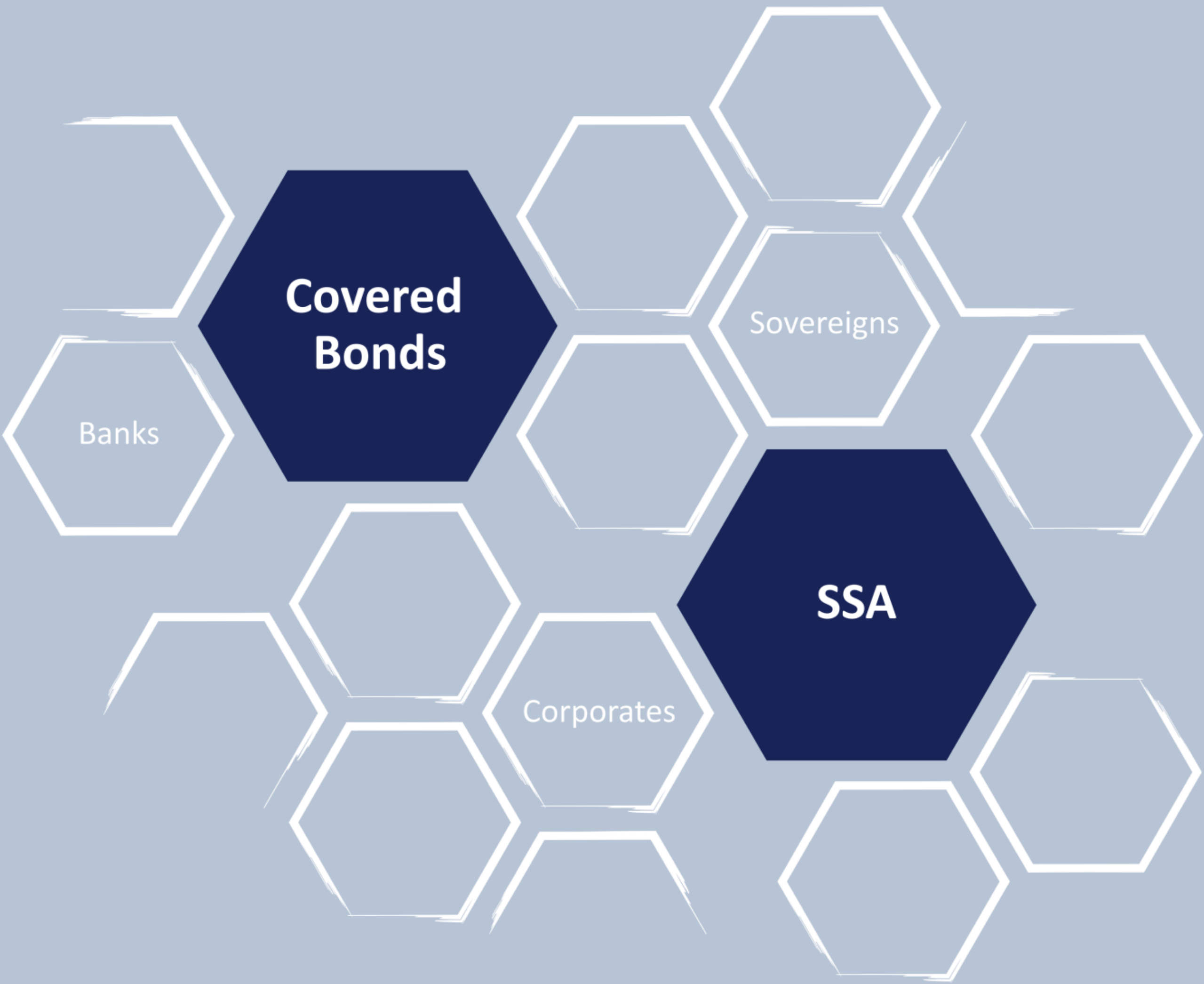
NORD/LB



Dear readers,

Due to a technical relaunch of the NORD/LB website, we wish to inform you today that our weekly publication **will not be published as usual next Wednesday**.

However, we are pleased to say that this is merely a delay and not a cancellation: the Covered Bond & SSA View will be available via the familiar channels on **Thursday, 22 April**.

Your Markets Strategy & Floor Research team

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

14 April 2021 ♦ 13/2021

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

Finanzgruppe

Agenda

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Market overview Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

Two deals both with terms of eight years

After a brief pause for this publication last Wednesday, we will be taking a look at all EUR benchmark transactions from the previous two weeks, even if the number of deals may not indicate a time frame of this length. There were just two new issuances on the market over the past fortnight. Precisely one week after the last new issuance (Desjardins; 5.0y; EUR 500m), CFF approached its investors for the first time in 2021 last Tuesday. In terms of pricing, the guidance was initially stated in the area of ms +4bp, although no further details were provided on volume. Ultimately, a total of EUR 1.5bn changed hands at ms flat for eight years. The order books totalled EUR 2.0bn with a yield at issue of -0.102%. In total, 35% of the volume remained in the domestic market of France, while 30% went to investors located in the DACH region. At 16%, a notable share additionally went to the UK & Ireland. In terms of investor type, bank treasuries (46%) were most strongly represented, followed by central banks & OI (37%) and asset managers (17%). Once again, exactly seven days later (i.e. Tuesday of the current trading week), DZ HYP from Germany made an appearance on the market with its second benchmark deal in 2021. The deal for EUR 1.0bn went to market at ms -3bp, thereby tightening by four basis points compared with the guidance in the process. The mortgage Pfandbrief with a term of eight years featured a yield at issue of -0.107%. With order books amounting to EUR 2.0bn, the deal came with an oversubscription ratio of 2.0x. DACH investors received 71% of the deal, while 11% went to Scandinavia. Further shares went to France (5%), BENELUX (4%) as well as Italy, Asia and the UK (3% each). The main investor type was banks (46%), followed by asset managers/funds (31%) and CB/OI (23%).

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
DZ HYP	DE	13:04.	DE000A3H2TQ6	8.0y	1.00bn	ms -3bp	- / - / AAA	-
CFF	FR	06:04.	FR0014002X50	8.0y	1.50bn	ms flat	- / Aaa / AAA	-

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

DekaBank active with sub-benchmark

In addition to the two transactions in the EUR benchmark segment, at the beginning of the week DekaBank appeared on the market with a deal worth EUR 250m. The bank, which had most recently been active in mid-January 2020 in the EUR sub-benchmark segment, placed its public-sector Pfandbrief at ms -2bp, which equates to narrowing of five basis points versus the guidance. The order books totalled EUR 700m, meaning that this bond deal was almost three times oversubscribed. At +0.017%, the yield at issue crept marginally into positive territory. In total, 63% of the bond volume remained in Germany. An additional 20% was allocated to Scandinavian investors, followed by those in France (7%) and Austria (5%). In terms of investor type, bank treasuries dominated proceedings (43%), while 32% went to CBs/OIs as well. With its most recent transaction, DekaBank now has seven outstanding EUR-denominated sub-benchmark bonds totalling EUR 1.75bn overall. It therefore ranks ahead of the Mortgage Society of Finland (EUR 1.5bn; 5 sub-benchmark deals), which was last active in mid-March, to claim the crown as most prolific issuer of EUR sub-benchmarks.

Covered Bond Label on the growth path

The Covered Bond Label Foundation (CBLF) is delighted to announce a new member of the Covered Bond Label. With the addition of the Czech Republic's Komerční banka as the 118th member, the circle of jurisdictions for the label has also been expanded by a new country to boot. Overall, in our view it is always to be welcomed if an issuer also meets its reporting requirements on the basis of the Harmonized Transparency Template (HTT) associated with the Covered Bond Label. After all, harmonised reporting also serves the best interests of investors. In actual fact, following its inaugural bond deal in January (cf. NORD/LB Covered Bond & SSA View from 13 January 2021), Komerční banka successfully expanded its own refinancing options, which in turn is likely to also produce an extended circle of investors. In his role of CBLF representative, Luca Bertalot welcomed the label's growth in the direction of Central and Eastern Europe. This also confirms that interest in covered bonds as an asset class is on the rise in this region. We share this view both in terms of new issuers in the EUR benchmark segment as well as in connection with an expanded universe of purchasable covered bonds for investors.

S&P also expecting restrained issuance activity and stable ratings

As part of its "Global Covered Bond Insights Q1 2021" publication, the rating agency Standard & Poor's (S&P) recently outlined its expectations for the covered bond market in 2021. Accordingly, access to cheap central bank funding and high customer deposits will continue to dampen issuance activity. In terms of its own ratings, the agency still sees signs of stability. In the current year, S&P implemented a single rating upgrade in Q1 2021 (public sector covered bonds of Kommunalkredit Austria upgraded from A/stable to A+/stable). As far as new ratings are concerned, S&P has included the EUR benchmark newcomers Argenta Spaarbank and KEB Hana (both AAA/stable) in addition to Landesbankinn from Iceland (A-/stable) in its rating universe. The rating stability of covered bonds can certainly be regarded as a consequence of regulatory and legal measures such as payment holidays. However, covered bond ratings are likely to remain stable even after the emergency measures are scaled back, a circumstance which can be attributed to rating buffers that are, in part, comfortable as well as the fundamental construction of covered bonds as a dual recourse product.

Market overview
SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

Focus on the ECB

In today's issue, two of our articles focus on the European Central Bank's approach to its business. First, we look back and examine the latest data on the pandemic emergency purchase programme (PEPP). This set of data is published every two months and is never free from criticism. The ISIN limits under the PEPP, for example, continue to be too vague. Next, we look ahead and, eight days before the next meeting of the ECB's Governing Council, our focus is on the ECB's options for action, which also are not free from criticism.

European mills are grinding, albeit slowly

The subject matter of discussions at European level is, and for the time being will remain, the EU's recovery plan. Following initial formal delays in its launch, the SURE programme has been well and comprehensively used since autumn 2020. However, the EU's recovery fund is taking some time. In our outlook for 2021, we already pointed to mid-year and in any case the second half of the year. This is not because we are pessimistic about it, but because each member state must first complete the relevant parliamentary process. In total, the fund is worth a considerable EUR 750bn. Furthermore, own debt is not provided for in the European Constitution, something that has attracted criticism and complaints across the board. Germany's Constitutional Court responded unexpectedly sharply, instructing Federal President Steinmeier not to sign the Act for the time being. Since other EU member states also have yet to sign, we do not interpret this as a delay. In addition, ESM Chief Klaus Regling emphasised two aspects: no-one expected funds from Brussels before the summer in any case. This would be in line with the target schedule. Moreover, the Constitutional Court's decision to check objections against the programme had created an element of uncertainty. However, the Constitutional Court in Karlsruhe had already permitted other EU aid programmes to progress in the past. Anyone looking enviously in the direction of the USA, assuming that the programme there is more powerful and generally progressing faster, would be right. Yet, this is partly owing to jurisdiction, the form of government and size.

Interesting deals in the pipeline

In a market environment in which Italy experienced zero trouble in placing a 50y bond that was also highly oversubscribed (EUR 5bn generated orders of EUR 64bn), there is still room for more! The EU sent out an RfP for an additional EUR 5bn, while KfW was busy inviting participants to a Global Investor Broadcast (non-deal related) scheduled for 22 April. In addition, the EIB commissioned several banks to form a working group to review the possibility of issuing an inaugural digital bond deal. The plan is for a bond issuance denominated in EUR that will be registered and processed via blockchain technology. Over the coming weeks, a series of investor meetings will be held, starting on Thursday, 15 April. It is not only us that considers the EIB to be a pioneer for innovations on the European equity markets. In this context, we think back to the first green and/or sustainable bonds or even bonds linked to the euro short term rate (€STR).

