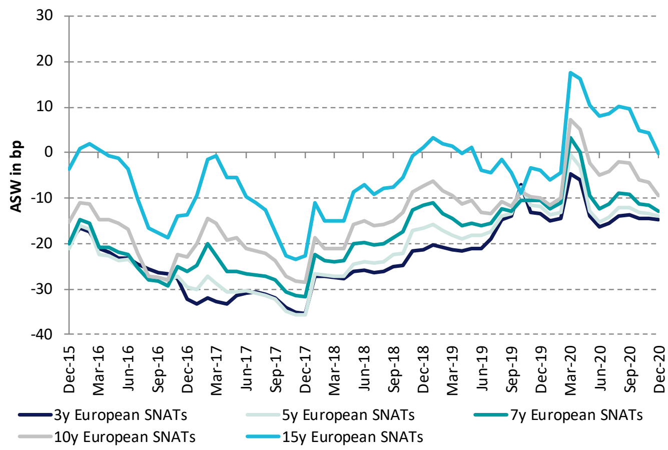
Issuer	Jurisdiction	No. of ISINs already purchased	Issuer	Jurisdiction	No. of ISINs already purchased
BADWUR	DE	20	IDF	FR	4
BAYERN	DE	10	VDP	FR	3
BERGER	DE	46	MADRID	ES	19
BREMEN	DE	37	CASTIL	ES	5
BRABUR	DE	18	BASQUE	ES	10
HESSEN	DE	43	ARAGON	ES	1
HAMBRG	DE	24	ANDAL	ES	4
NIESA	DE	52	BALEAR	ES	1
MECVOR	DE	3	JUNGAL	ES	2
NRW	DE	70	NAVARR	ES	1
RHIPAL	DE	32	WALLOO	BE	10
SAARLD	DE	8	FLEMSH	BE	12
SCHHOL	DE	32	LCFB	BE	5
SAXONY	DE	4	BRUCAP	BE	3
SACHAN	DE	6	GOVMAD	PT	1
THRGN	DE	16	AZORES	PT	2
BULABO	DE	1			
LANDER	DE	22			
Total	∑	**444**	**Total**	∑	**83**

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

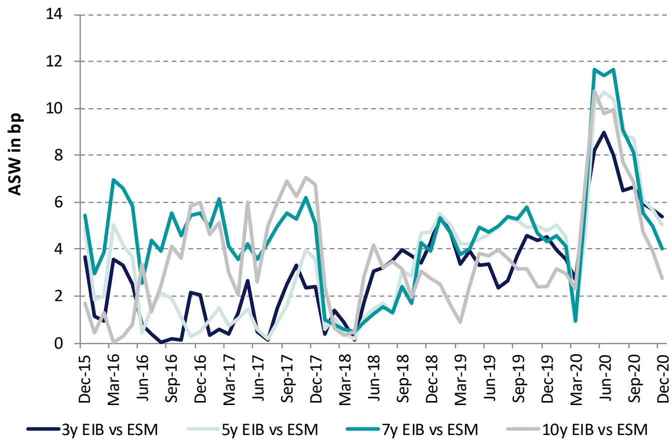
Supranationals in the grip of political-pandemic decisions, regardless of Brexit

Supranationals still represent an important category in the SSA universe. A generally very good rating, high liquidity and regulatory advantages continue to favour bonds from supranational issuers. Brexit, which has still not been finalised, may hit the EIB as an issuer hardest, as the UK holds one of the largest stakes in the supranational entity. Contractually, however, we expect an agreement on the paid-up capital or the possible conversion of hidden reserves only in the next few years, and old bonds will in any case remain under the liability of the “old” regime. The Governors of the EIB, Europe's Finance Ministers, unanimously agreed in 2019 that Brexit would not affect the EIB's lending activities and business model. The UK’s share of the paid-up capital in the EIB before Brexit amounts to EUR 3.5bn. (to be repaid in twelve annual instalments post-Brexit), plus EUR 35.7bn in uncalled capital. The uncalled capital of the United Kingdom ceases to exist on Brexit day and is replaced by a corresponding liability of the United Kingdom. Recently, both Romania and Poland contributed additional capital, giving the EIB a higher capital base than before Brexit. The EIB will nevertheless remain a regular player on the primary market, which we expect to reach a funding target of EUR 65-75bn, again spread over multitude of different currencies. At European level, the overall picture is dominated by a few big names. For example, the increase in EUR benchmark issues this year can be attributed in large part to the noticeably increased funding needs of the EU under its SURE programme. This also applies to 2021, and will even be increased further, as the current EUR 39.5bn will be followed by EUR 60.5bn, paired with the first few billions from the NGEU programme (Next Generation EU: Covid-19 development package). As part of its actual activities, the EU has often had neither positive nor negative net supply in the past. Maturities in 2021 in the amount of EUR 10bn will be extended as before. We expect more than EUR 150bn in additional EU funding (all EUR benchmarks, some social and green bonds). For the ESM we expect a net supply of “only” EUR 2.0bn for next year, although a total of EUR 8bn in fresh bonds will be entering the market (maturities thus equal to EUR 6bn). This applies subject to and to the exclusion of the ECCL/PCS (coronavirus emergency aid) of the ESM, which has not yet been quantified. For the EFSF, we again expect a (significant) reduction in new issuance activity (after e.g. EUR 28.0bn in 2018 and even EUR 49.0bn in 2017) to EUR 16.5bn. This contrasts with maturities of EUR 24bn, corresponding to a negative net supply of EUR 7.5bn for the EFSF. We are not expecting any changes in plan here either. We also expect the ESM to continue issuing at least one USD bond next year. It will also be interesting to see when and how quickly the ESM will really be transformed into a European Monetary Fund (EMF) – along the lines of the IMF. Speaking of transformation and political will: the loss of the UK’s contribution could have spread effects on the EIB in the future. At present, however, no such developments are discernible, and we consider corresponding mark-ups for 2021 to be unlikely, as we do not expect any rating change(s) either. It will be interesting to see how the EIB's capital market structure, which is currently being renewed or restructured, will affect the “Green Bonds” segment. This will be joined by around EUR 225bn in EU green bonds by 2026 and at least another EUR 60bn in social bonds in 2021 alone. The EU looks set to dominate these segments with fresh supply in the form of EUR benchmarks over the short to medium term.

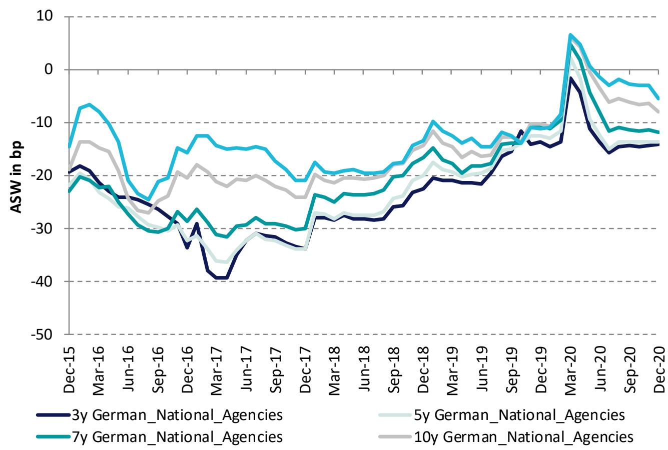
Spread movements of European Supranationals



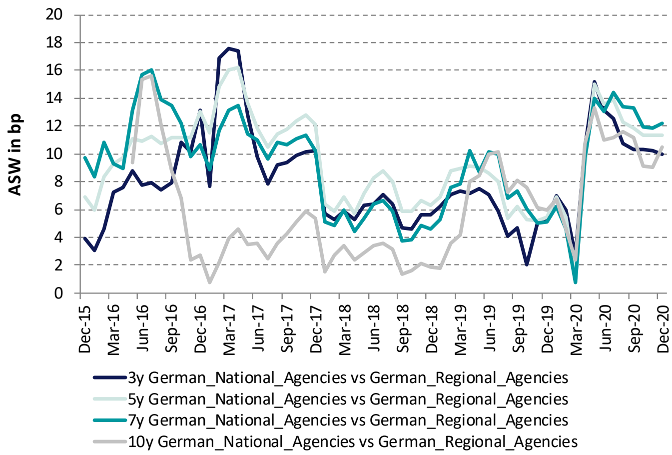
Spreads of EIB vs. ESM



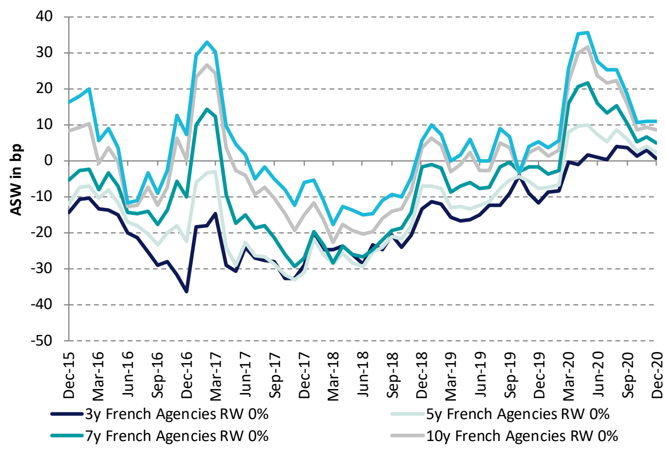
Spread movements of German national agencies



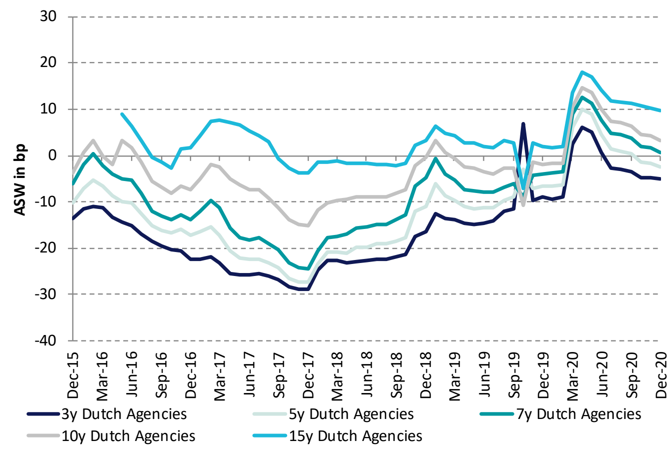
Spreads of national/regional agencies – Germany



Spread movements of French agencies (RW 0%)



Spread movements of Dutch agencies



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data from 30 Nov. 2020 eod

German agencies to offer stable net supply overall

For the German agency market, we anticipate a stable net supply overall with a decline in volumes for traditional promotional programmes. Much will continue to be overshadowed by the coronavirus crisis in 2021 as well. Nevertheless, we expect a considerable funding volume from the most dominant market participant, KfW, although Federal Government funds such as the Economic Stabilisation Fund (ESF) can also be tapped in this regard. In KfW's case, the funding volume therefore fluctuated considerably and was adjusted downwards over the course of the year. Whereas the 2019 funding requirement was still over EUR 80bn, the figure for 2020 was reduced from EUR 75bn to EUR 65bn. In our view, total funding in 2021 should again be in the range of EUR 65-75bn. This contrasts with a maturity volume of EUR 66.6bn. With an expected value of EUR 70bn, net supply would be correspondingly positive (EUR +3.4bn). On the other hand, the funding of German agencies (this segment includes not only promotional banks) has in the past also been driven by winding-down agencies such as FMSWER or ERSTAA, which naturally refinance their wind-down portfolios to an ever-lesser extent. These two issuers are not purchased by the Eurosystem under the PSPP and PEPP purchase programmes and always offer a certain pick-up compared to promotional banks with a similar rating. As is already the case with the German Bundeslaender, we do not expect spreads to widen here in the case of the familiar names, as they continue to be in demand by the Eurosystem within the framework of quantitative management. All in all, we assume that fundamental analysis for individual issuers will come to the fore again for the German market and that, in addition to net investment, Eurosystem reinvestment will dampen any widening of spreads.

French dominate heterogeneous agency market ahead of Dutch and Nordics, overseas regions almost impossible to predict

Let us quickly remind you of the EU's funding target for 2020: EUR 800m. Due to the coronavirus pandemic, this was raised to in excess of 41bn for 2020. It was a similar situation at UNEDIC, which started with a figure of EUR 3bn, before re-adjusting this figure several times over the course of the year to more than EUR 20.5bn instead of the recently announced volume of EUR 19bn. At this juncture, we do not intend to look in detail at French agencies (both 0% and 20% risk weighting), as the outlined picture of uncertainty also applies to CADES. It is clear that players in this segment, such as UNEDIC and CADES, will continue to have considerable funding volumes to place on the primary market and will also be active in the ESG segment. The situation regarding the pandemic is dynamic, particularly in our neighbouring country, meaning that a precise forecast would, at this stage, not be logical. By contrast, the Dutch promotional banks BNG and NWB are much more stable and predictable. In this context, BNG's funding for 2021 is expected to amount to EUR 15-16bn. In addition, sustainability bonds and social housing bonds are already well established here. The same goes for NWB. Under the Bloomberg ticker NEDWBK, it issues around EUR 10bn every year. ESG criteria in the form of water bonds, affordable housing and social development goals turn up here. Both Dutch agencies also diversify strongly across currencies, with only the Nordics diversifying to an even greater extent, although aside from in Finland, no issuers prepare their accounts in EUR. The supply of EUR benchmarks from Canadian provinces, Australian regions or the New Zealand Auckland Council is also difficult to predict. All issuers primarily prefer their home currencies, opting to use the EUR only opportunistically as soon as a window opens based on cross currency (XCCY) swaps.