Primary market

Our review of the market environment is somewhat more extensive in the present issue of this publication. Readers are aware of the reason for this, namely that we skipped one issue in view of Easter. Plenty of mandates were issued, which one by one materialised. Astonishingly, many of these focused on the ESG segment. Prior to the first deal even being priced, the Basque Country (11y), BNG, KfW, Lower Saxony (NIESA) and Andalusia issued mandates, and there was also a RfP from the EFSF. A mixed bag then, although NIESA was the first to produce hard figures. Our major shareholder issued a 15y benchmark bond at ms flat. The order book amounted to more than EUR 950m. Compared with the guidance (ms +1bp area), tightening was recorded. A further impressive deal was a EUR 4bn transaction from KfW. The 8y green bond was placed at ms -11bp. The guidance had been in the ms -9bp area. The order book exceeded EUR 18.5bn. BASQUE launched an 11y sustainability bond in the market, generating demand worth EUR 3.25bn. A total of EUR 1bn was actually placed (nine basis points higher than the two interpolated reference bond issues, SPGB 0.1% 04/30/31 & SPGB 2.35% 07/30/33). The next bond issue was launched by the Council of Europe Development Bank: EUR 500m for seven years issued in the form of a social inclusion bond (ms -14bp). Marginal oversubscription was observed, which meant that tightening of one basis point on the guidance was achieved. Investitionsbank Berlin issued a plain vanilla bond (EUR 500m, 7y, ms -1bp). The deal was twice oversubscribed. The Spanish ANDAL region raised EUR 1bn (10y) with its inaugural sustainability bond issue. Demand amounted to in excess of EUR 2.6bn. We are planning to publish a Special on the Spanish regions in one of the next issues at the end of April or beginning of May. BNG also issued a bond in the sustainability segment. Following its investor call a few days ago, a 12y transaction (EUR 2bn) was placed at ms -3bp. The EFSF intends to raise EUR 7bn in Q2, and launched a bond deal worth EUR 4bn in the 5y segment. The spread was ms -10bp, and the order book totalled more than EUR 18.2bn. The guidance had started in the ms -8bp area. Île-de-France also advertised and explained its sustainability bond issue in an investor call at the start of April. A total of EUR 500m (WNG) changed hands for seven years. A maximum maturity of ten years was possible, with the issuer ultimately opting for the shortest maturity indicated as a possible option. The pick-up recorded was 19 basis points above French OATs (FRTR 1% 05/25/27 & FRTR 0.75% 05/25/28). The guidance had been in the OAT +23bp area. The final deal was launched in sub-benchmark format, with EUROFIMA issuing a green bond worth EUR 250m for 20 years. The order book surpassed EUR 1.2bn, ensuring tightening of three basis points to ms +17bp. We discussed future ground-breaking deals above and look forward to these transactions coming to market.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
IDF	FR	12.04.	FR0014003067	7.0y	0.50bn	ms +3bp	AA / Aa2 / -	X
EFSF	SNAT	12.04.	EU000A1G0EN1	5.3y	4.00bn	ms -10bp	AA / Aa1 / AA	-
BNG	NL	12.04.	XS2332592760	12.0y	2.00bn	ms -3bp	AAA / Aaa / AAA	X
ANDAL	ES	07.04.	ES0000090847	10.0y	1.00bn	ms +50bp	- / - / BBB+	X
IBB	DE	07.04.	DE000A2YN1B4	7.0y	0.50bn	ms -1bp	AAA / - / -	-
COE	SNAT	07.04.	XS2332184212	7.0y	0.50bn	ms -14bp	AA+ / Aa1 / -	X
BASQUE	ES	07.04.	ES0000106726	11.0y	1.00bn	ms +41bp	A- / A3 / -	X
KFW	DE	07.04.	XS2331327564	8.2y	4.00bn	ms -11bp	- / Aaa / AAA	X
NIESA	DE	07.04.	DE000A3E5KB3	15.0y	0.50bn	ms flat	AAA / - / -	-

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

Cross Asset
Predominant ECB strategy: wait-and-see but remain proactive

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

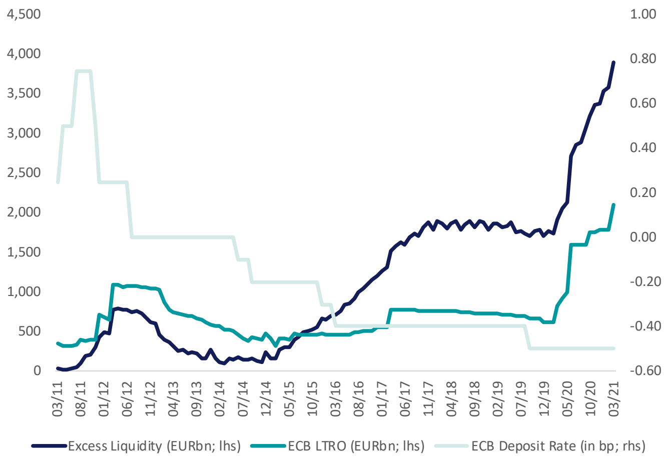
Next ECB interest rate decision on 22 April 2021 – main strategy likely to be to let 'new' framework conditions take hold

The guardians of currency in the eurozone will be gathering for their scheduled key rate meeting on 22 April 2021. Once again, the ECB's Governing Council is likely to deal with issues regarding the economic implications of progressing vaccination programmes and lockdowns, as well as the associated short-term, medium-term and long-term developments in terms of an economic recovery and inflation. In this connection, it is also necessary to assess the 'new' framework conditions of a US economic programme and the purchase behaviour (somewhat) pushed by the ECB. In principle, we assume that the ECB will not change the key management variables of their monetary policy at their April meeting. Accordingly, we expect neither key rates to be adjusted, nor changes to be made to the terms of the current TLTRO III programme and the securities purchase programmes (PEPP and APP). Finally, the accelerated purchases under the current parametrisation of the PEPP announced for the second quarter of 2021 will be happening. We expect no increase yet in the tiering factor of the ECB's tiered interest rate structure in April – this factor is applied to deposits by commercial banks with the Eurosystem – while at the same time, we are not ruling out the possibility that it might happen later this year. In addition to outlining our expectations regarding the next key rate decision in eight days' time, we also intend to describe briefly the implications for the SSA segment and the covered bond market in this article.

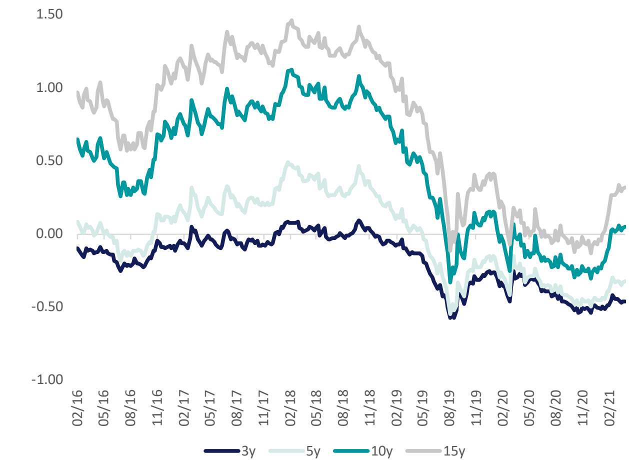
ECB representatives once more signal willingness to act and define their fiscal policy expectations

In the last few days, it was once again mooted in the ECB environment that the European Central Bank – if necessary – would make further use of the free hand granted under its mandate. This, for example, may be in the form of expanded purchasing activities under the PEPP, as ECB president Lagarde recently confirmed. In this context, Lagarde emphasised once more the importance of adequate financing terms and had also stated on another occasion that an early withdrawal of fiscal support risked delaying the recovery and exacerbating the long-term effects of the pandemic. Other high-ranking ECB representatives have not tired of pointing this out either, indicating the necessary fiscal stimuli (cf. interview with Isabel Schnabel). Fabio Panetta drew a comparison with US fiscal policy and warned that Europe needed to make the EU's economic programme workable. Furthermore, he sees a need to consider additional fiscal stimuli. However, it is also worth remembering in this context that economic recovery is closely linked to further progress with the rollout of the vaccination programme. The fact that some market observers are already considering the eventual need to reduce monetary policy stimuli has come too soon for Panetta. In his view, it is necessary to maintain an expansionary course in the current crisis and, where necessary, even step this up at certain times.

ECB: surplus reserves, key rate and LTRO



(Weekly) EUR swap rates

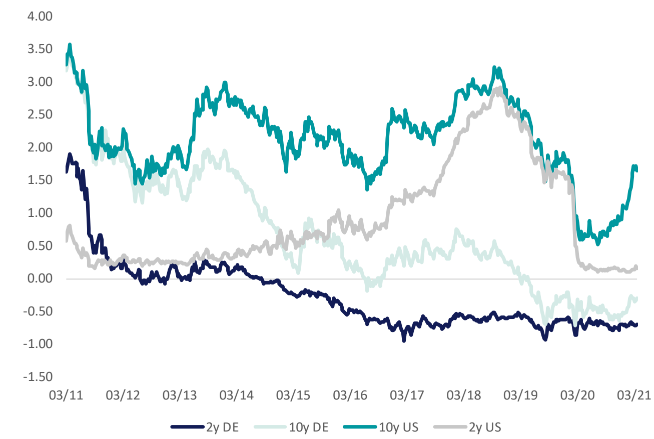


Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

We expect the ECB's monetary policy to remain unchanged

In fact, we also see the ECB continuing its expansionary course, without expecting further concrete adjustments for the time being. To this extent, the April meeting is likely to turn out not to be one of the meetings where the monetary policy decision-makers formulate a new direction. Instead, we would focus on the European Central Bank's assessment of the current situation. We would particularly welcome an indication of the impact of the (subtly) adjusted securities purchases and the effect of the TLTRO III tender – especially in relation to support for real economic activity. In addition, we consider important insights to include assessments of the current situation and a potentially significantly adjusted outlook regarding the economic recovery, the trend in inflation and the future trend in capital market rates. After all, the projections and discussions of the March meeting occurred without taking fully into account the US economic programme. Since significant growth has again been recorded in surplus reserves, comments possibly indicating an adjustment to tiering should not be rated as all too surprising.

Yield trend in the USA and Germany



Yield gap to Bunds (10y)

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

ECB meeting in April – little direct impetus for the SSA segment
The unchanged high level of supply from SSA issuers has been met with an undimmed high level of demand from investors (primary market) and the ECB (secondary market). All major players are comprehensively represented in the market, and the German Laender are also continually approaching investors. In addition to sub-sovereigns, this applies in particular to the usual representatives of the E-supra segment (especially the EU and EIB, as well as the EFSF and ESM) and the KfW. With a monthly amount of fresh money totalling EUR 20bn, the PSPP wrongly is regularly eclipsed by the more recent, yet significantly faster, expanding PEPP.

ECB still yet to provide clarification
We are concerned about discussions regarding ISIN limits, which the ECB imposed on itself in respect of the APP and PSPP. As described several times, the general rule is a limit per issuer or issue of 33%, with the value only rising to 50% for supranationals. As part of the PEPP, the ECB has provided no explanation regarding its stance and refuses transparency. Our enquiry has remained unanswered to date. However, the issue of a blocking minority would be an important topic if new tensions were to arise in the public sector. In this regard, the ECB would do well to provide more transparency, because it largely exists based on its credibility and market confidence. Effective verbal intervention simply is not possible otherwise.

"More of the same" for the covered bond market?
Based on our expectations regarding the April meeting, it is also unlikely that there will be any sustained impetus for the covered bond segment. Overall, the current market environment of the EUR benchmark bond segment should subsequently remain marked by high demand from the Eurosystem and reduced supply. The latter is also manifested by the high take-up as part of the TLTRO III.7 tender, in the run-up to which the phenomenon of retained covered bonds experienced something of a renaissance at some EMU issuers (including in Germany, the Netherlands, Italy, France and Austria). Partly as a consequence of this crowding-out effect regarding public placements, we significantly reduced our supply forecast for 2021 to EUR 78.5bn (previously: EUR 105bn). This results in negative net supply of EUR 58bn. Assuming the purchase rate does not increase considerably for covered bonds and a primary market share of 20%, a negative net supply after ECB primary market purchases of EUR 71.5bn will arise. Negative net supply generally suggests spread tightening based on second-round effects. However, in our view, it is necessary to consider in this context that ASW spreads are already at an extremely low level. It therefore is actually possible that marked tightening could occur for bond issues from non-EMU jurisdictions, which benefit from the relevant second-round effects. At the same time, the dampening effect on issuance behaviour which is triggered by the ECB's monetary policy has an indirect impact on overseas jurisdictions. For example, we have also revised our forecast for bond issues from Canada downwards, as we expect reticence from issuers at the current spread and swap levels. Moreover, given the traditionally rather shorter maturities of Canadian covered bonds, Canadian issuers are likely to want to avoid an issuing yield far in negative territory.

Potential future ECB stimulus for the covered bond market

The only sustained momentum from the ECB we see for the covered bond market in the short to medium term would be in terms of adjusted parametrisation of the TLTRO III tender and tiering. While an upwards adjustment of the multiplier would probably only result in limited effects on the demand for covered bonds, extensive adjustments to TLTRO III tenders (for example with regard to maturity, the relevant financing and best rate) could theoretically deliver far more significant impetus. Nevertheless, we do not expect any adjustments in the next few ECB key rate meetings and would focus on the next TLTRO III tender (TLTRO III.8 in June 2021, cf. ECB calendar). In our opinion, it is rather unlikely that eurozone commercial banks would make strong use of this again. However, in the unexpected event of this happening, increased placement of retained covered bonds by EMU issuers may provide an early clue. A renewed high allocation of TLTRO III to commercial banks in the eurozone would then have to be considered as further negative impetus for our issuance forecast in 2021 and may ultimately extend into 2022.

Information about the strategic review to be provided at year-end

In addition to the short-term to medium-term ECB stimuli for the segments we analyse, the European Central Bank's long-term direction and the monetary policy of the Eurosystem must be assessed. The ECB's strategic review is rather more likely to have significant implications for monetary policy and therefore also the SSA segment and the covered bond market in the medium to long term. The composition of the 13 work streams alone indicates the potential range of the project, which goes far beyond defining and/or maintaining target inflation. The work streams also include topics such as digitisation, employment, globalisation and climate change. In principle, the review focuses on the interplay with monetary policy and the rate of price increases as well as the decision-making variables of the European Central Bank. In our view, the debate regarding possible activities and/or steering in the ESG segment itself shows – by way of example – potential new interactions with the asset classes we analyse in an impressive way. The results of this strategic review are to be expected before the end of the year.

Conclusion and comment

In the run-up to the ECB meeting in the coming week, high-ranking ECB representatives once again gave statements (see above). We neither glorify the inflation debate, nor the possible imminent wave of bankruptcies. Nor do we idealise the scenario, which is currently being played out in the market. However, it is highly likely that Christine Lagarde will be asked about inflation at the press conference in eight days, even if the topic is no longer quite as pressing. According to the latest March forecasts, the ECB expects that its target inflation will be missed in 2023 (an unchanged +1.4%). Inflation rates significantly below the ECB's target are also expected in the preceding years (2021: now +1.5% after 1.0%, 2022: +1.2%). In addition, absolutely nothing unforeseen happened at the turn of the year in terms of a return to previously applicable tax rates and any other potential price-driving elements. Monetary policy adjustments are not therefore likely overall. At the same time, the wording of the press release – once again – is likely to be extremely important. In our assessment, 2021 is set to be dominated by the PEPP and TLTRO.

NORD/LB

Cross Asset
PEPP reporting: First year done; a second (at least) now follows

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

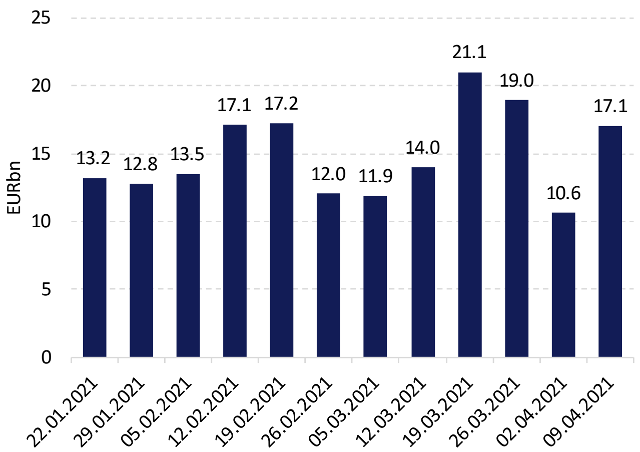
PEPP purchases reached their first birthday on 26 March

A further two months have elapsed under the PEPP and, accordingly, the ECB recently provided its now customary two-monthly PEPP report. The insight into the programme at the end of March also marks the conclusion of the PEPP's first year, as it is now 12 months since security purchases under the programme started. We therefore want not merely to examine the last two months under the PEPP but also to take stock now that the programme has been running for a year. The end of the current month is also halfway through the minimum term currently specified for the PEPP, which was extended until at least March 2022 at the meeting of the Governing Council in December (reinvestments of maturing bonds is also currently expected to continue until at least the end of 2023). Since our last PEPP report (see Covered Bond & SSA View from 10 February 2021), the central bankers in Frankfurt have met once on 11 March, at which point there were no changes to the PEPP or the monetary policy tools, although the ECB announced that it would purchase bonds under the PEPP at a "significantly higher pace" in the second quarter than in the first few months of 2021.

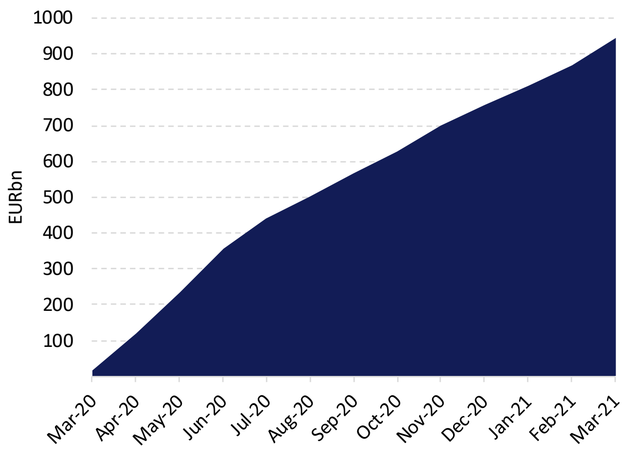
Volume exceeds 50% marker; gross purchases over EUR 1,000bn

At the current reporting date (9 April), the volume of the PEPP came to EUR 960.3bn, which equates to a share of 51.9% in the specified volume of EUR 1,850bn. Since this figure only depicts the current (account) balance of the programme, it is worth looking at gross purchases and maturities in the last twelve months. Here, it becomes clear that bonds worth over one trillion euro have already been purchased under the PEPP (EUR 1,062.1bn). These purchases compared with maturities of approximately EUR 95.9bn, meaning that the proportion of maturities amounted to around 9% of gross purchases and is therefore not inconsiderable. In 2021, assets amounting to EUR 3.2bn matured on average every week. With regard to the reinvestment strategy, it is therefore still not clear to us why the ECB displays such a considerable lack of transparency. Currently, it is only clear that maturities are to be reinvested until the end of 2023 at least. In this connection, the APP shows how, in our opinion, reporting could be made transparent as far as maturities are concerned. Here, the bonds maturing over the next twelve months under the individual sub-programmes are published every month. In comparison with the end of February, the PEPP volume increased by EUR 73.5bn and therefore by +8.4%. Previously, in relative terms over a month, the volume last increased more sharply at the end of November (+11.3%, EUR +70.8bn). In absolute terms, it is the sharpest increase after the period from April to July 2020 since bond purchases started. With the exception of the shortened reporting week around Easter, it is clear from the following chart that the ECB has already increased its purchasing tempo perceptibly since its last meeting in mid-March. We will only be able to assess whether it has already achieved its planned tempo or will accelerate further after more a few more weeks of reporting.

Weekly purchase volume



Trend in the PEPP volume



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

Mathematical purchase tempo virtually achieved

Since the PEPP started at the end of March 2020, the ECB has purchased EUR 17.8bn on average per week under the programme. Although the volumes observed each week are definitely subject to significant fluctuations – such as in phases of little market activity (Christmas or summer holidays) – the current mean results in the EUR 1,850bn being used up in full in mathematical terms "on time" by the end of March 2022. Although the ECB has therefore reached the earliest possible end of net purchases, given the recently promised acceleration in tempo, the mathematical point for reaching EUR 1,850bn is likely to be shifted forwards somewhat initially. However, we do not currently assume that the volume will be increased once more for this reason. Rather, as things stand at present, we expect the tempo to slacken especially towards the end of the programme. Admittedly, the ECB still retains the greatest possible flexibility with regard to the PEPP and once again emphasised that both underutilisation of the EUR 1,850bn volume and a further increase are "equally" likely at the Governing Council meeting in March.

Estimated portfolio development

Assumed future purchase pace	Weekly net purchase volume	PEPP Limit hit in...
Average net weekly purchase volume so far	EUR 17.8bn	50 weeks (25 March 2022)

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

Proportion of public sector assets increased again…

A clear trend is still apparent from the latest figures on the PEPP: the PEPP is being used to purchase public sector assets. Accordingly, the proportion of public sector assets increased from 94.8% to 95.3%, taking it to a new high. The proportion has risen continuously since the programme was launched. In February and March, public sector assets totalling EUR 131.6bn were purchased under the PEPP.

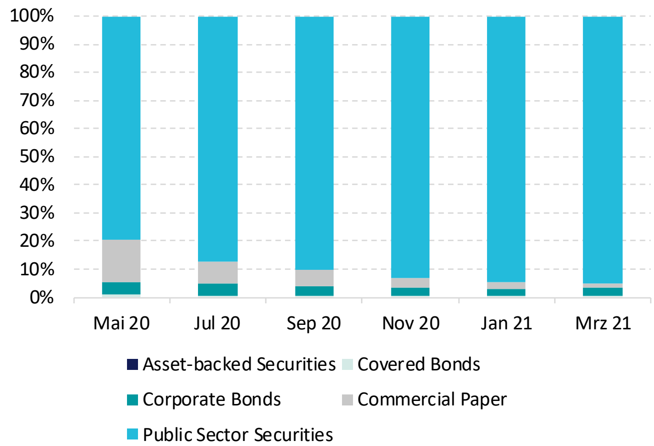
…significant activity in covered bonds

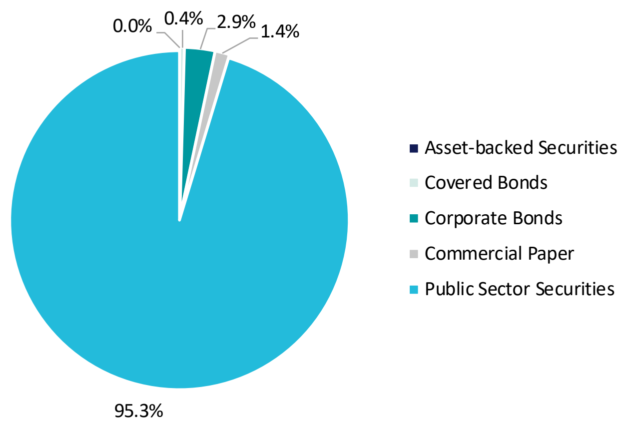
With regard to covered bonds, significant activity was also recorded in comparison with previous months. Assets amounting to EUR 939m were purchased over the past two months compared with just EUR 2m between July 2020 and January 2021. Despite the activity in the covered bond segment, which equates to a positive week for purchases compared with the CBPP3, the proportion of this asset class in the PEPP is unchanged at 0.4%, making it virtually irrelevant.

Volumes of the asset classes (EUR m)

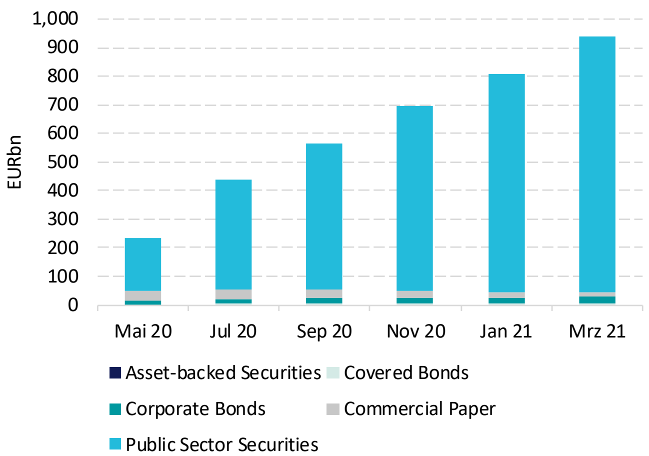
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Jan 2021	0	3,120	22,315	16,611	764,710	806,756
March 21	0	4,055	27,058	12,766	893,844	937,723
Δ	0	+935	+4,743	-3,845	+129,134	+130,967

Portfolio structure

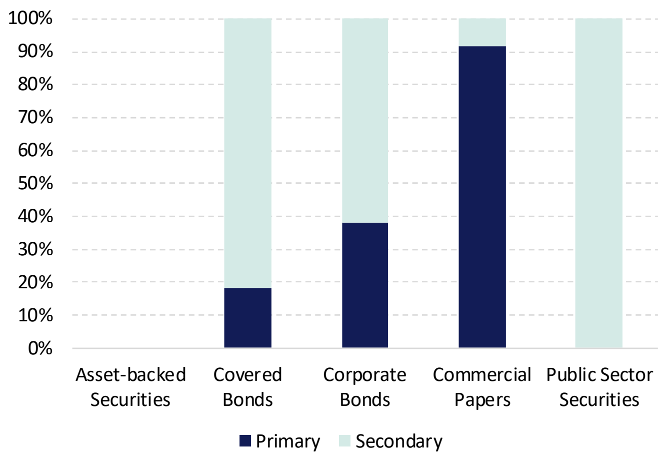




Portfolio development



Share of primary/secondary market purchases



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

PEPP capital key…

To recap, since the structure and set-up of the PEPP differs from that of the PSPP, there are changes to the capital key as well as purchases resulting from maturities, because Greek bonds are eligible to be purchased under the PEPP but excluded from the PSPP. The capital key for Germany is 23.7%, followed by France (18.4%), Italy (15.3%) and Spain (10.7%). Next are supranationals at 10%. At 2.2%, Greece ranks between Austria (2.6%) and Finland (1.7%). If applicable, the ECB will let us know whether the share of supranationals (SNAT) will be increased in the longer term. The increased supply from the EU as a new mega issuer would suggest that the ECB will make some finer adjustments in this respect. At 7.5% (trend rising), the share of SNAT is still sufficiently far away from the 10% envisaged.

…compared with capital key for the PSPP

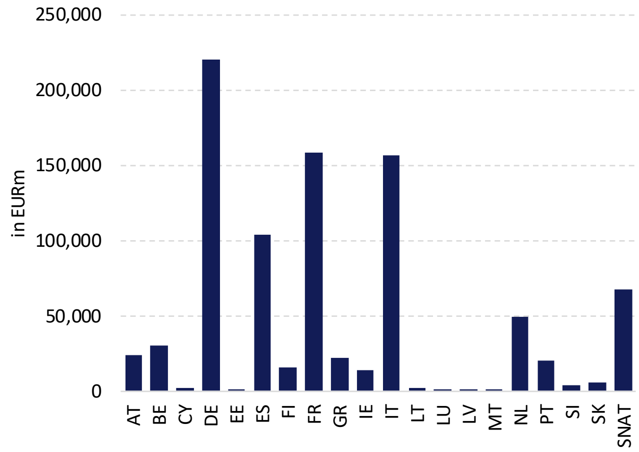
Since the PSPP differs, as explained, from the PEPP in terms of its structure and set-up, adjustments to the capital key result as well as maturity-driven purchases because Greek bonds are not eligible for purchase under the PSPP. The capital key for Germany in relation to this programme is 24.3%, followed by France (18.8%), Italy (15.7%) and Spain (11.0%). Next are supranationals, again at 10%.