ESG segment: Environmental (Green), Social, Governance

The volume of green bonds issued has in any case increased strongly and almost exponentially since the first such issuance in 2007. In the meantime, however, growth after 2017 stagnated at a very high level. As a result, the growth path initially seemed to be interrupted. Nevertheless, the milestone of more than EUR 100bn per annum in terms of issuance volume has now been surpassed. The ESG segment received an additional boost from both the green issues side and the social side. The EU's SURE programme alone consists of EUR 100bn in social bonds, of which at least EUR 60bn will still have to be placed in 2021. The French issuers UNEDIC and CADES are also represented here in large volumes. Fundamentally, the focus here is not only on social housing and social inclusion; rather the coronavirus pandemic was seized on by scores of issuers aiming to counteract the social consequences and consequential damage. It will also be interesting to see in 2021 how the EIB's capital market structure, which is currently being renewed or restructured, will affect the segment of green bonds. Ursula von der Leyen is not the only one who wants to and will make the EIB greener. The transformation process is in full swing and the path of the inventor of green bonds can still be described as pioneering. However, both KfW and North Rhine-Westphalia have meanwhile also built up a green and at the same time liquid curve. Added to this is the EU's plan to issue at least EUR 225bn in green bonds by 2026 as part of its “Next Generation EU” (NGEU) programme.

Conclusion and outlook

We expect the SSA segment in 2021 still to be dominated by Covid-19, the measures taken by public issuers against the pandemic and the ECB's purchasing programs. We do not envisage declining investments or a tendency by the Eurosystem to cut back. Moreover, we do not expect any drastic movement in the spread landscape in our baseline scenario. In our opinion, this is prevented not only by the fresh billions of net purchases under PSPP and PEPP, but also by the billions of reinvestments in both programme branches. Over the next three to five years, spread levels from 2016 could be a realistic target for most issuers within our coverage. We are also eager to see the seasonal pattern; how strong will issuance activity be in January – also due to the influence of the EU alone? Could the EU in fact even conclude its SURE programme activities before Easter? To achieve this, it would need to raise EUR 60.5bn in the first quarter of the new year. Unaffected by this are political discussions and economic developments that could be induced, for example, by a trade war, various elections, a never-ending Brexit and/or the pandemic situation. The green transformation of the EIB, the EU and the ESM towards a European Monetary Fund are almost marginal topics to look at – albeit of a seminal nature.

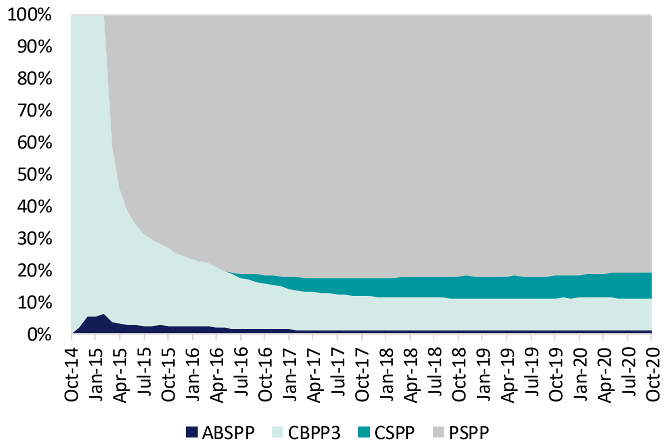
ECB tracker

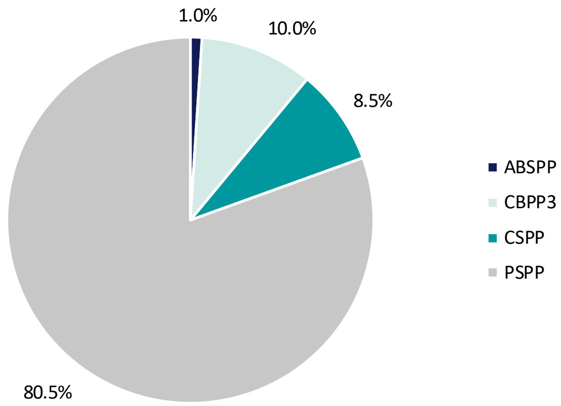
Asset Purchase Programme (APP)

Holdings (in EURm)

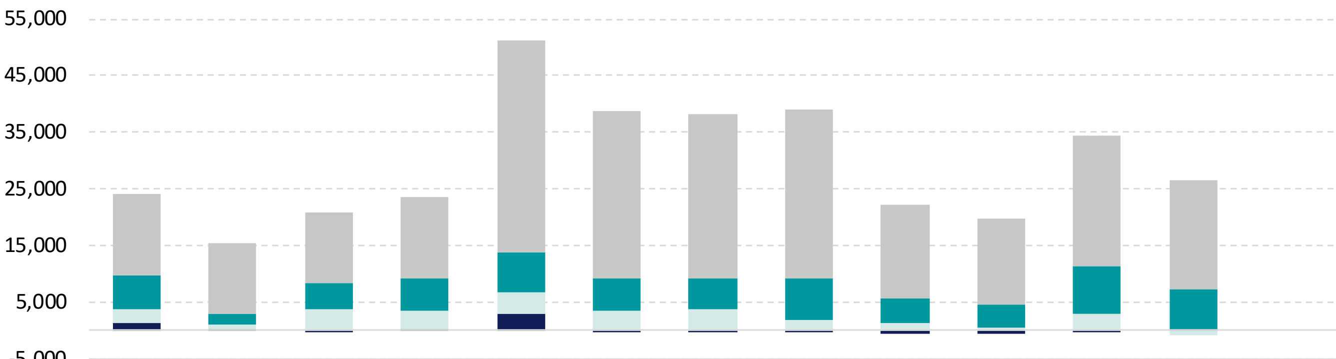
	ABSPP	CBPP3	CSPP	PSPP	APP
Sep-20	29,112	286,852	236,349	2,290,140	2,842,453
Oct-20	29,401	285,864	243,331	2,309,322	2,867,918
Δ	+289	-989	+6,983	+19,182	+25,465

Portfolio structure





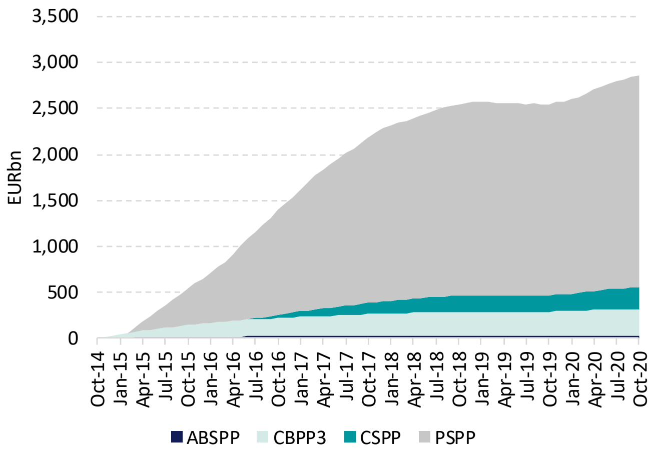
Monthly net purchases (in EURm)



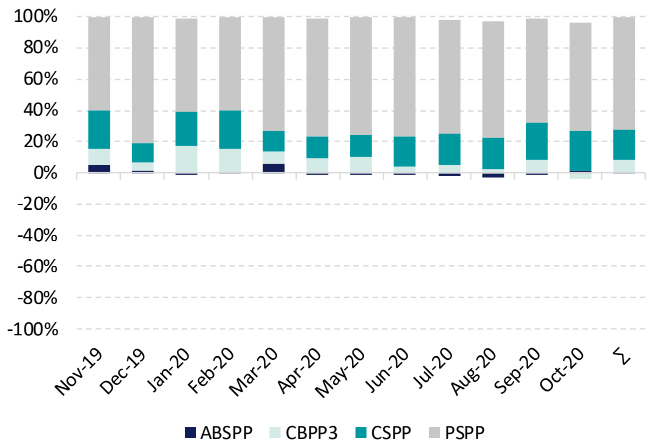
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
APP	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,465	349,986
PSPP	14,478	12,515	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	19,182	253,048
CSPP	5,917	1,799	4,611	5,738	6,965	5,560	5,438	7,515	4,502	4,004	8,496	6,983	67,528
CBPP3	2,448	865	3,684	3,334	3,931	3,582	3,785	1,731	1,198	500	2,839	-989	26,908
ABSPP	1,253	229	-328	221	2,923	-325	-14	-255	-541	-527	-423	289	2,502

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

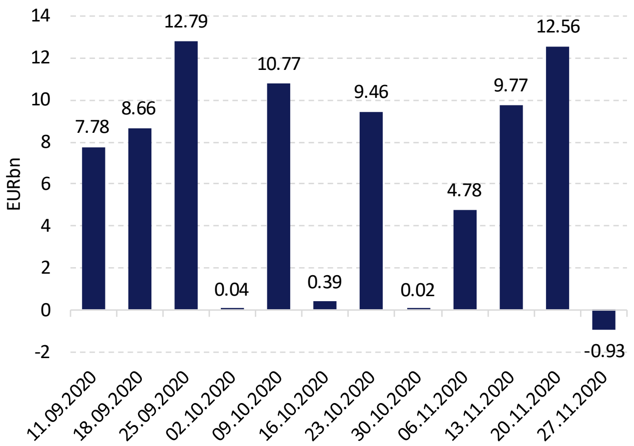
Portfolio development



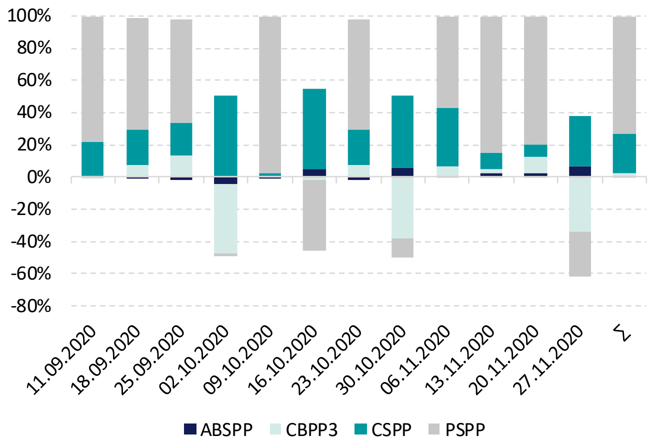
Distribution of monthly purchases



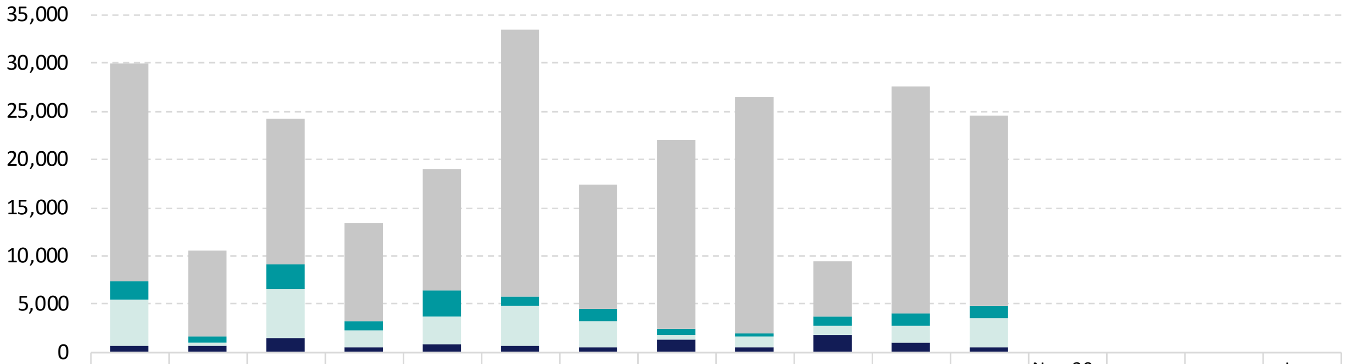
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

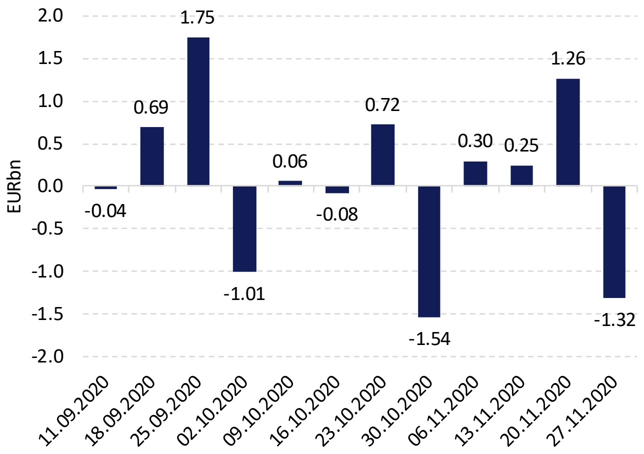


	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-20 - Oct-21	2019	2020	Jan - Oct-21
APP	29,933	10,567	24,192	13,413	19,027	33,473	17,407	22,010	26,534	9,505	27,612	24,653	258,326	204,542	259,637	217,826
PSPP	22,509	8,871	15,064	10,268	12,669	27,702	12,976	19,519	24,536	5,778	23,637	19,778	203,307	167,334	201,482	171,927
CSPP	1,967	701	2,589	846	2,728	981	1,144	778	331	966	1,239	1,309	15,579	7,070	15,849	12,911
CBPP3	4,756	302	5,099	1,820	2,782	4,178	2,849	367	1,129	1,002	1,805	2,976	29,065	21,948	33,237	24,007
ABSPP	701	693	1,440	479	848	612	438	1,346	538	1,759	931	590	10,375	8,190	9,069	8,981