Overview of public sector assets under the PEPP

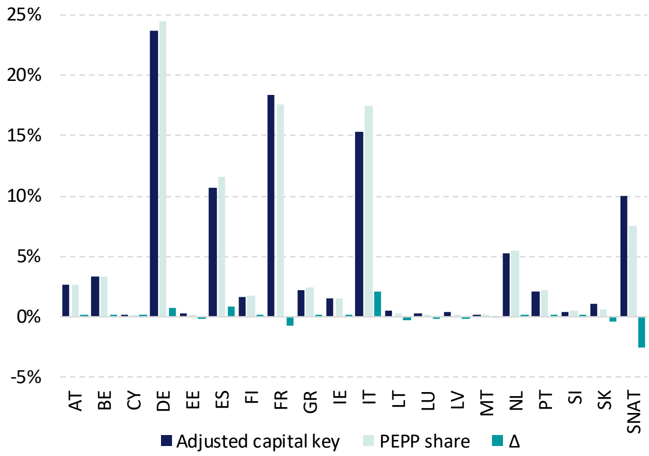
Jurisdiction	Holdings (in EUR m)	Adjusted distribution key[1]	PEPP share	Δ vs. adjusted distribution key[2]	Ø time to maturity (in years)	Market average[3] (in years)	Difference (in years)
AT	24,225	2.6%	2.7%	0.1%	9.7	7.0	2.7
BE	30,478	3.3%	3.4%	0.1%	6.7	9.3	-2.6
CY	1,899	0.2%	0.2%	0.0%	10.1	8.4	1.7
DE	220,519	23.7%	24.5%	0.8%	5.6	6.7	-1.1
EE	255	0.3%	0.0%	-0.2%	8.8	7.5	1.4
ES	104,227	10.7%	11.6%	0.9%	8.4	7.5	0.9
FI	15,347	1.7%	1.7%	0.1%	7.2	7.1	0.1
FR	158,231	18.4%	17.6%	-0.8%	8.4	7.5	0.9
GR	21,936	2.2%	2.4%	0.2%	8.8	10.1	-1.3
IE	14,162	1.5%	1.6%	0.0%	9.0	9.4	-0.4
IT	156,819	15.3%	17.4%	2.1%	6.8	7.0	-0.2
LT	2,365	0.5%	0.3%	-0.3%	11.5	10.2	1.3
LU	1,371	0.3%	0.2%	-0.1%	6.6	6.7	-0.2
LV	1,105	0.4%	0.1%	-0.2%	9.7	9.9	-0.3
MT	290	0.1%	0.0%	-0.1%	7.7	8.1	-0.4
NL	49,023	5.3%	5.4%	0.2%	5.1	7.9	-2.8
PT	20,126	2.1%	2.2%	0.1%	6.7	6.8	-0.1
SI	4,224	0.4%	0.5%	0.0%	9.6	9.5	0.1
SK	5,892	1.0%	0.7%	-0.4%	8.8	8.3	0.6
SNAT	67,236	10.0%	7.5%	-2.5%	10.3	8.2	2.1
Total / Avg.	**899,731**	**100.0%**	**100.0%**	**0.0%**	**7.3**	**7.4**	**0.0**

[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, NORD/LB Markets Strategy & Floor Research

Holdings of public sector bonds by jurisdiction



Deviations from adjusted capital key



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

Nominal holdings of public sector bonds

As is clear from the charts shown above and the preceding table, Germany leads the theoretical and actual ranking of purchases, at over EUR 220bn. Accordingly, German bonds have also been overbought according to the current reporting, which means that there is a positive deviation from the adjusted capital key (+0.8 percentage points or around EUR 7.3bn). Italian bonds have also been bought above the limit since the PEPP started (now down to +2.1 percentage points). We also identified further significant upward deviations in the case of Spain (also down to +0.9 percentage points). The significant downward variations, meaning that too few bonds have been bought, were identified for France (only -0.8 percentage points) and supranationals (now -2.5 percentage points). All other deviations are around the zero line and do not therefore play a significant role.

Monthly PSPP deviations a frequent topic of discussion

In our understanding, the PSPP portfolio has permanently been breathing since 2015. This is also what the ECB is communicating. In addition, the ECB does not consider itself obligated to meet the capital key exactly for its holdings in any one month. This applies not only to the net purchases made in the reporting month. It also applies to the figures recorded since the programme was first set up in 2015. This results from the circumstance that there are maturities in specific jurisdictions which may only be replaced subsequently and this means that, in net terms, portfolio outflows can actually occur instead of net purchases, as the vocabulary would suggest. Discrepancies have occurred and are occurring time and again with regard to the target figures for German, Italian and French as well as supranational bonds. In this respect, market observers are left at a loss as to why purchases were made under the one programme on behalf of the Eurosystem rather than on behalf of the other entity, in order to avoid such discussion in the media (or among market observers). Sometimes the figure is exceeded for the PEPP and there is a shortfall under the PSPP (or vice versa). In addition, we would welcome any positive change in reporting by the ECB, for example to also facilitate providing information about the volume of reinvestments or to discern certain market shortages in good time, as has already been assumed for German and supranational bonds for many years. As a result of combating the pandemic, significantly more securities are available for purchase, particularly in the public sector, than was assumed at the end of 2019 when the APP was restarted and prior to the PEPP being launched.

Aggregated purchase activity under the APP and PEPP (EUR m)

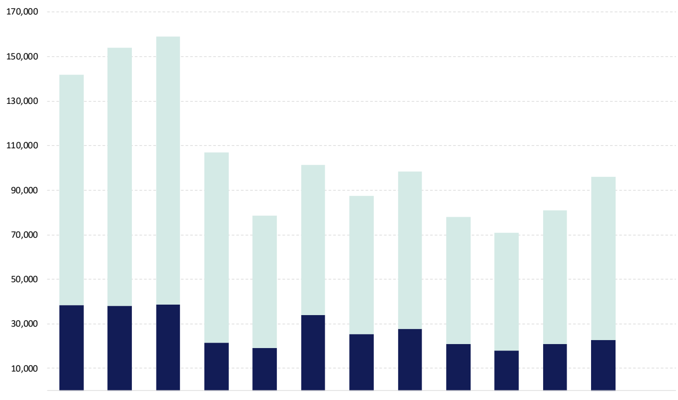
	APP	PEPP	APP & PEPP
Feb 2021	2,947,669	870,126	3,817,795
March 21	2,963,252	943,647	3,906,899
Δ	+15,583	+73,521	+89,104

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

PEPP vs APP – different purposes result in structural differences

A comparison of the two ECB purchase programmes highlights that discrepancies for the various asset classes have slightly increased again in the past two months. While the difference in the proportion of covered bonds has fallen by 0.1 percentage points, the proportion (non-existent in some cases) of ABS remains unchanged in both programmes and therefore at a difference of one percentage point. In contrast, the difference with regard to the proportions of corporate sector assets increased from 3.9 percentage points to 4.7 percentage points, whereby proportionately more corporate sector assets are located in the APP. While the proportion increased slightly in the APP, the trend under the PEPP was slightly contrary. With regard to public sector assets, it is clear, as mentioned previously, that the proportion in the PEPP has increased again. At the same time, there was a marginal decrease in the proportion of these assets in the APP from 80.5% to 80.3%. Consequently, the delta between the two programmes increased from 14.3 to 15.0 percentage points. It should be taken into account that these differences are in line with the different objectives of the two purchase programmes. The APP is run with the intention of achieving stability in pricing levels, whereas the purpose of the PEPP is far more focused on the short term and aimed at counteracting the negative impacts of the pandemic. Broader market intervention via the APP is therefore just as understandable as the concentration on advantageous funding terms in the public sector, as the relevant offers and measures at state and subnational levels in addition to supranational institutions were taken in this segment, in particular. Support for the financial and corporate sectors, we believe, is provided by the current TLTRO III tender (which was also extended on 10 December 2020) as well as purchasing activities under the APP in the form of the CBPP3 and CSPP.

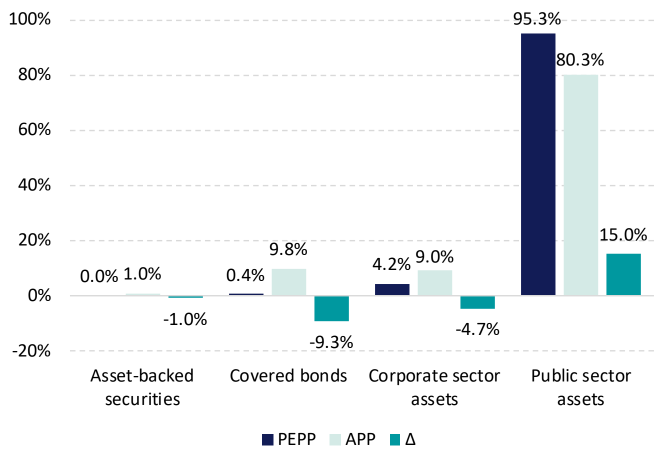
Monthly net purchases in EUR m (PEPP & APP)



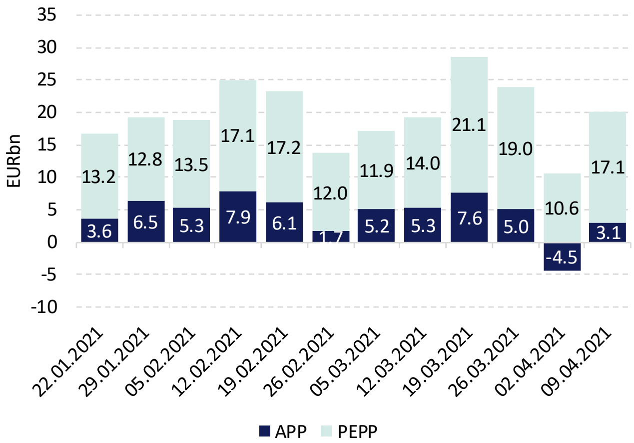
	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	∑
∑	141,807	154,025	159,091	106,952	78,593	101,322	87,334	98,555	78,092	70,892	80,829	96,088	1,253,580
PEPP	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	73,521	928,203
APP	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,915	22,567	325,377

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

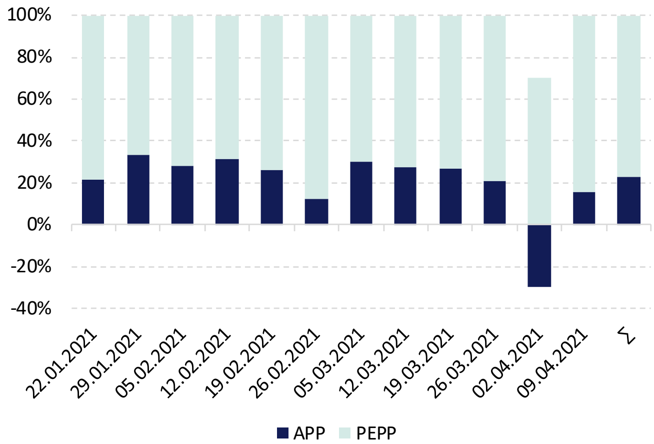
PEPP vs. APP: portfolio shares



Weekly purchase volume



Distribution of weekly purchases



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

Conclusion and outlook

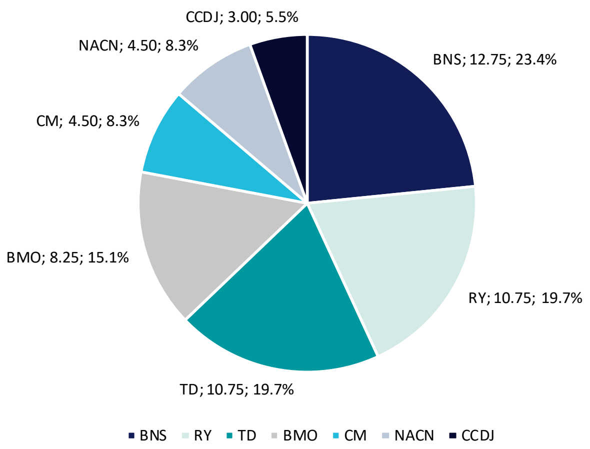
Just over a year since the ECB started purchasing securities under the PEPP, it is again clear from the recently published figures that the PEPP is being used to purchase public sector assets. While more corporate sector assets (especially commercial paper) were purchased when the programme started, the proportion of assets not attributable to the public sector now stands at below 5%. Although the volume of PEPP accounted for around a quarter of the cumulative volume of the PEPP and APP at the end of March, it is clear from the purchasing activity in the last twelve months that 75% of net purchases were conducted in the name of the PEPP. Looking forward, following the announcements by the central bankers at the last meeting of the Governing Council, this trend is likely to escalate initially, since purchases under the PEPP are expected to step up several gears in the current second quarter than in the first quarter. Even though the ECB attributed equal weight to the possibilities of renewed expansion of the programme and an underutilisation of the total volume of EUR 1,850bn at this meeting, we currently see no grounds for adjustments to the PEPP either in terms of the timeline or volume. We will outline our expectations for the next ECB meeting next week in this issue in a separate article.