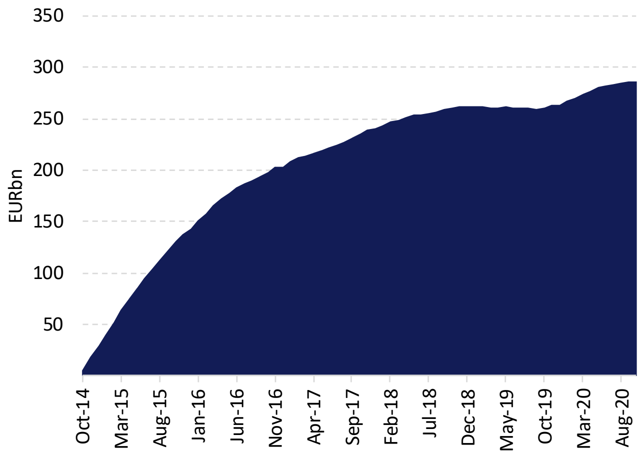
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

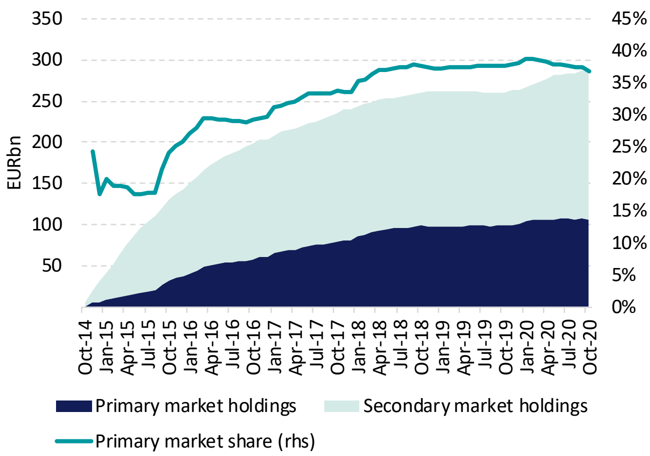
Weekly purchases



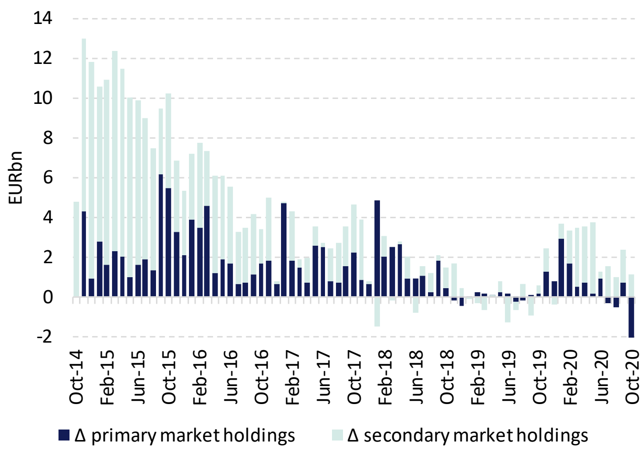
Development of CBPP3 volume



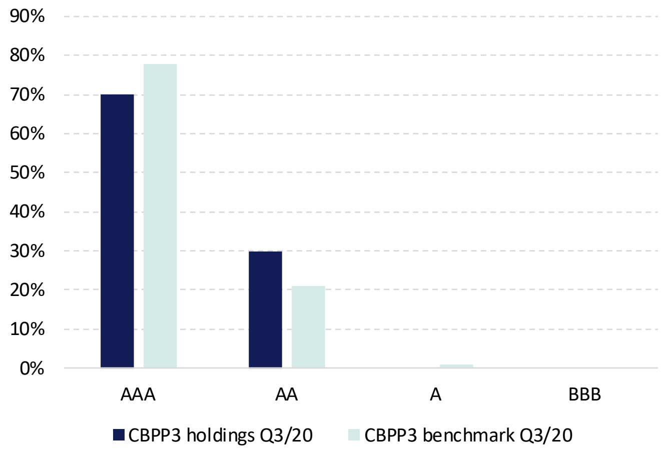
Primary and secondary market holdings



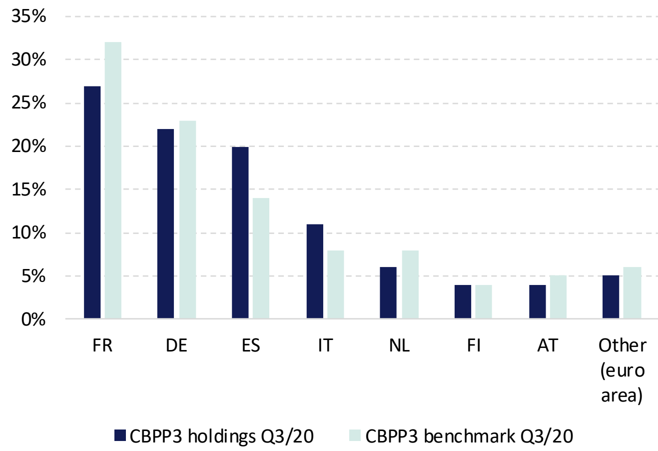
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



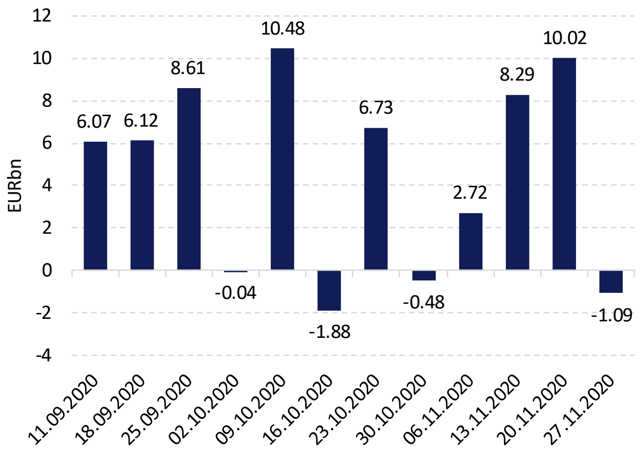
Distribution of CBPP3 by country of risk



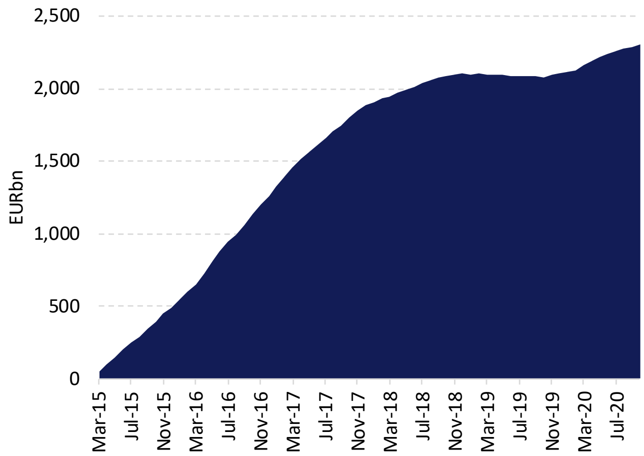
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



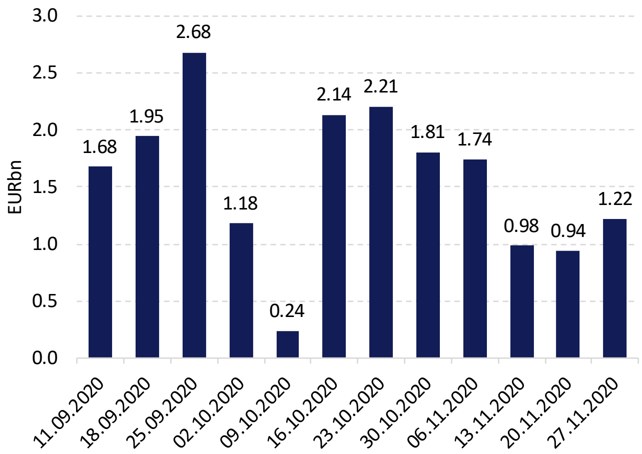
Overall distribution of PSPP buying at month-end

Country	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Average time to maturity in years	Market average in years[3]	Difference in years
AT	2.701%	66,722	65,474	1,248	7.80	8.12	-0.3
BE	3.362%	84,991	81,499	3,492	8.35	10.31	-2.0
CY	0.199%	3,021	4,813	-1,792	10.00	9.16	0.8
DE	24.327%	562,019	589,701	-27,682	6.55	7.60	-1.0
EE	0.260%	225	6,302	-6,077	9.61	9.58	0.0
ES	11.004%	288,271	266,751	21,520	8.10	8.33	-0.2
FI	1.695%	34,826	41,090	-6,264	7.15	7.95	-0.8
FR	18.848%	485,477	456,888	28,589	7.15	8.13	-1.0
IE	1.563%	36,261	37,881	-1,620	8.77	9.86	-1.1
IT	15.677%	413,443	380,029	33,414	7.11	7.72	-0.6
LT	0.360%	4,365	8,716	-4,351	9.61	11.14	-1.5
LU	0.304%	2,773	7,369	-4,596	5.21	6.43	-1.2
LV	0.534%	2,851	12,947	-10,096	9.89	10.38	-0.5
MT	0.097%	1,203	2,346	-1,143	9.96	9.57	0.4
NL	5.408%	115,902	131,097	-15,195	7.57	8.49	-0.9
PT	2.160%	44,950	52,357	-7,407	7.20	7.43	-0.2
SI	0.444%	8,785	10,771	-1,986	9.29	9.97	-0.7
SK	1.057%	13,885	25,619	-11,734	8.29	8.60	-0.3
GR	0.00%	0	0	0	0.00	16.01	0.0
SNAT	10.00%	254,084	242,406	11,679	7.34	8.52	-1.2
Total / Avg.	**100.0%**	**2,424,055**	**-**	**-**	**7.26**	**8.22**	**-1.0**

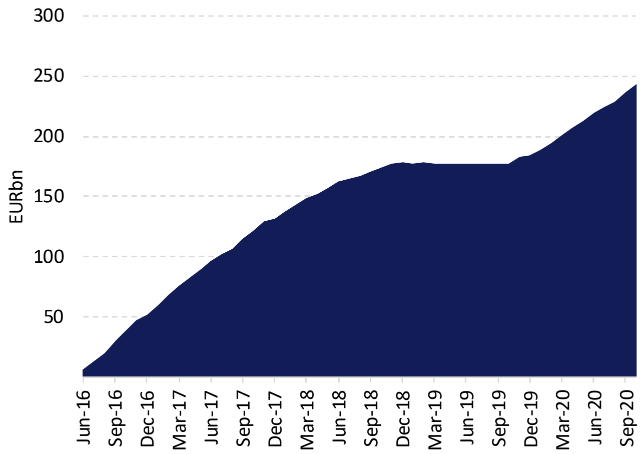
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

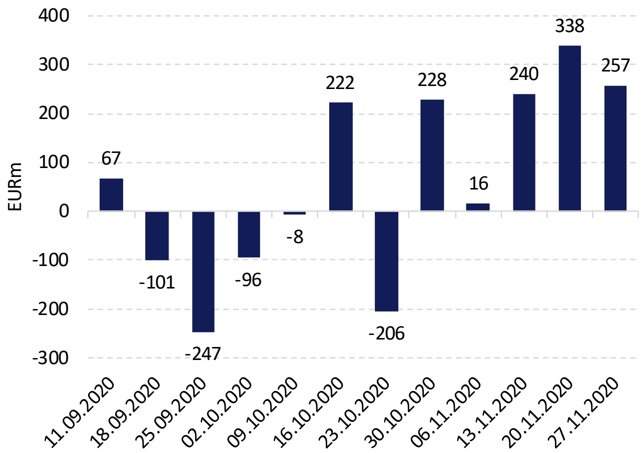


Development of CSPP volume

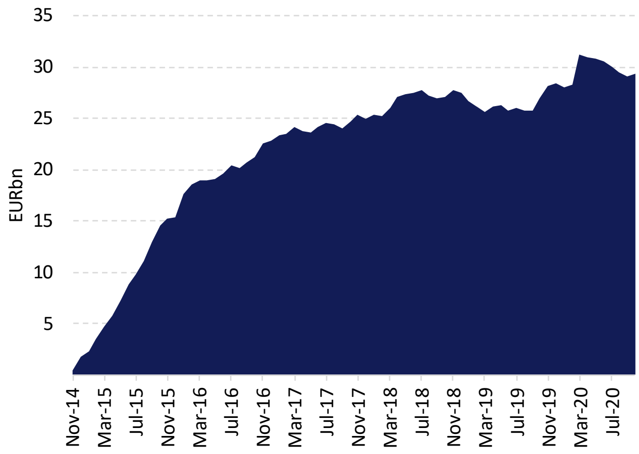


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



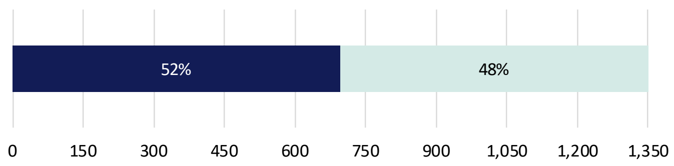
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Sep-20	567,183
Oct-20	629,169
Δ	+61,985

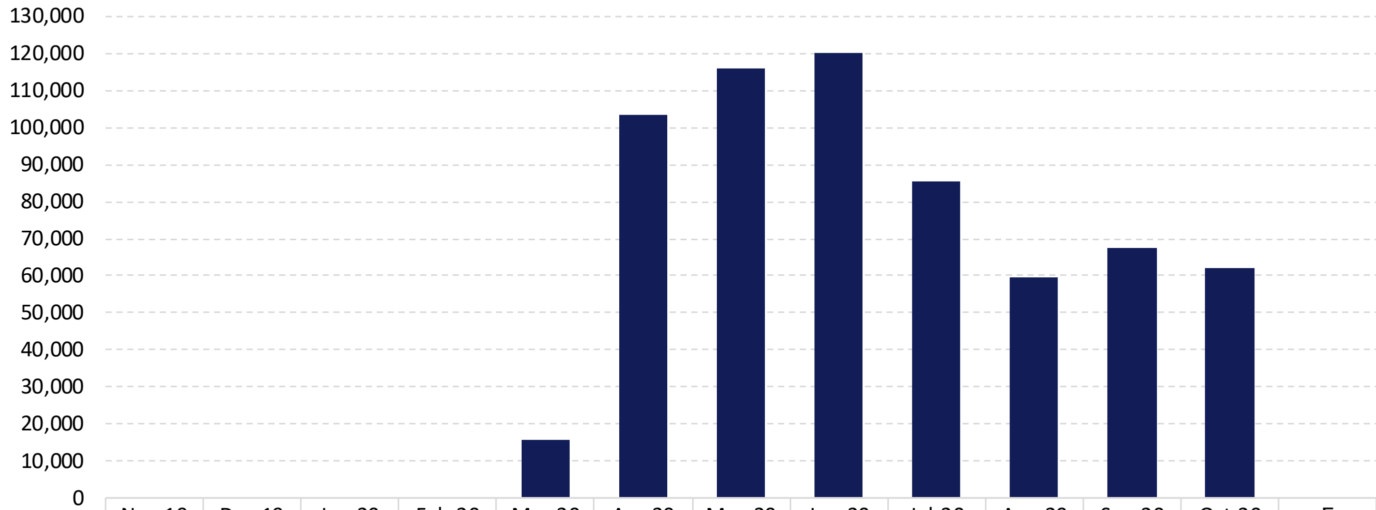
Volume already invested (in EURbn)



Estimated portfolio development

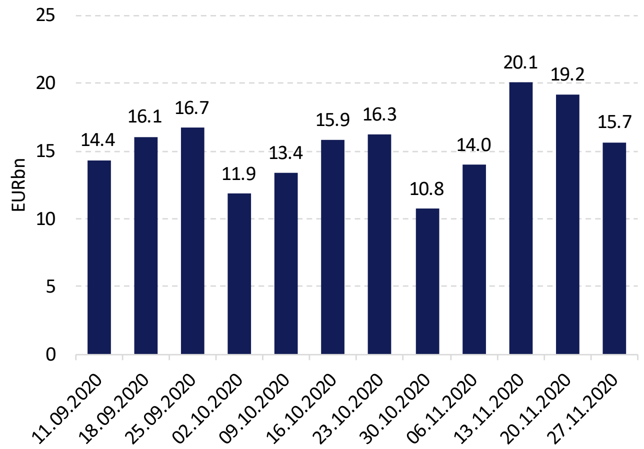
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in …
Average weekly net purchase volume so far	EUR 19.9bn	33 weeks (16.07.2021)

Monthly net purchases (in EURm)

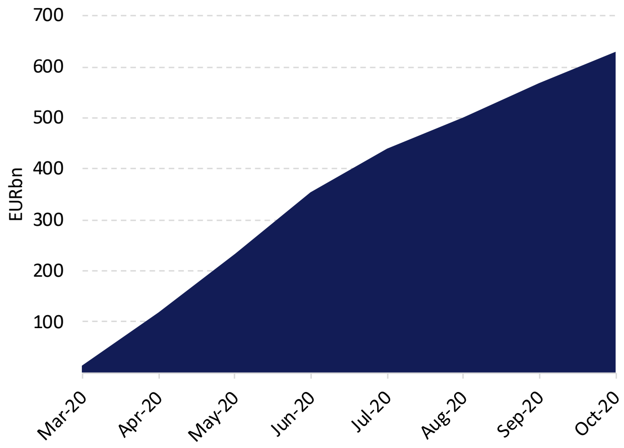


	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
■ PEPP	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	629,168

Weekly purchases



Development of PEPP volume

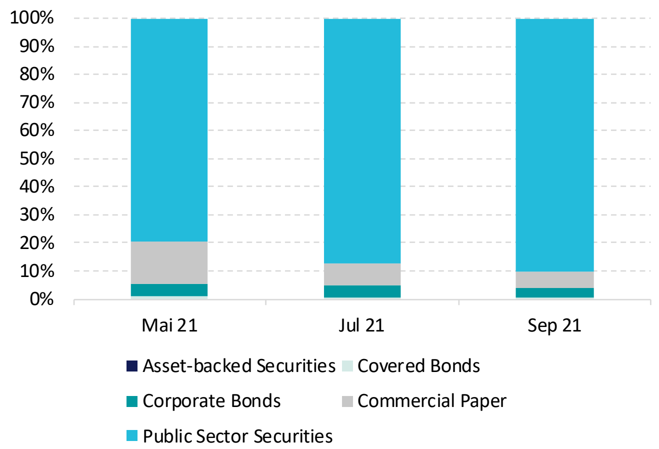


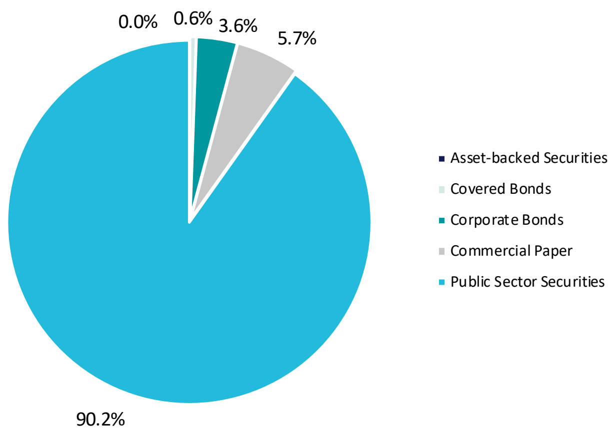
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

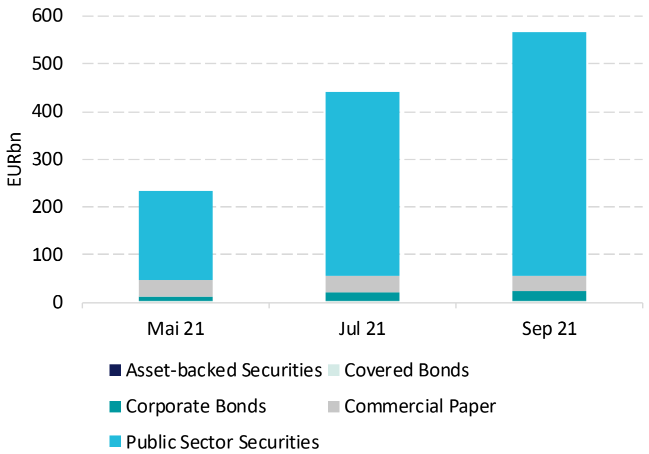
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Jul-20	0	3,128	17,620	34,845	384,464	440,057
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Δ	0	-5	+2,798	-2,857	+125,648	+125,584

Portfolio structure

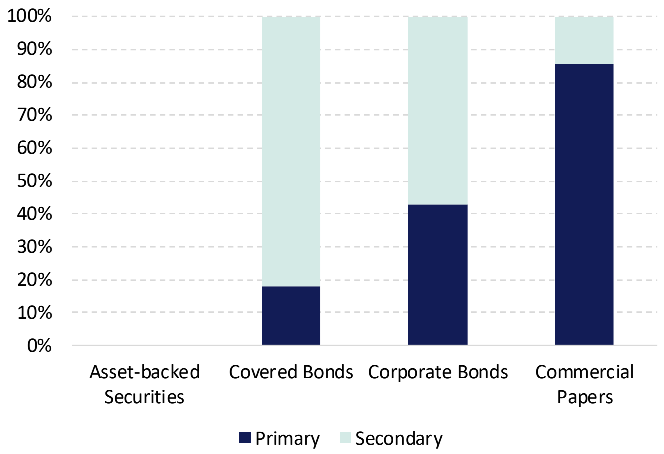




Portfolio development



Share of primary and secondary market holdings



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

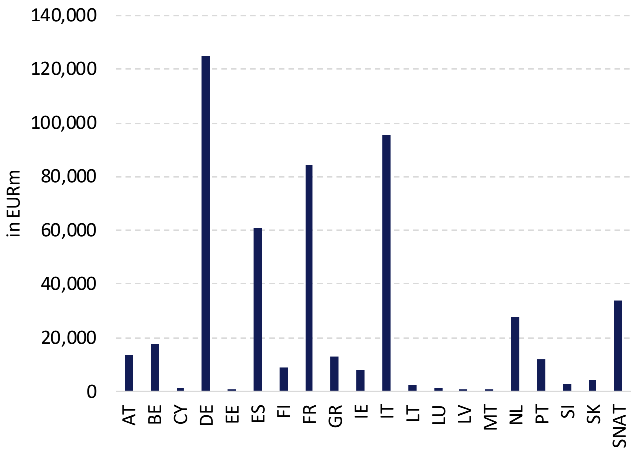
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Holdings in EURm	0	0	557	2,566	8,735	11,683	27,281	4,707
Share	0.0%	0.0%	17.8%	82.2%	42.8%	57.2%	85.3%	14.7%

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

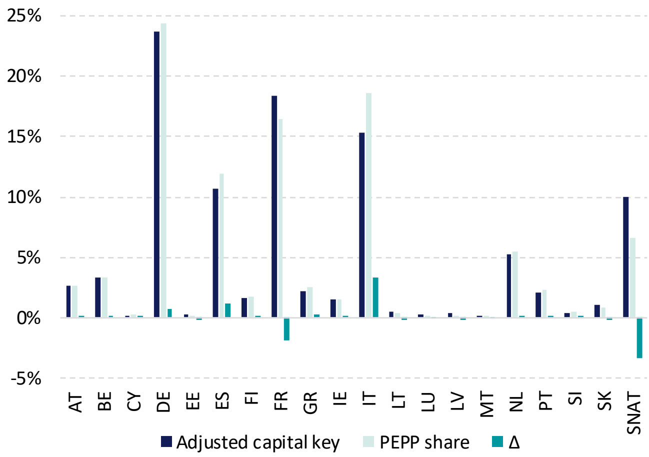
Breakdown of public sector securities under the PEPP

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

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



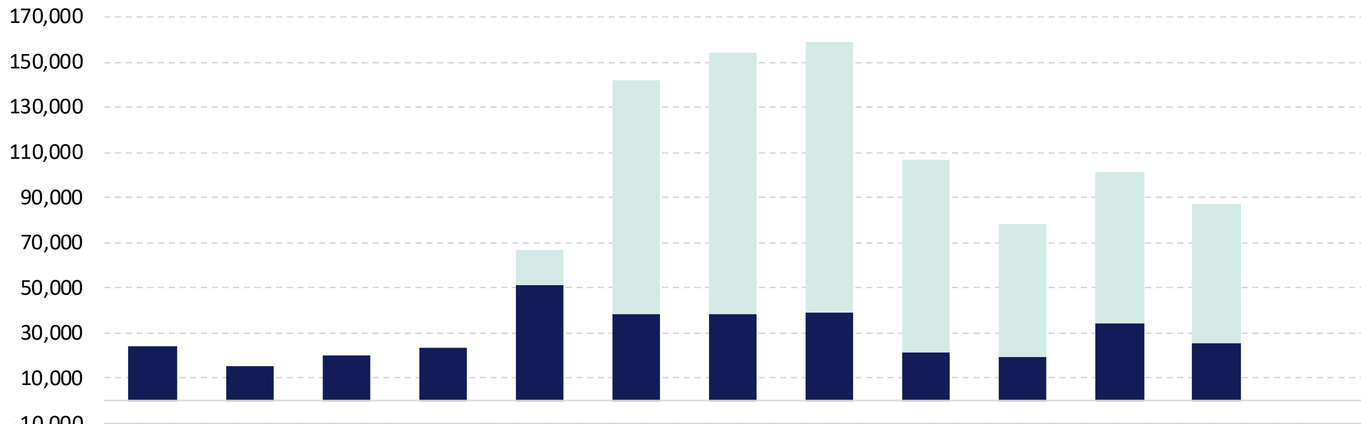
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

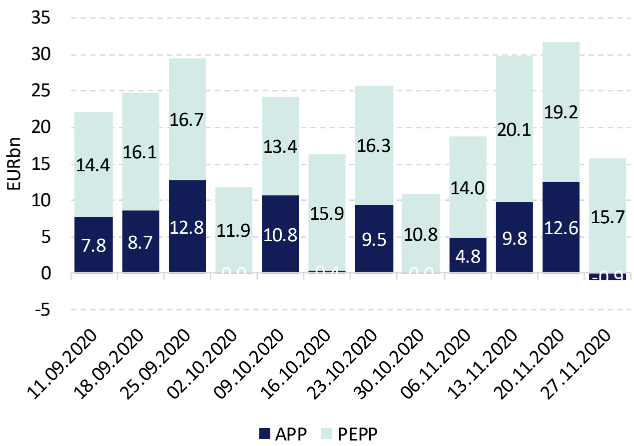
	APP	PEPP	APP & PEPP
Sep-20	2,842,453	567,183	3,409,636
Oct-20	2,867,918	629,169	3,497,087
Δ	+25,465	+61,985	+87,450