Covered Bonds
OSFI abandons temporarily increased 10% limit with immediate effect: (in)direct implications for Canadian benchmarks

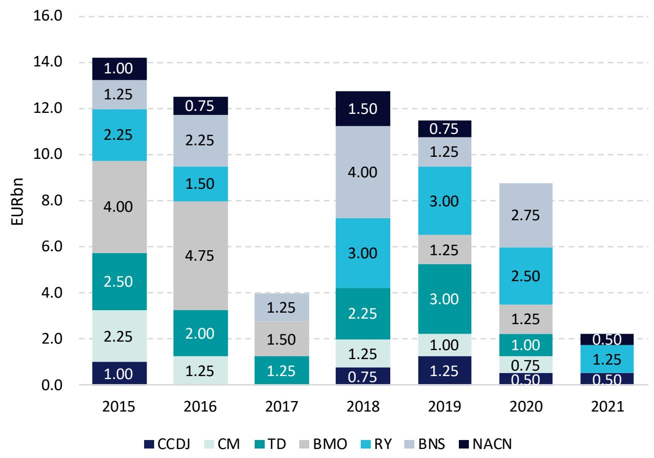
Author: Dr Frederik Kunze

10% OSFI limit is history; what is going on in the Canadian EUR benchmark segment?
On 6 April 2021, the Canadian Office of the Superintendent of Financial Institutions (OSFI) declared that the 10% limit in relation to total assets for the issuance of covered bonds not placed on the market, which was introduced in March 2020 in the wake of the onset of the coronavirus pandemic, was no longer applicable with immediate effect. In the period of significantly increased uncertainty, the financial regulator pursued the objective of ensuring that the banking sector had sufficient liquidity with the increased limit combined with the option of using retained covered bonds denominated in Canadian dollars as eligible "own-name" collateral for money market operations. As early as October 2020, the Bank of Canada announced that, among others, own-name covered bonds were no longer included in the group of assets eligible for money market operations. In this respect, we understand the latest announcement by the OSFI as the logical next step, which is also likely to have implications for the composition of Canadian cover pools. Within the present article, we intend to provide you with a brief overview of the Canadian EUR benchmark segment with its seven active issuers and subsequently look at the direct and indirect implications of the decision by the OSFI.

Canada: outstanding volume by issuer



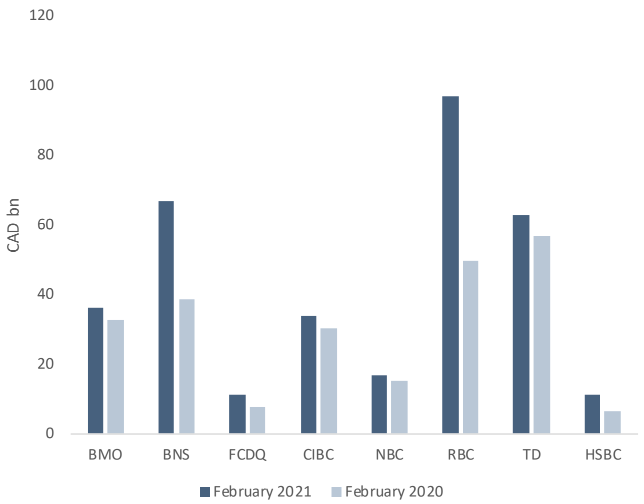
Canada: issues by year



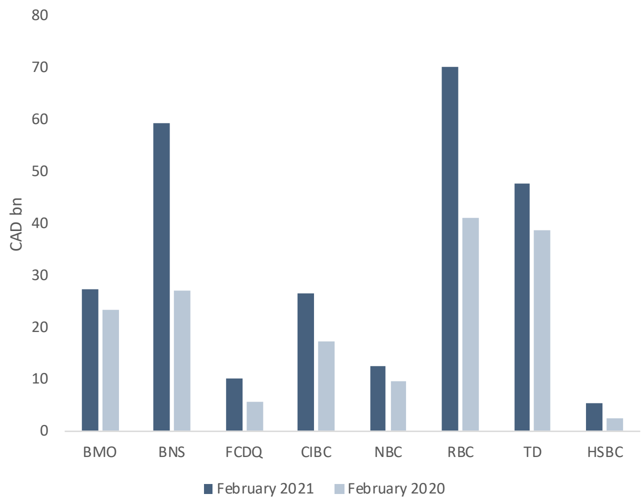
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Canadian EUR benchmark segment: outstanding volume of EUR 54.5bn
The Canadian benchmark segment currently comprises a volume of EUR 54.5bn. In the current year, three issuers were active on the market, namely Fédération des caisses Desjardins du Québec (FCDQ, ticker: CCDJ), Royal Bank of Canada (RBC, ticker: RY) and the National Bank of Canada (NBC, Ticker: NACN), printing bonds in the amount of EUR 500m (FCDQ and NBC) and EUR 1.25bn (NACN).

Cover pool volumes Canadian BMK issuers



Covered bond volumes Canadian BMK issuers

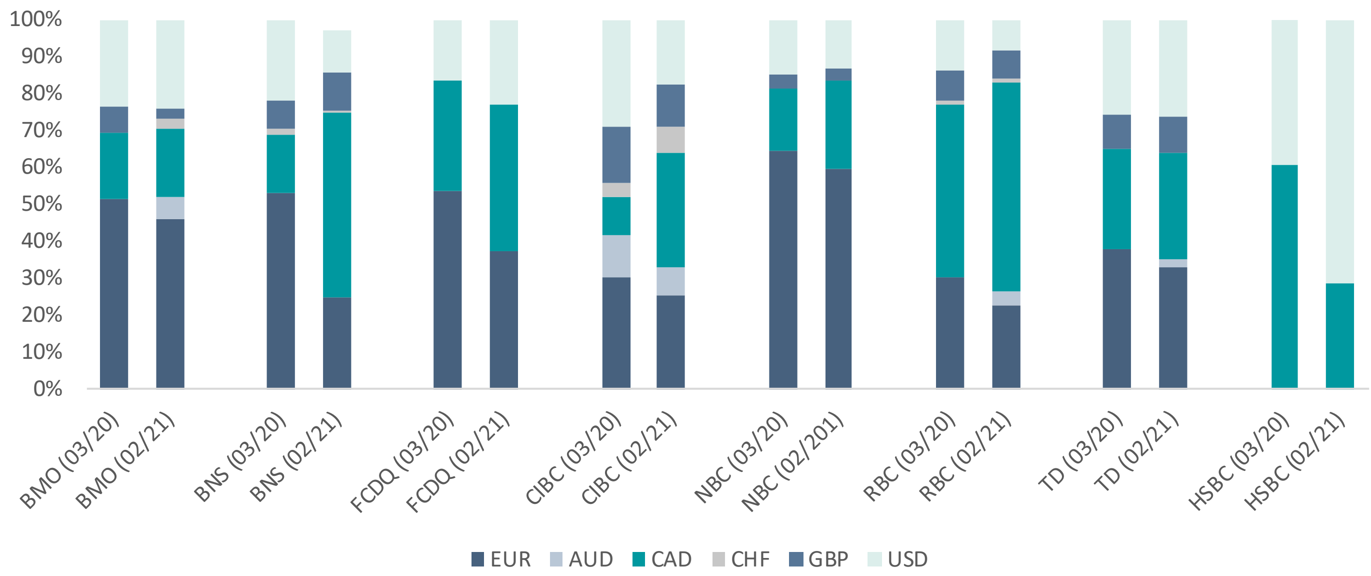


Source: Issuer, NORD/LB Markets Strategy & Floor Research

Shifts in cover pool currencies due to regulatory control parameters that have since been amended and central bank requirements

The adjusted requirements of the OSFI in conjunction with the temporary adjustments by the Bank of Canada have resulted in some changes both with regard to the size of cover pools and in relation to covered bond issues. Accordingly, cover pools have, in some cases, expanded significantly in terms of volume, while there has also been a marked upswing in the volume of outstanding covered bonds. The direct link to eligibility for money market operations is apparent from the significantly higher proportions of CAD issues. The extensive retained issues in 2020, which are estimated at CAD 60bn on the basis of Bloomberg figures – spread across the months of March (CAD 40bn), April (CAD 7bn), May (CAD 6bn) and June (CAD 7bn) – are also connected with this. In the current year – in contrast to the eurozone – the lack of eligibility for money market operations means that Canadian issuers have not issued any further retained covered bonds. In this respect, we would also expect the substantial proportions of CAD-denominated covered bonds observable in Canadian issuers' current cover pool reports (reporting date: 28 February 2021) will also fall in favour of EUR and USD issues as well as placements in GBP and AUD. In this context, we also assume that issuers are likely to turn to the EUR benchmark segment, in particular, and rate the latest issues as a suitable indicator of this. Nevertheless, we expect more momentum in the Canadian EUR benchmark segment in the second half of the year. This expectation is based, among other factors, on the fact that the economic recovery should strengthen in this period too. In this context a modest increase in funding requirements is also likely to emerge, which can be explained by a fall in deposits at the country's commercial banks. For 2021 as a whole, a volume of EUR 6.5bn is anticipated in the context of our recently amended issuance forecast, which, given anticipated maturities of EUR 7.5bn, implies a negative net supply (EUR -1.0bn). For the remainder of the current year, we therefore expect new issues of EUR 4.25bn.

Benchmark issuers Canada: covered bond distribution by currency according to HTT (Feb 2021/March 2020)



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

OSFI not to be regarded as a bottleneck

With regard to the OSFI limit for market placements (including EUR benchmarks) of 5.5%, we currently see no signs of a bottleneck caused by regulatory factors among the active EUR benchmark issuers or even HSBC Bank Canada. Issuers have significant issuance potential. In actual fact, we are still of the opinion that new issuers could venture onto the market in the medium to long term as a result of an increased need for funding and could also turn to the EUR benchmark segment in future.

Overview: Canadian benchmark issuers (reporting date: 28 Feb. 2021)

Issuer[1]	Cover pool volume (CAD m)		Total outstanding (CAD m)		OC		OC[2] CMHC Guide		OSFI Limit[3]		OSFI Limit (temporary)[4]	
	February 2021	February 2020	February 2021	February 2020	February 2021	February 2020	February 2021	February 2020	CB ratio	CB ratio limit	CB ratio	CB ratio limit
BMO	36,118	32,481	27,261	23,353	32.5%	39.1%	7.0%	7.0%	2.7%	5.5%	3.0%	10.0%
BNS	66,893	38,540	59,556	27,134	12.3%	42.0%	6.4%	6.4%	2.7%	5.5%	5.4%	10.0%
FCDQ	11,144	7,516	10,109	5,757	10.2%	30.6%	NA	4.7%	2.1%	5.5%	3.5%	10.0%
CIBC	33,988	30,383	26,453	17,284	28.5%	75.8%	7.4%	7.4%	2.5%	5.5%	3.6%	10.0%
NBC	16,928	15,240	12,546	9,626	34.9%	58.3%	9.1%	9.1%	3.0%	5.5%	4.0%	10.0%
RBC	96,995	49,746	70,388	41,171	37.8%	20.8%	NA	7.7%	2.4%	5.5%	4.5%	10.0%
TD	62,763	56,837	47,777	38,808	31.4%	46.5%	5.3%	5.3%	2.3%	5.5%	2.9%	10.0%
HSBC	11,048	6,258	5,230	2,329	111.2%	168.7%	NA	10.4%	3.5%	5.5%	4.9%	10.0%

Source: issuers, rating agencies, NORD/LB Markets Strategy & Floor Research; [1] the benchmark issuers considered are uniformly rated AAA / Aaa / AAA (Fitch / Moody's/ S&P), the applicable risk weighting is therefore 20% and the LCR Level is, in our opinion, 2a; [2] OC as a basis for OSFI limit; [3] OSFI covered bond ratio relates, according to the OSFI letter from 23.5.2019, to the total risk assets, which are used as cover for covered bonds issued on the market, in relation to the issuer's total assets reported on the balance sheet; [4] As a result of the OSFI announcement of 27 March 2020, the upper limit for the proportion of covered bonds was temporarily raised to 10% to allow access to the facilities of the Bank of Canada, although the cover assets subject to market instruments was still limited to 5.5% of total assets at the same time. The temporary 10% limit has no longer been valid since 6 April 2021.

Conclusion

Our assessment is that the retraction of the 10% OSFI limit will have no direct implications for the EUR benchmark segment. However, we see an analogy to the eurozone in that the link between retained issues and public placements may favour EUR benchmark issues from Canada from now on. Nonetheless, we would tend to expect modest levels of primary market activity in 2021. Substantial customer deposits as well as the current ASW spread and swap levels, which would result in an undesirably low issue yield with the traditionally rather shorter maturities of Canadian benchmarks, are likely to lead to issuance activity shifting more to the second half of 2021 – or even into the following year. With regard to spreads, there is then likely to be further tightening potential for Canadian EUR benchmarks.