Monthly net purchases (in EURm)

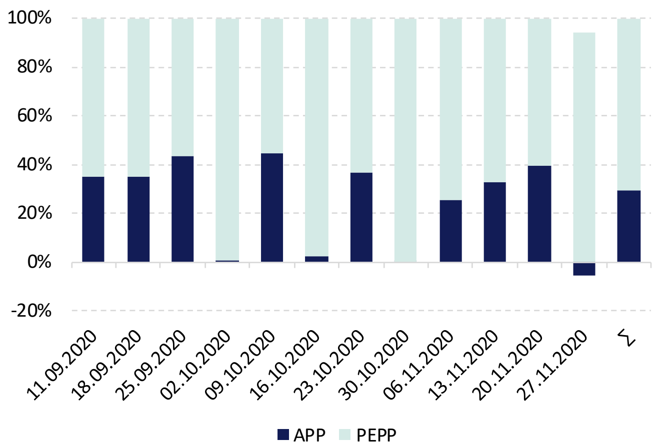


	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
∑	24,096	15,408	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,322	87,450	979,154
PEPP	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	629,168
APP	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,465	349,986

Weekly purchases



Distribution of weekly purchases

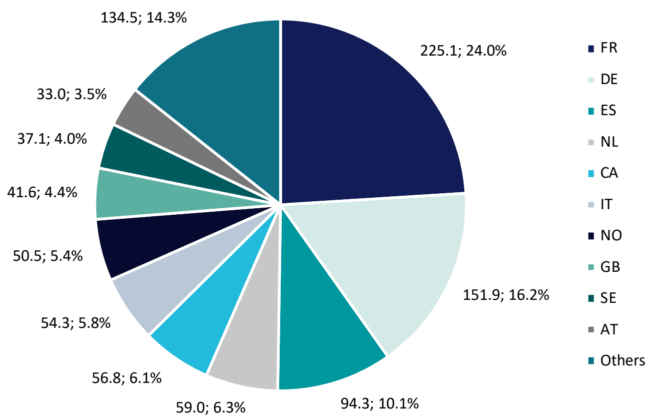


Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

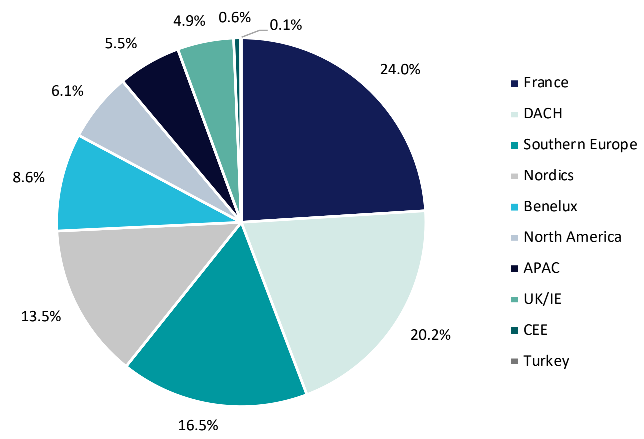
NORD/LB

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



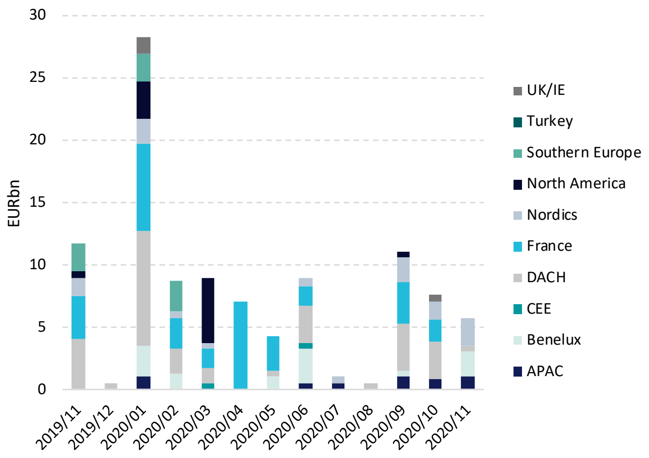
EUR benchmark volume by region (in EURbn)



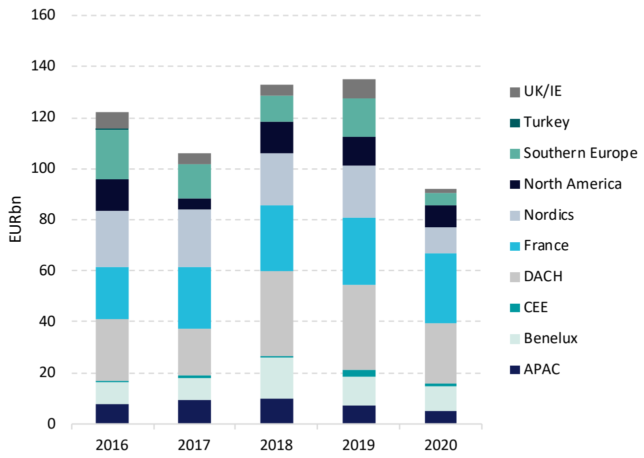
Top-10 jurisdictions

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	5.5	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	4.0	1.90
4	NL	59.0	58	0	0.97	11.1	7.4	0.98
5	CA	56.8	48	0	1.16	5.9	2.9	0.32
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	3.4	0.56
10	AT	33.0	59	0	0.56	9.4	5.8	0.80

EUR benchmark issue volume by month



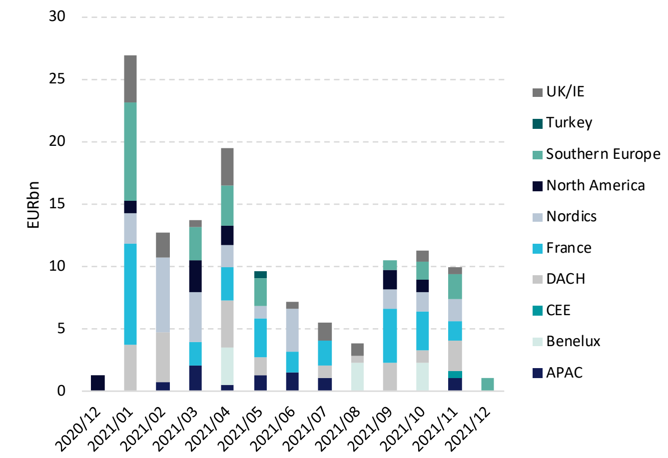
EUR benchmark issue volume by year



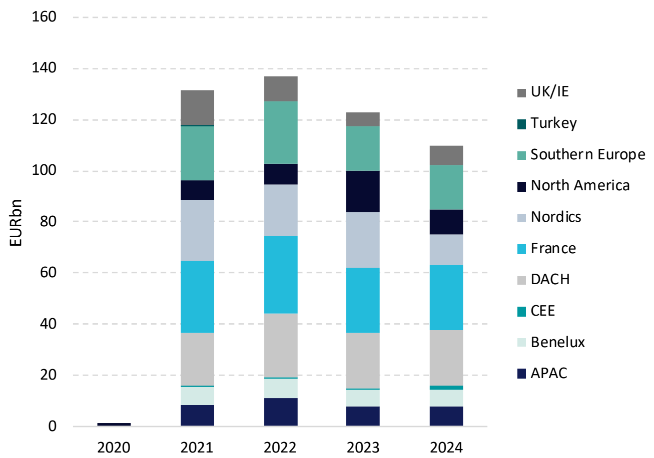
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

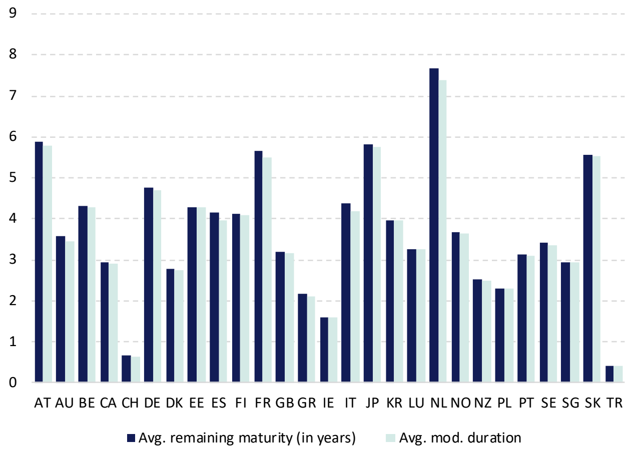
EUR benchmark maturities by month



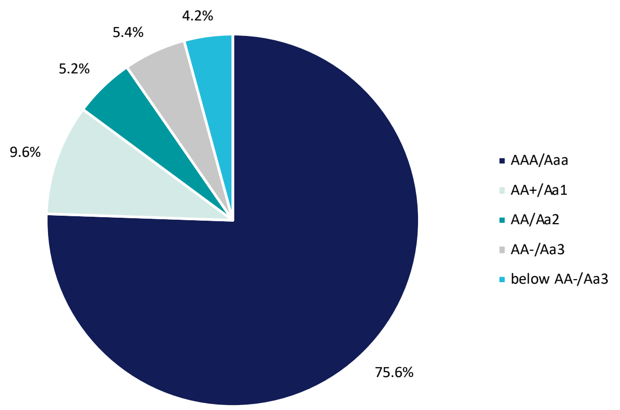
EUR benchmark maturities by year



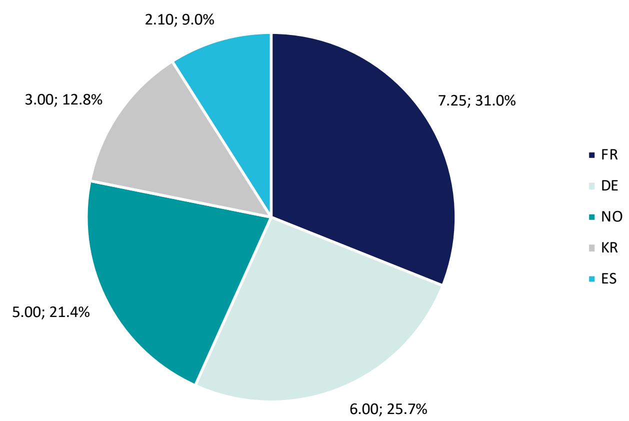
Modified duration and time to maturity by country



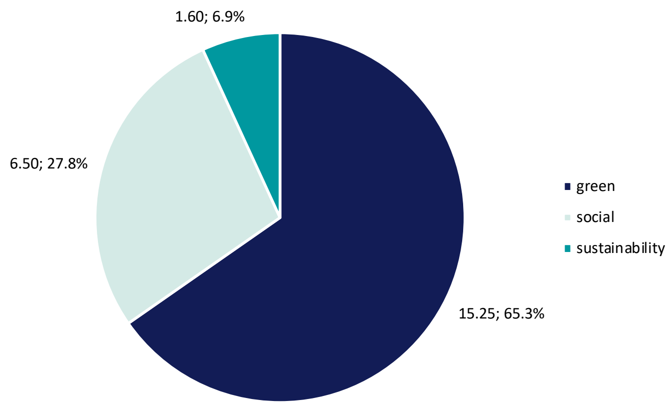
Rating distribution (volume weighted)



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

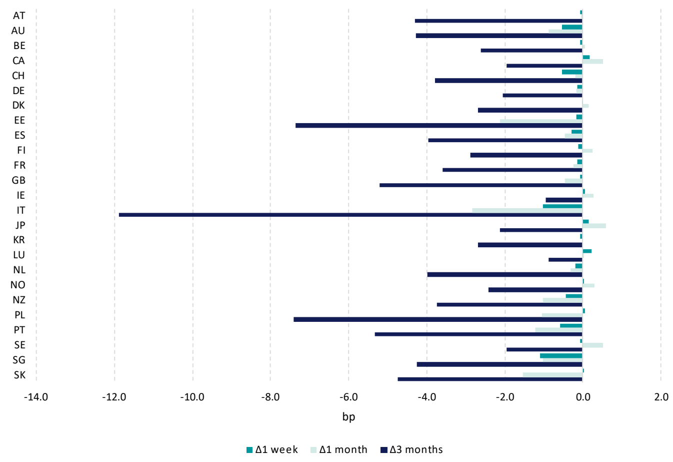


EUR benchmark volume (ESG) by type (in EURbn)

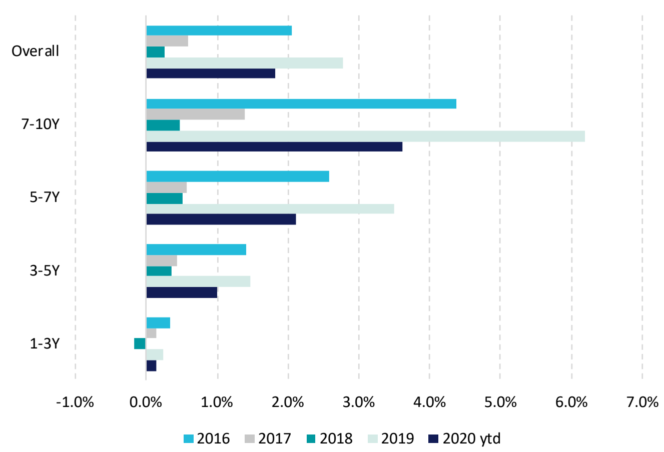


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

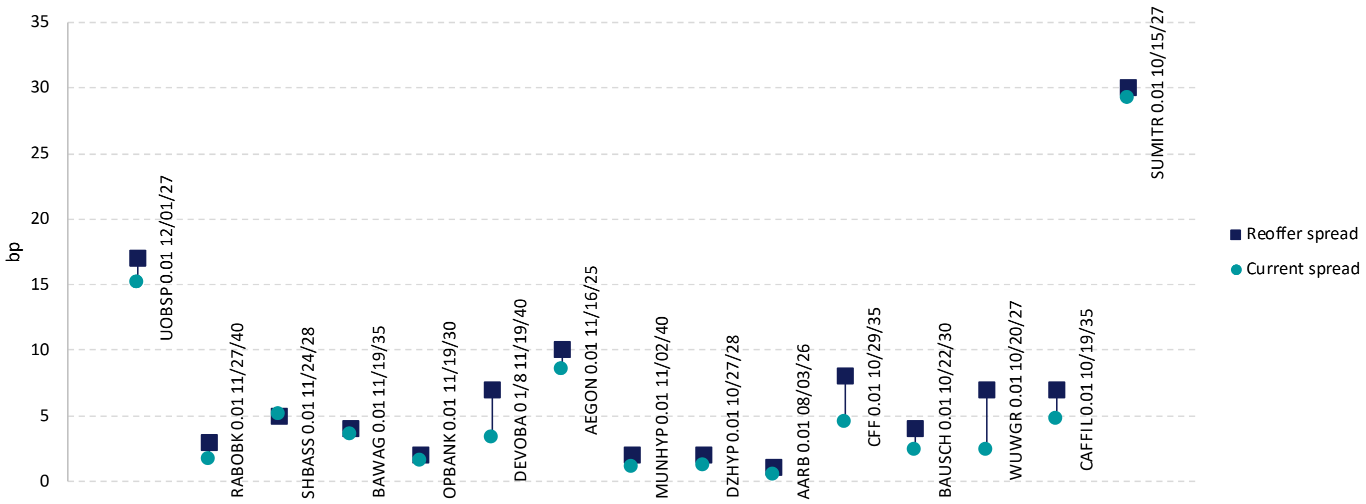
Spread development by country



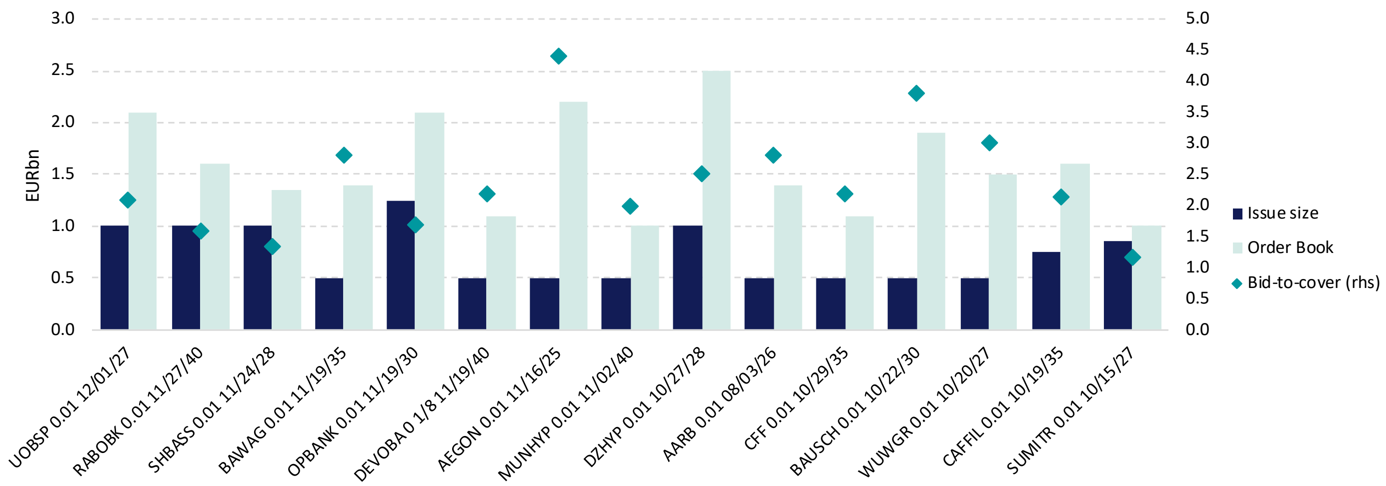
Covered bond performance (Total return)



Spread development (last 15 issues)



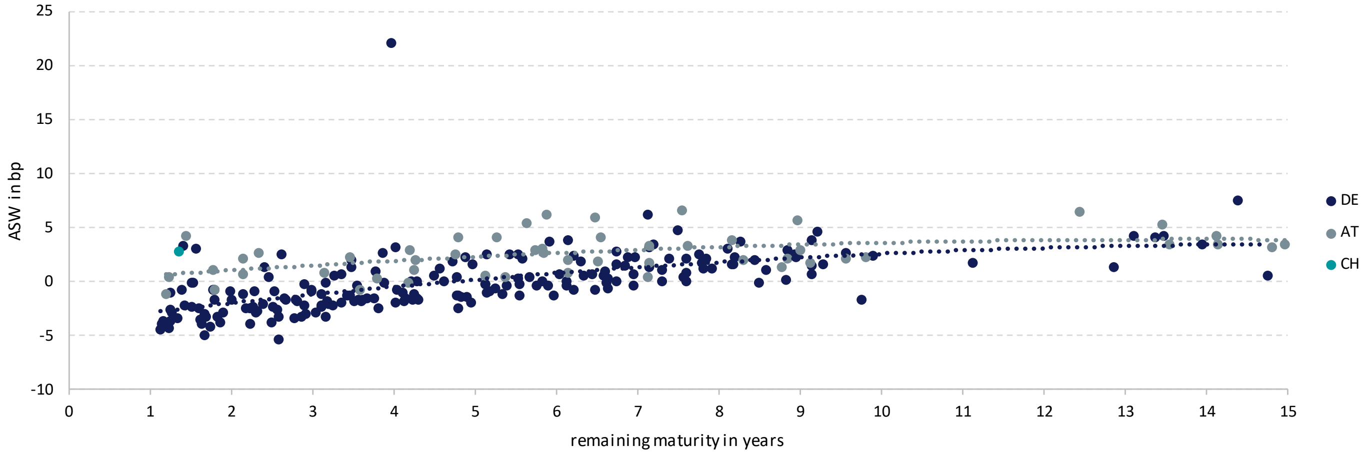
Order books (last 15 issues)



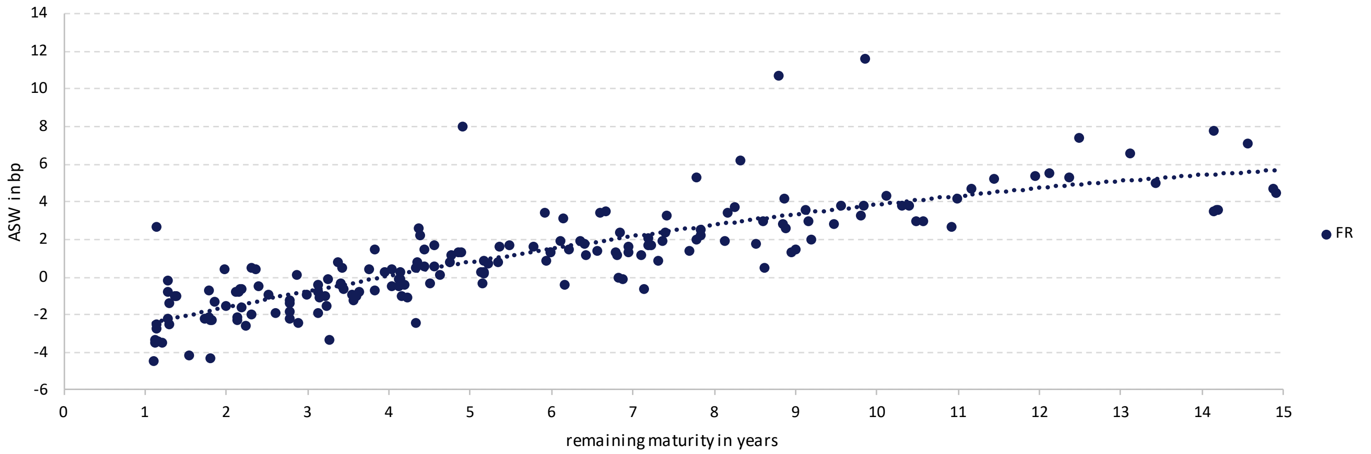
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