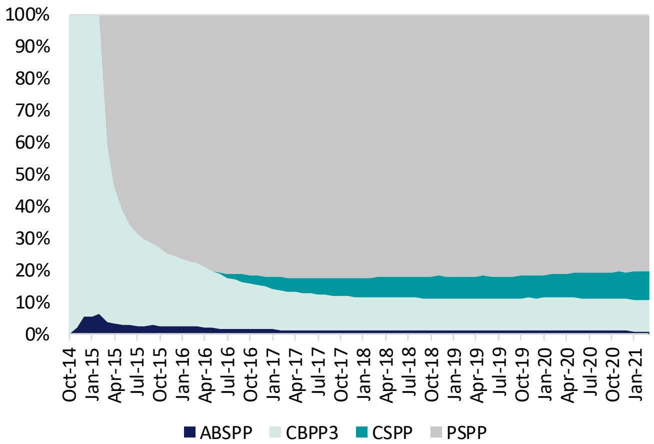
ECB tracker

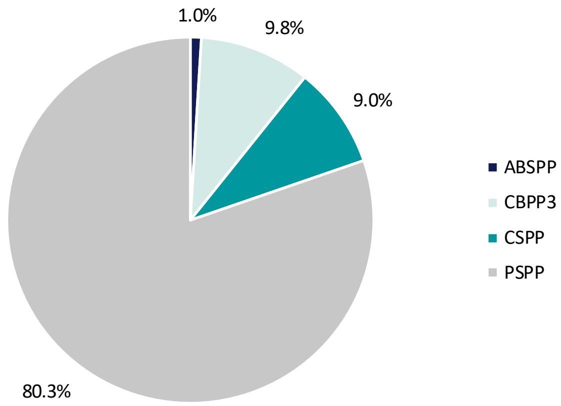
Asset Purchase Programme (APP)

Holdings (in EURm)

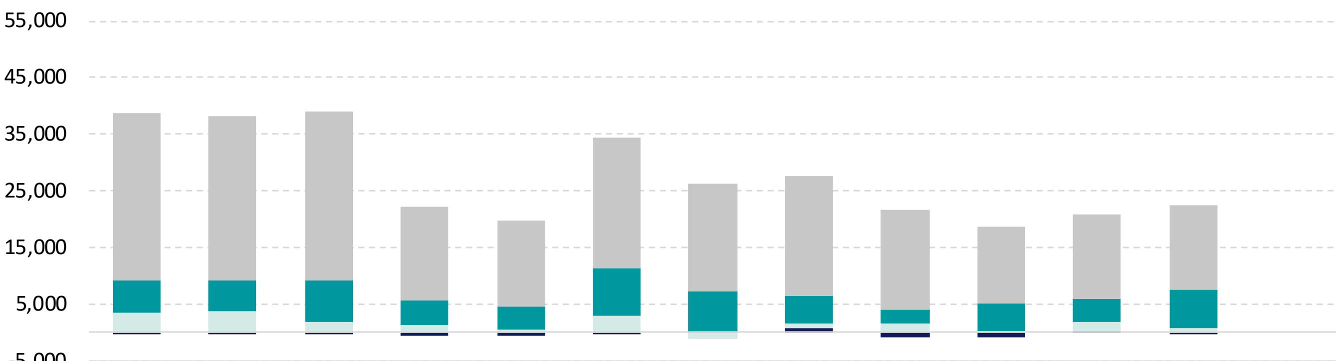
	ABSPP	CBPP3	CSPP	PSPP	APP
Feb-21	28,728	289,158	259,391	2,370,392	2,947,669
Mar-21	28,716	289,424	266,060	2,379,053	2,963,252
Δ	-12	+266	+6,669	+8,661	+15,583

Portfolio structure





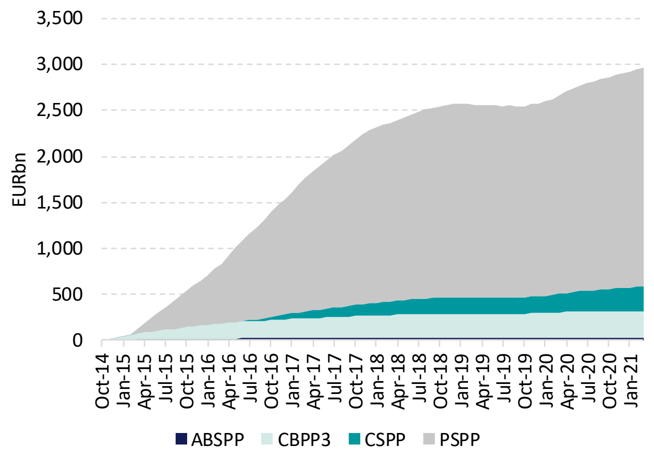
Monthly net purchases (in EURm)



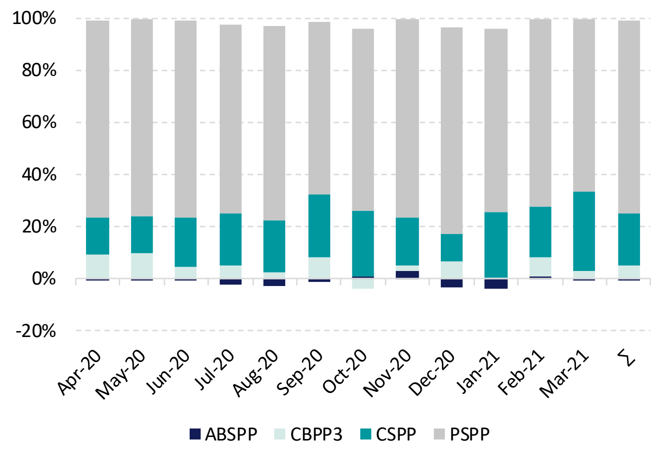
	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	∑
APP	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,915	22,567	325,377
PSPP	29,624	28,961	29,779	16,370	15,150	23,102	19,182	21,241	17,822	13,655	15,129	14,955	244,970
CSPP	5,560	5,438	7,515	4,502	4,004	8,496	6,983	5,009	2,378	4,924	4,064	6,929	65,802
CBPP3	3,582	3,785	1,731	1,198	500	2,839	-1,041	646	1,529	74	1,539	684	17,066
ABSPP	-325	-14	-255	-541	-527	-423	225	824	-800	-807	183	-1	-2,461

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

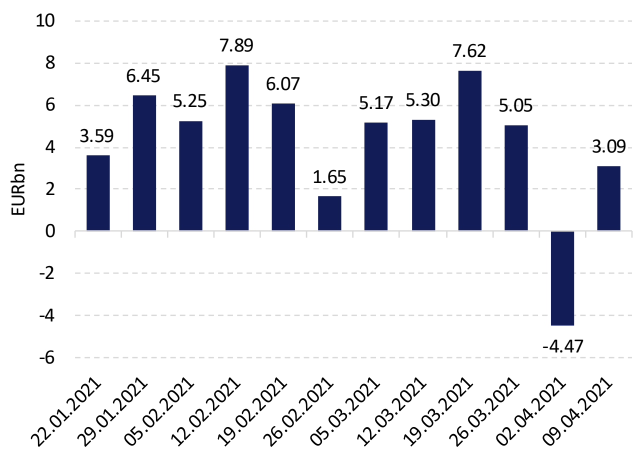
Portfolio development



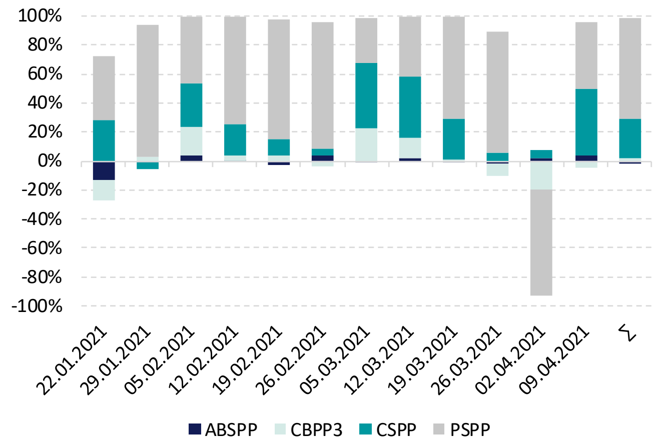
Distribution of monthly purchases



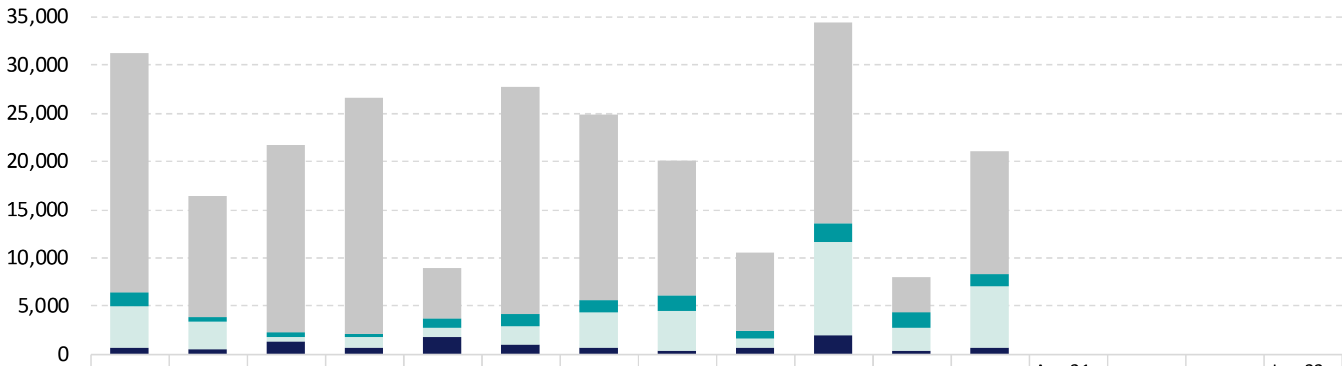
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

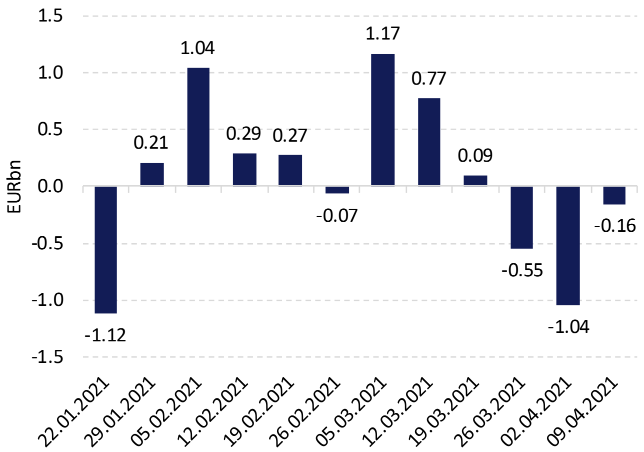


	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-21 - Mar-22	2020	2021	Jan-22 - Mar-22
APP	31,330	16,471	21,747	26,602	8,890	27,788	24,887	20,133	10,597	34,448	7,984	20,995	251,872	262,253	246,554	63,427
PSPP	24,919	12,637	19,519	24,535	5,118	23,642	19,227	13,994	8,177	20,906	3,625	12,603	188,902	201,482	189,750	37,134
CSPP	1,433	464	486	334	966	1,272	1,280	1,673	826	1,915	1,544	1,416	13,609	18,267	16,142	4,875
CBPP3	4,278	2,894	367	1,132	1,002	1,902	3,749	4,044	937	9,647	2,442	6,297	38,691	33,236	30,095	18,386
ABSPP	700	476	1,375	601	1,804	972	631	422	657	1,980	373	679	10,670	9,268	10,567	3,032

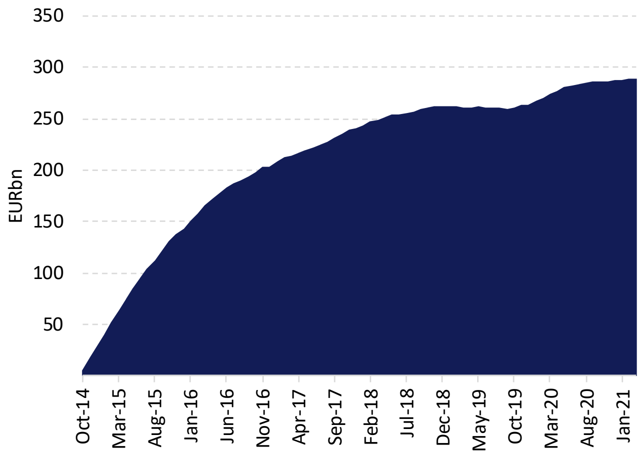
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

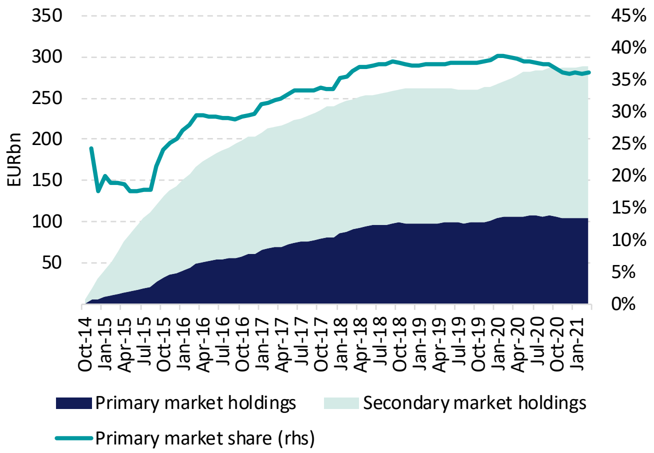
Weekly purchases



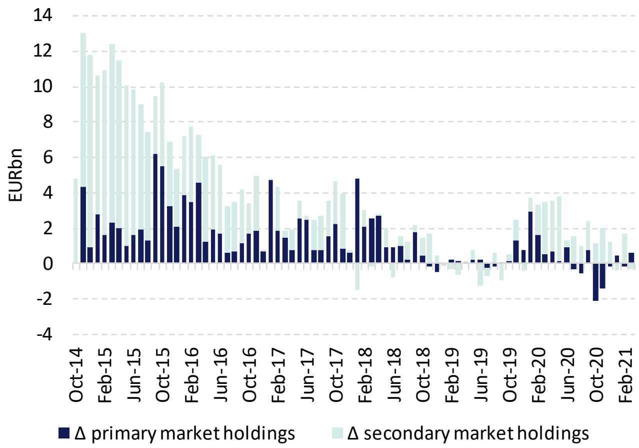
Development of CBPP3 volume



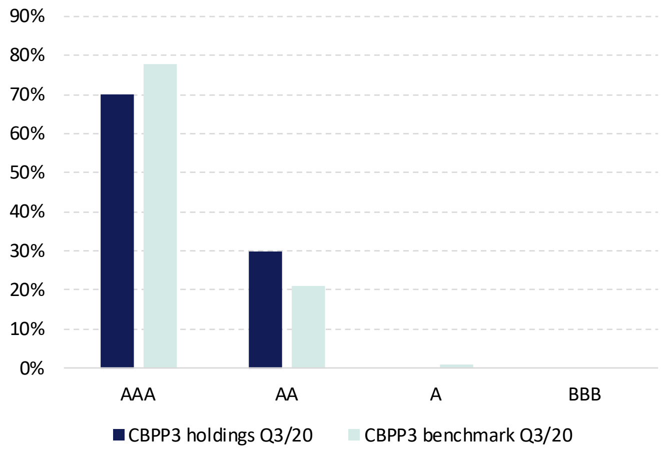
Primary and secondary market holdings



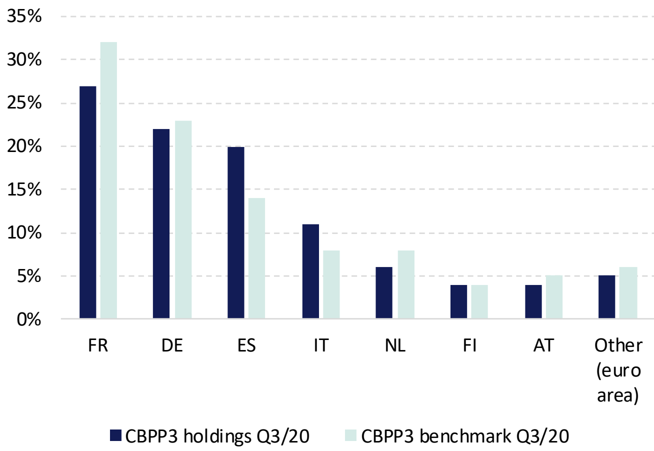
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