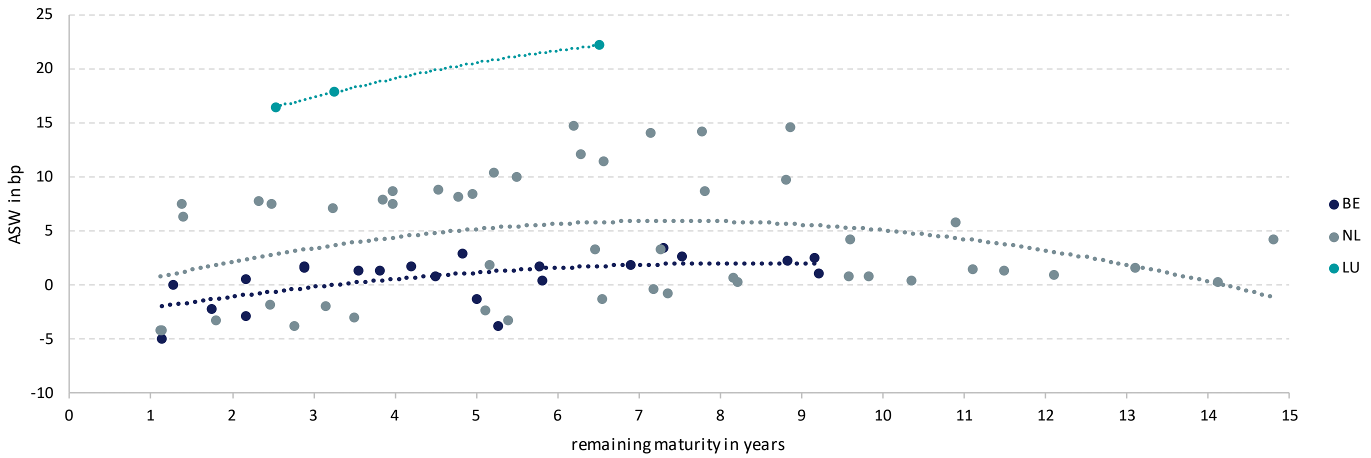
DACH



France

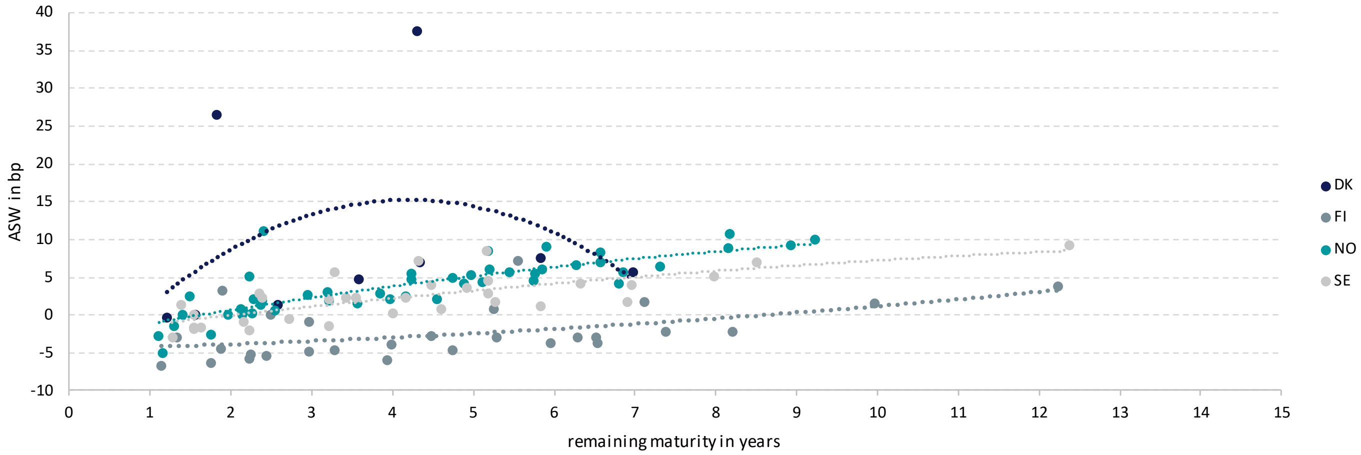


Benelux

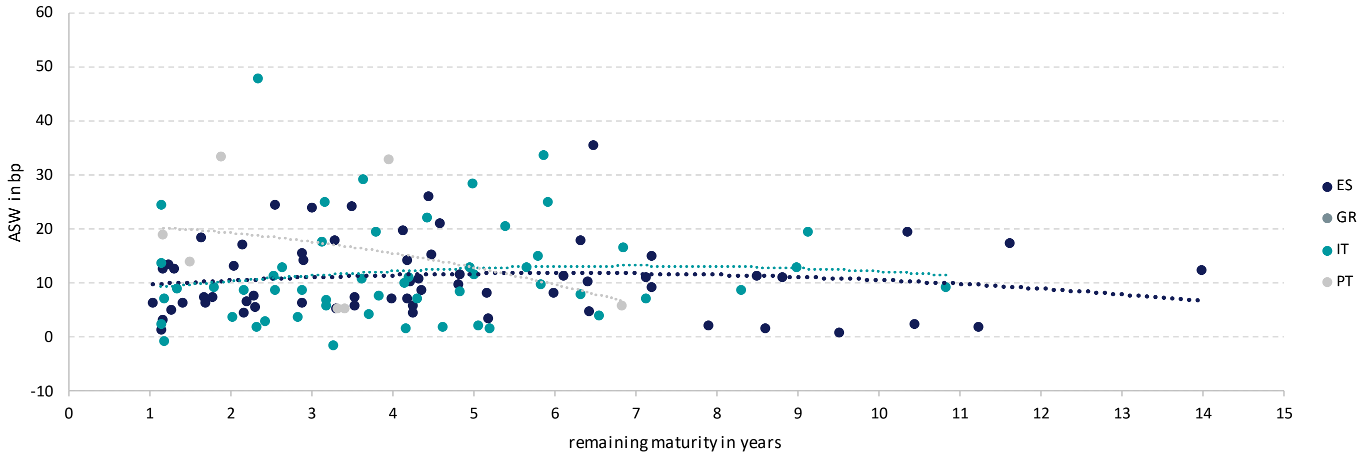


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

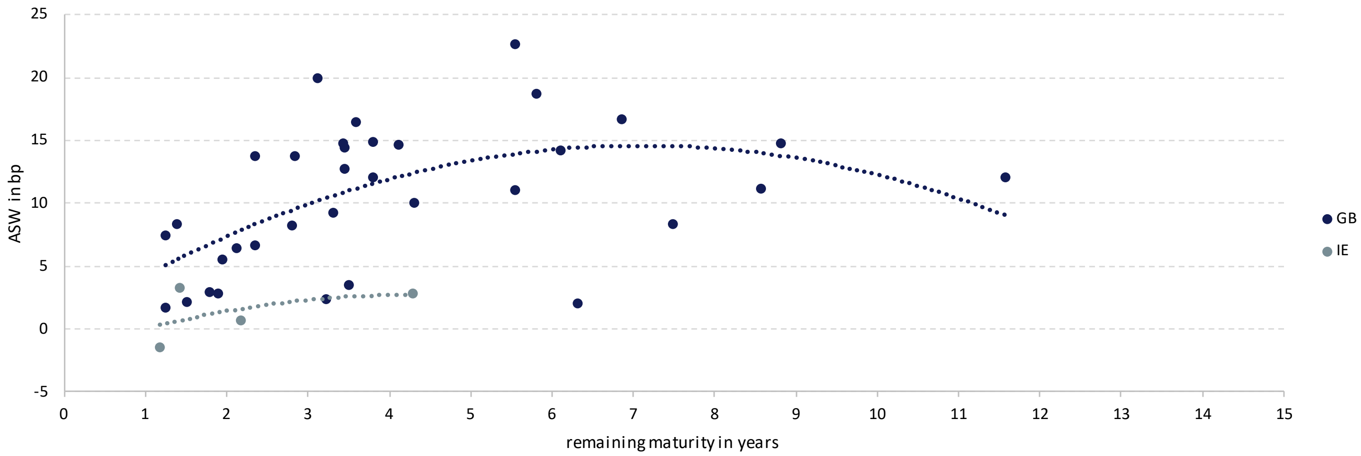
Nordics



Southern Europe

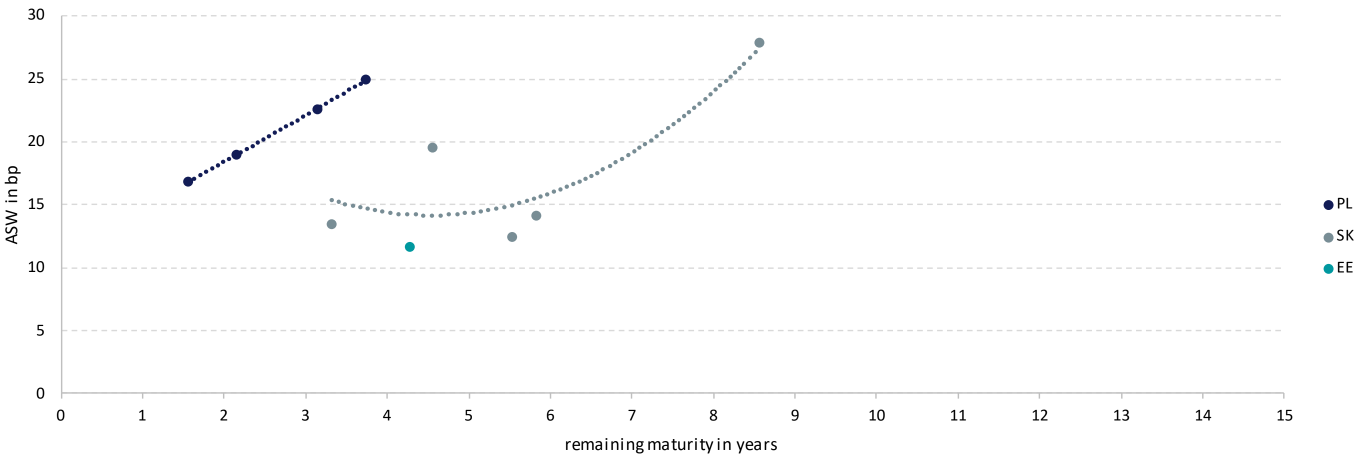


UK/IE

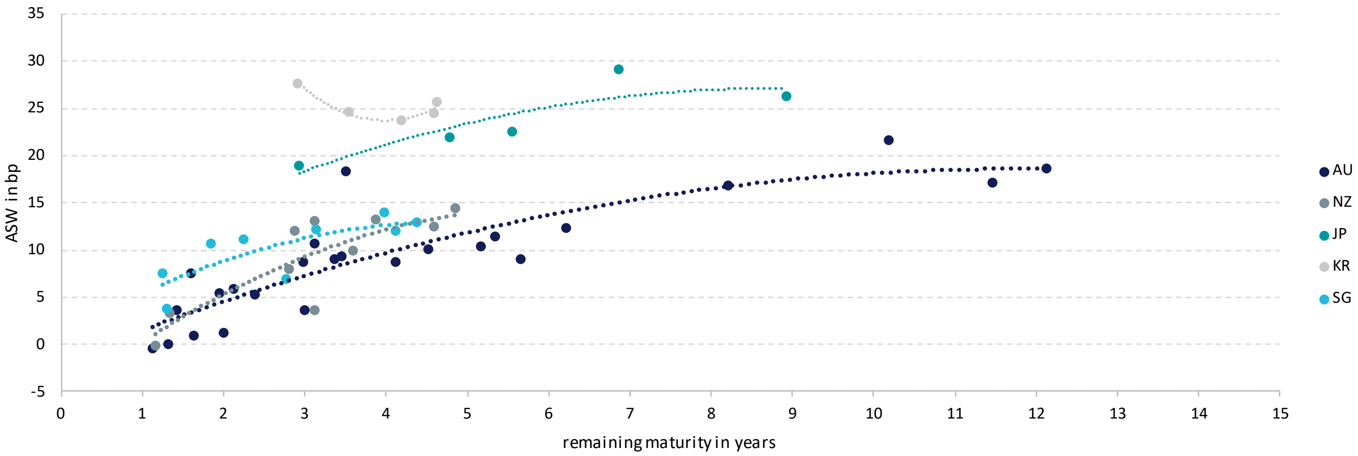


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

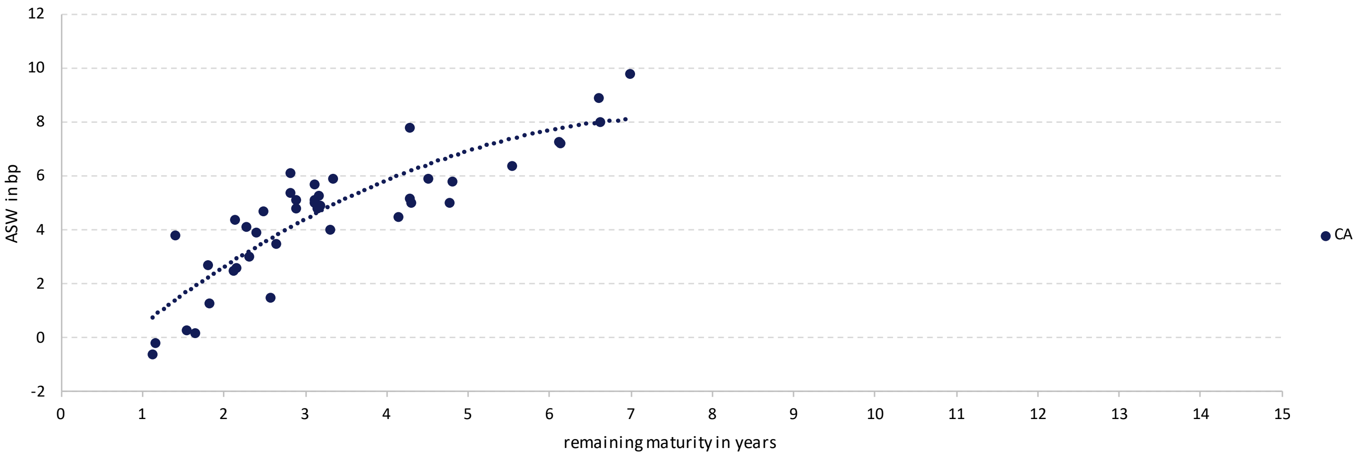
CEE



APAC



North America



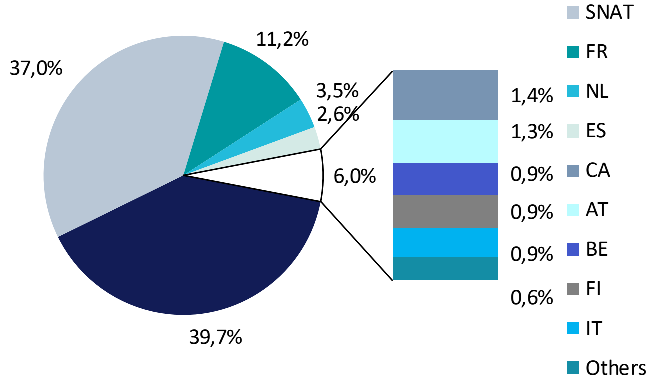
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

Charts & Figures
SSA/Public Issuers

Outstanding volume (bmk)

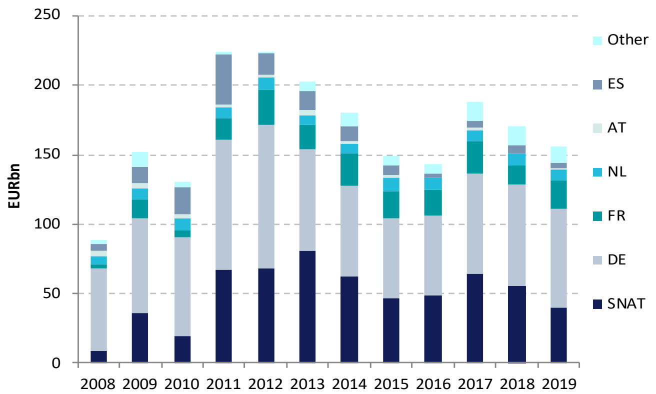
EUR 1772,2bn



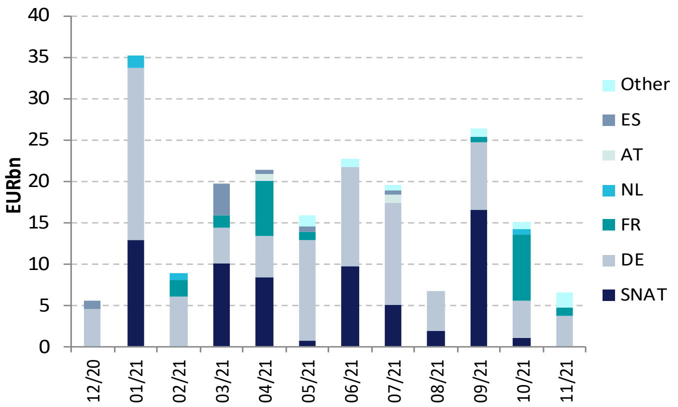
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	704,0	547	1,3	6,2
SNAT	646,3	171	3,8	7,4
FR	201,4	142	1,4	5,1
NL	62,4	64	1,0	6,4
ES	45,5	53	0,9	4,5
CA	25,0	18	1,0	5,3
AT	22,5	24	1,4	5,4
FI	16,1	20	0,8	6,2
IT	15,8	20	0,8	6,1
BE	14,7	17	0,8	13,8

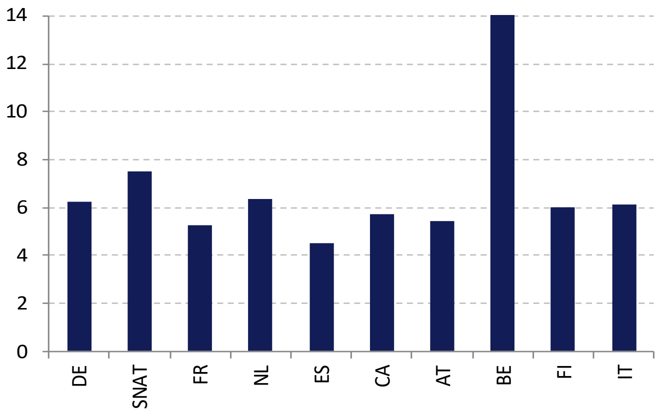
Issue volume by year (bmk)