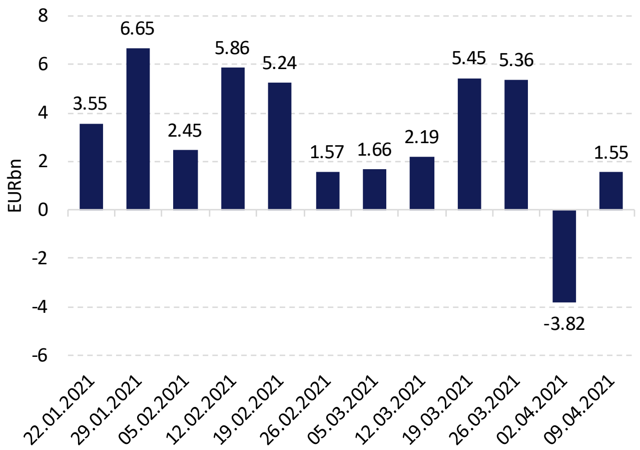
Distribution of CBPP3 by country of risk



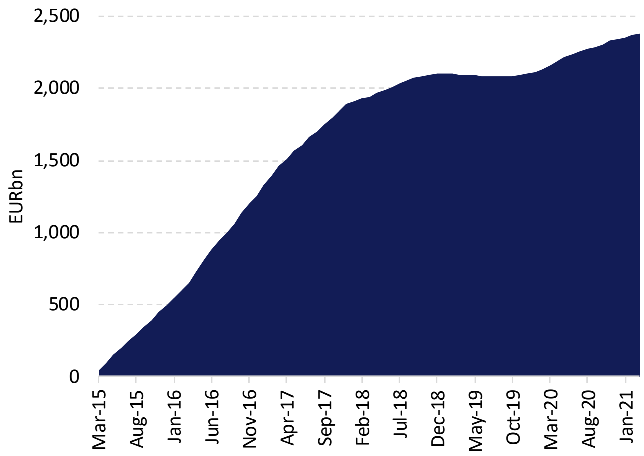
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



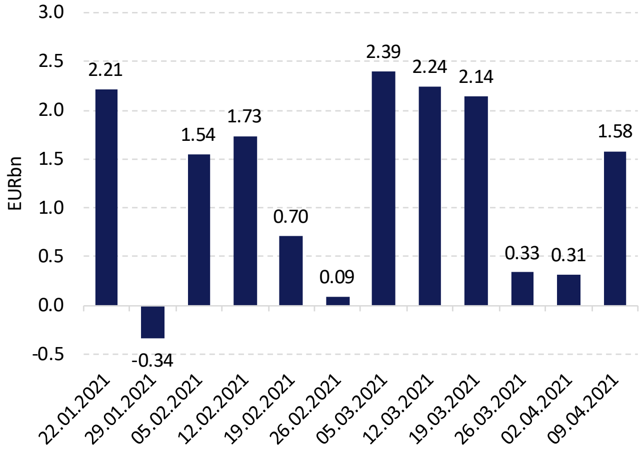
Overall distribution of PSPP buying at month-end

Jurisdiction	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Avg. time to maturity[3] (in years)	Market average[3] (in years)[3]	Difference (in years)
AT	2.7%	69,985	67,711	2,274	7.8	7.8	0.0
BE	3.4%	88,296	84,283	4,013	8.4	10.2	-1.8
CY	0.2%	3,524	4,978	-1,454	10.0	9.3	0.7
DE	24.3%	592,995	609,844	-16,849	6.5	7.6	-1.1
EE	0.3%	351	6,517	-6,166	9.7	9.7	0.0
ES	11.0%	293,850	275,863	17,987	8.2	8.5	-0.3
FI	1.7%	37,236	42,494	-5,258	7.2	7.9	-0.7
FR	18.8%	494,798	472,494	22,304	7.0	8.1	-1.1
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	38,563	39,174	-611	8.6	9.9	-1.3
IT	15.7%	421,580	393,011	28,569	7.1	7.8	-0.7
LT	0.5%	4,793	13,389	-8,596	9.5	11.3	-1.8
LU	0.3%	3,230	7,620	-4,390	5.0	6.5	-1.5
LV	0.4%	2,706	9,014	-6,308	10.1	10.5	-0.4
MT	0.1%	1,226	2,426	-1,200	10.1	9.2	0.9
NL	5.4%	120,754	135,575	-14,821	7.5	8.4	-0.9
PT	2.2%	47,379	54,145	-6,766	7.2	7.6	-0.4
SI	0.4%	9,204	11,139	-1,935	9.4	9.3	0.1
SK	1.1%	15,190	26,494	-11,304	8.4	8.6	-0.2
SNAT	10.0%	261,198	250,686	10,512	7.2	8.3	-1.1
Total / Avg.	**100.0%**	**2,506,856**	**2,506,856**	**0**	**7.2**	**8.1**	**-0.9**

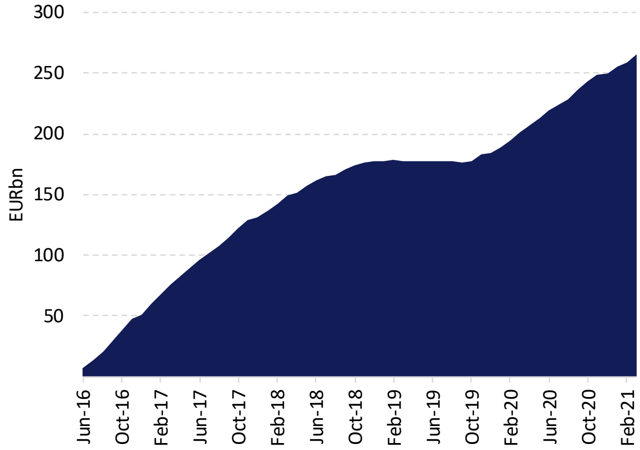
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q3/2020)
Source: ECB, NORD/LB Markets Strategy & Floor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

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

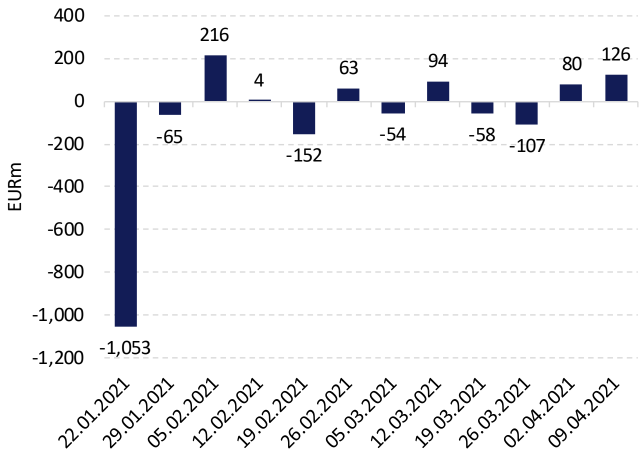


Development of CSPP volume

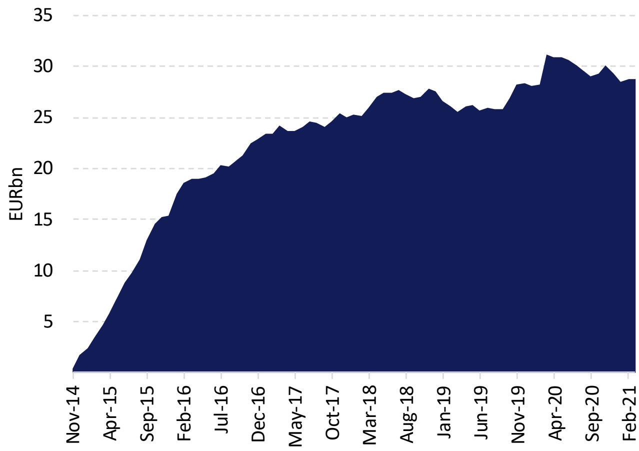


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



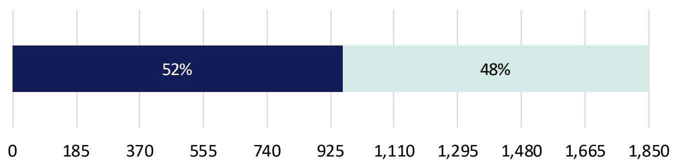
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Feb-21	870,126
Mar-21	943,647
Δ	+73,521

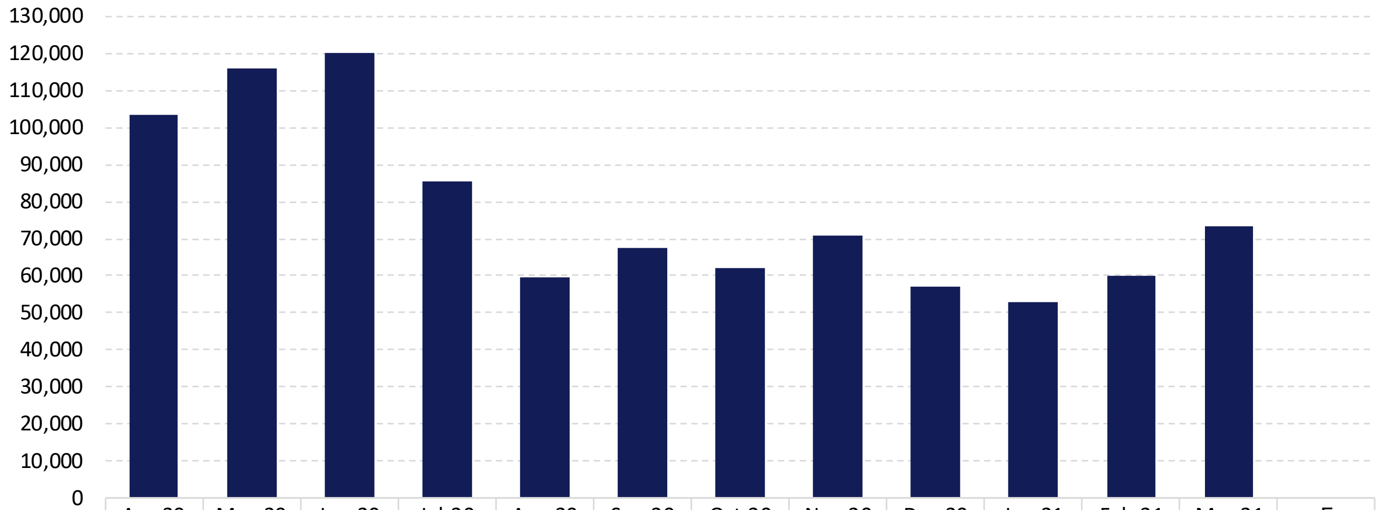
Volume already invested (in EURbn)



Estimated portfolio development

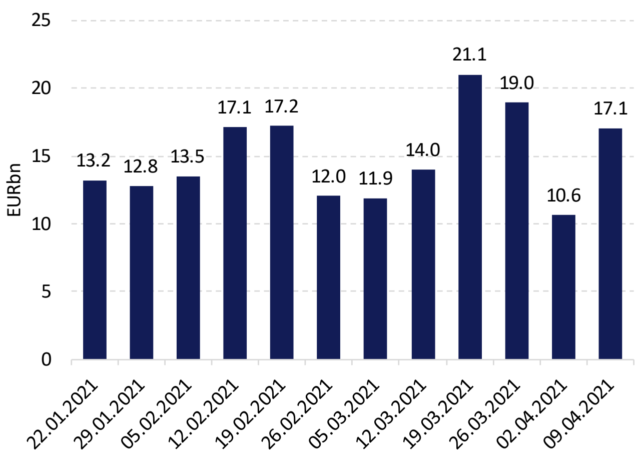
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in …
Average weekly net purchase volume so far	EUR 17.8bn	50 weeks (25.03.2022)

Monthly net purchases (in EURm)