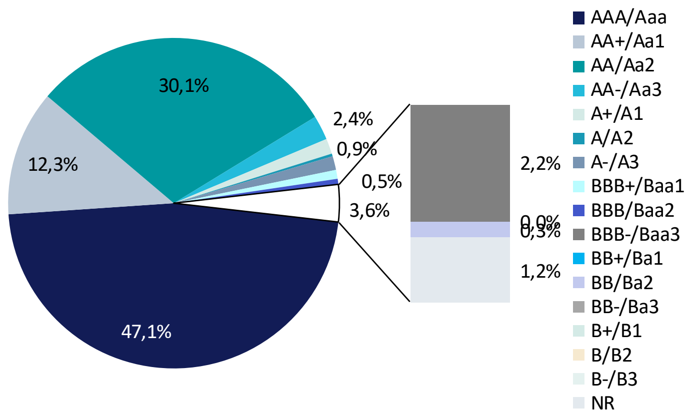
Maturities next 12 months (bmk)



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

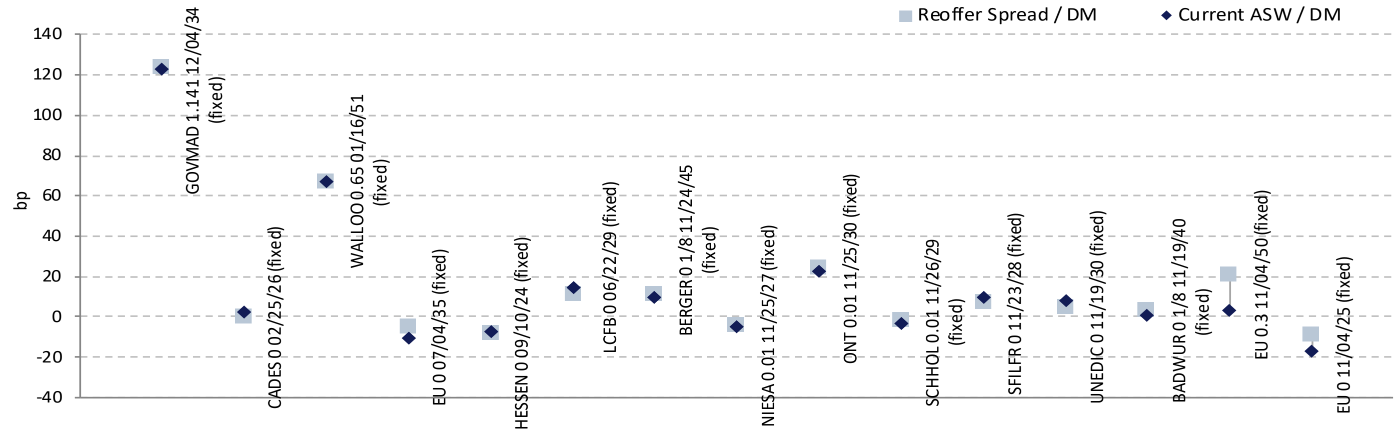


Rating distribution (vol. weighted)

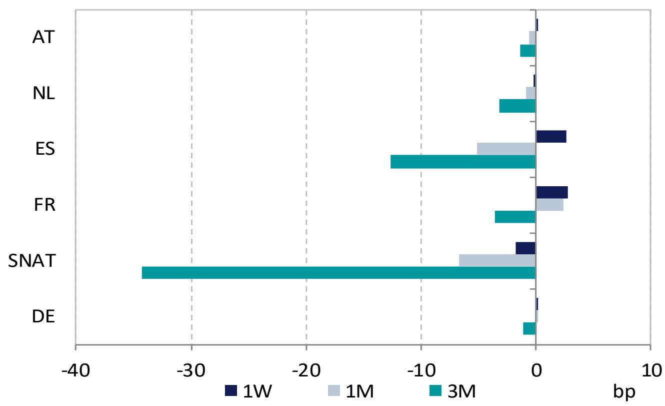


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

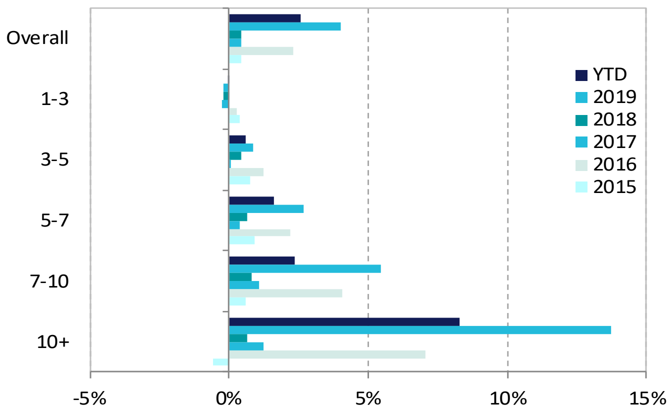
Spread development (last 15 issues)



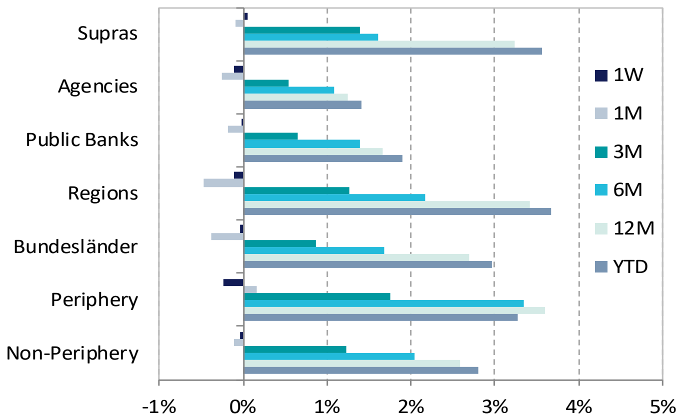
Spread development by country



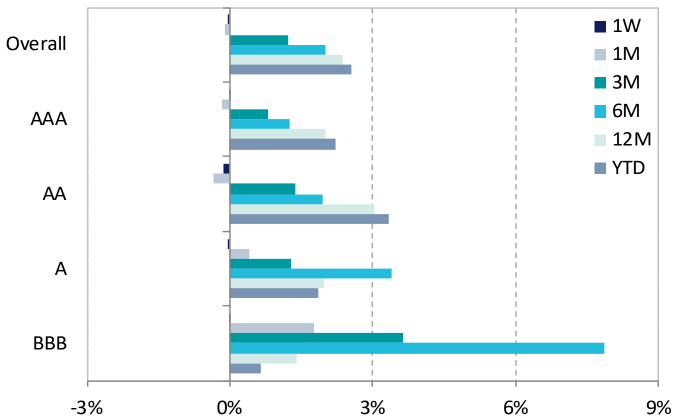
Performance (total return)



Performance (total return) by regions

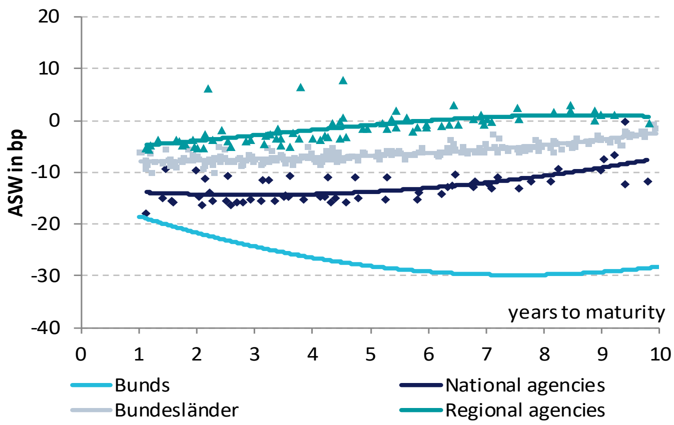


Performance (total return) by rating

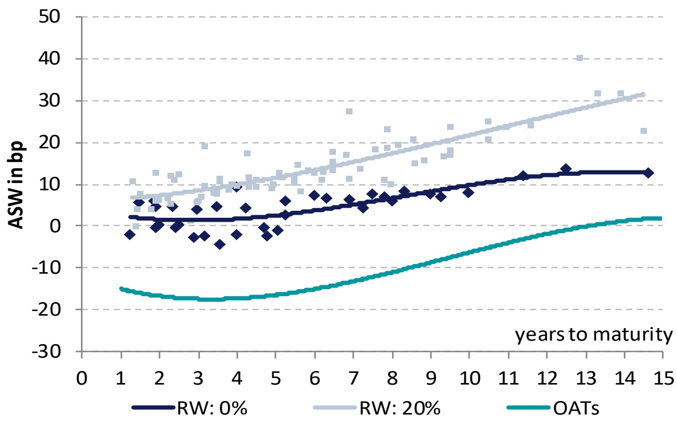


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

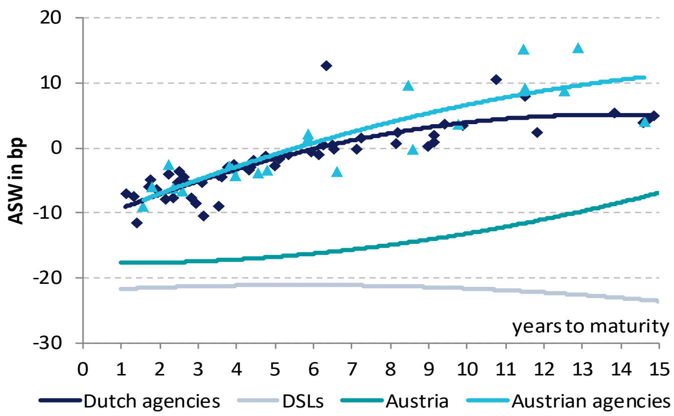
Germany (by segments)



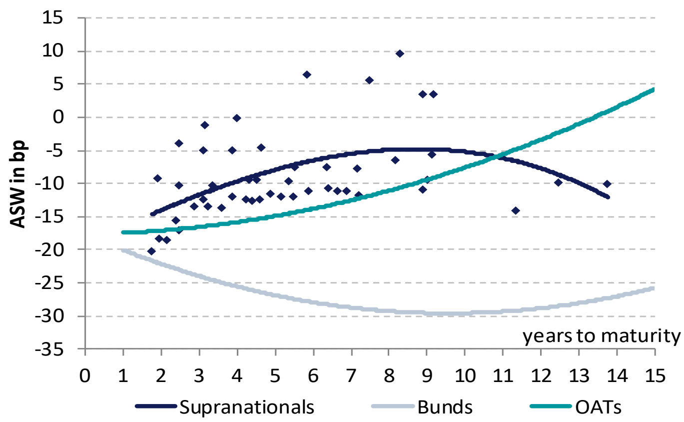
France (by risk weight)



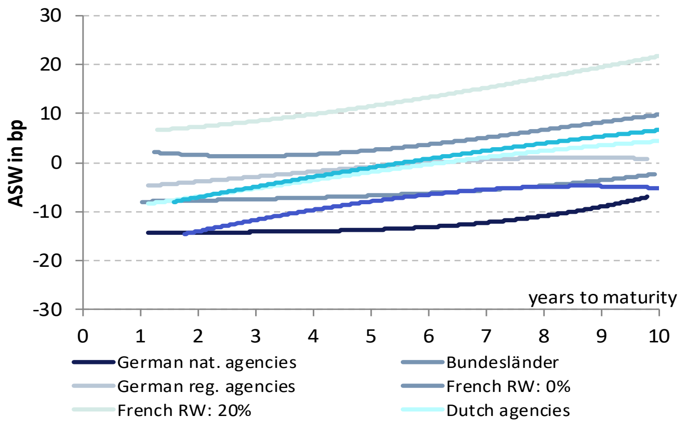
Netherlands & Austria



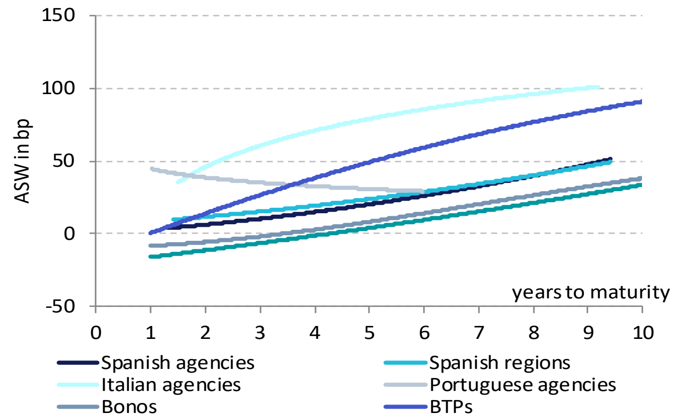
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
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
32/2020 ♦ 12 August	▪ Transparency requirements §28 PfandBG in Q2 2020 ▪ Development of the German property market ▪ European Atomic Energy Community (Euratom)
31/2020 ♦ 05 August	▪ PEPP: Second round of reporting again provides valuable insights
30/2020 ♦ 29 July	▪ LCR levels and risk weights of EUR benchmarks ▪ Update: Funding of German Bundeslaender (ytd)

NORD/LB:
Markets Strategy & Floor Research

NORD/LB:
Covered Bond Research

NORD/LB:
SSA/Public Issuer Research

Bloomberg:
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 launches corona pandemic emergency**
- **ECB responds to corona risks**

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