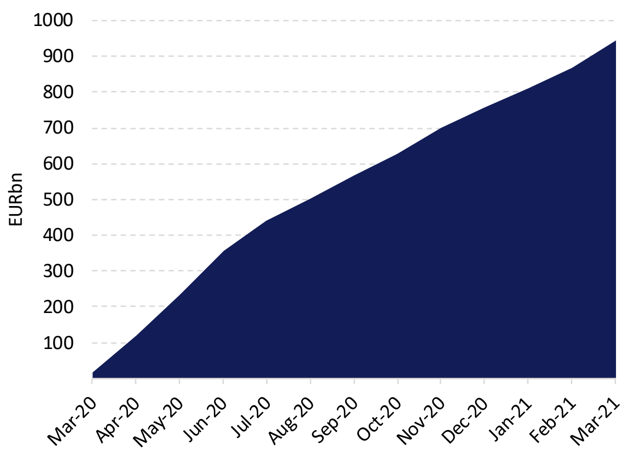


	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	∑
■ PEPP	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	73,521	928,203

Weekly purchases



Development of PEPP volume

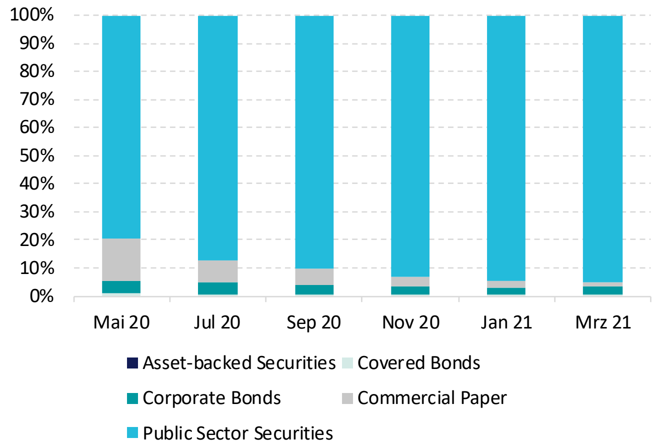


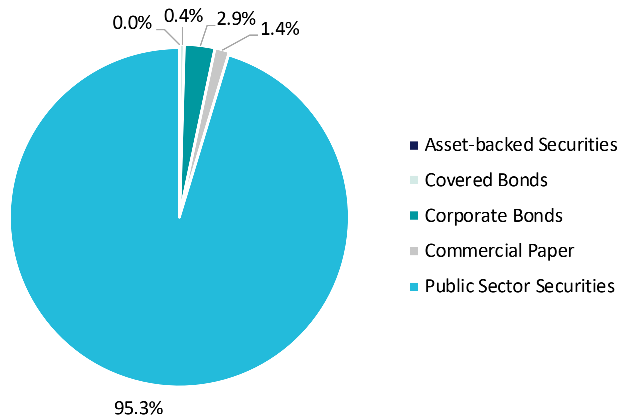
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

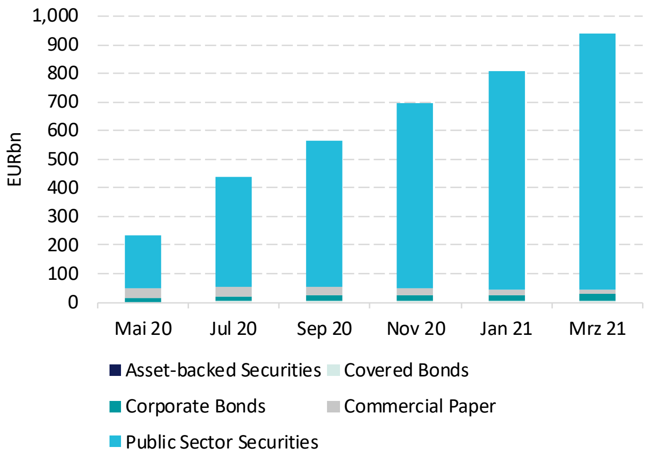
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
Jan-21	0	3,120	22,315	16,611	764,710	806,756
Mar-21	0	4,055	27,058	12,766	893,844	937,723
Δ	0	+935	+4,743	-3,845	+129,134	+130,967

Portfolio structure

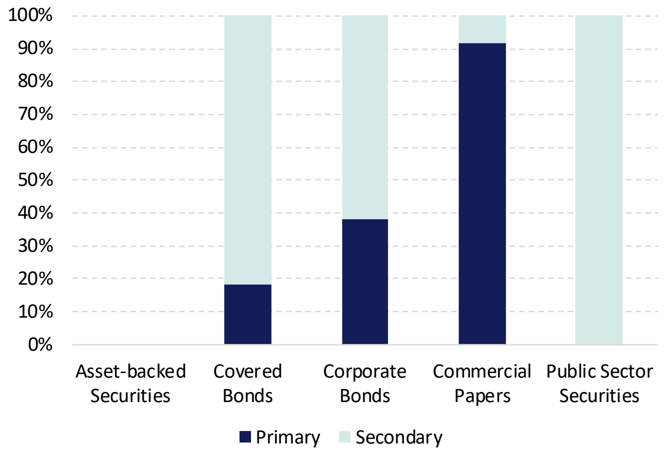




Portfolio development



Share of primary and secondary market holdings



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

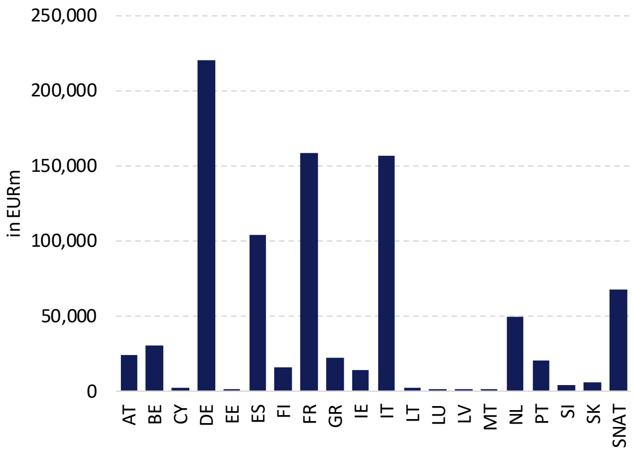
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	745	3,310	10,333	16,725	11,716	1,050
Share	0.0%	0.0%	18.4%	81.6%	38.2%	61.8%	91.8%	8.2%

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

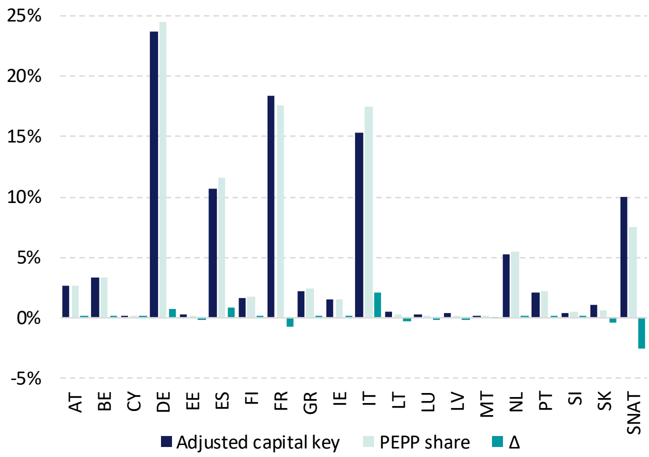
Breakdown of public sector securities under the PEPP

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	24,225	2.6%	2.7%	0.1%	9.7	7.0	2.7
BE	30,478	3.3%	3.4%	0.1%	6.7	9.3	-2.6
CY	1,899	0.2%	0.2%	0.0%	10.1	8.4	1.7
DE	220,519	23.7%	24.5%	0.8%	5.6	6.7	-1.1
EE	255	0.3%	0.0%	-0.2%	8.8	7.5	1.4
ES	104,227	10.7%	11.6%	0.9%	8.4	7.5	0.9
FI	15,347	1.7%	1.7%	0.1%	7.2	7.1	0.1
FR	158,231	18.4%	17.6%	-0.8%	8.4	7.5	0.9
GR	21,936	2.2%	2.4%	0.2%	8.8	10.1	-1.3
IE	14,162	1.5%	1.6%	0.0%	9.0	9.4	-0.4
IT	156,819	15.3%	17.4%	2.1%	6.8	7.0	-0.2
LT	2,365	0.5%	0.3%	-0.3%	11.5	10.2	1.3
LU	1,371	0.3%	0.2%	-0.1%	6.6	6.7	-0.2
LV	1,105	0.4%	0.1%	-0.2%	9.7	9.9	-0.3
MT	290	0.1%	0.0%	-0.1%	7.7	8.1	-0.4
NL	49,023	5.3%	5.4%	0.2%	5.1	7.9	-2.8
PT	20,126	2.1%	2.2%	0.1%	6.7	6.8	-0.1
SI	4,224	0.4%	0.5%	0.0%	9.6	9.5	0.1
SK	5,892	1.0%	0.7%	-0.4%	8.8	8.3	0.6
SNAT	67,236	10.0%	7.5%	-2.5%	10.3	8.2	2.1
Total / Avg.	**899,731**	**100.0%**	**100.0%**	**0.0%**	**7.3**	**7.4**	**0.0**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



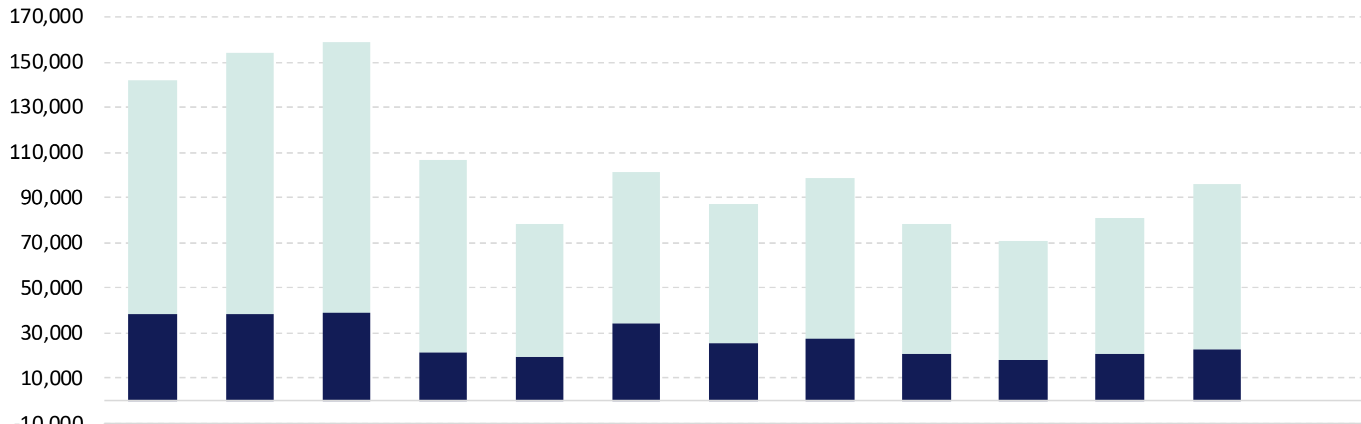
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

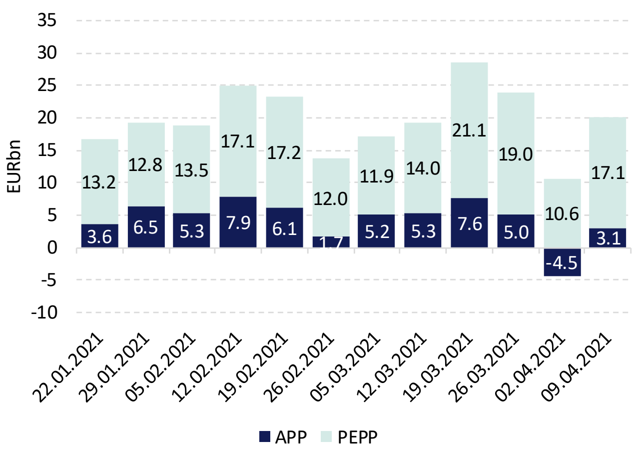
	APP	PEPP	APP & PEPP
Feb-21	2,947,669	870,126	3,817,795
Mar-21	2,963,252	943,647	3,906,899
Δ	+15,583	+73,521	+89,104

Monthly net purchases (in EURm)

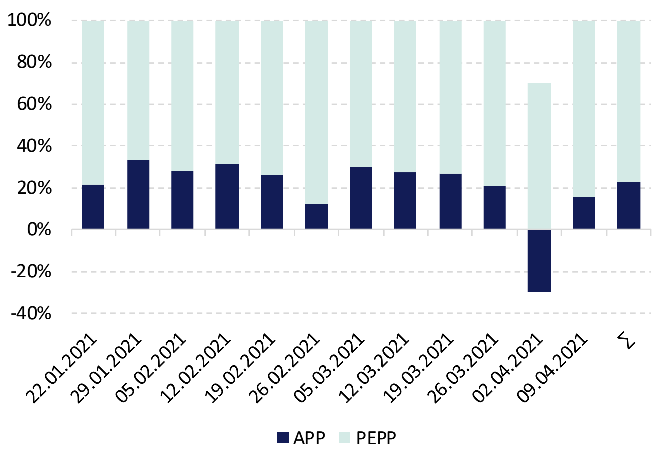


	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	∑
∑	141,807	154,025	159,091	106,952	78,593	101,322	87,334	98,555	78,092	70,892	80,829	96,088	1,253,58
PEPP	103,366	115,855	120,321	85,423	59,466	67,308	61,985	70,835	57,163	53,046	59,914	73,521	928,203
APP	38,441	38,170	38,770	21,529	19,127	34,014	25,349	27,720	20,929	17,846	20,915	22,567	325,377

Weekly purchases



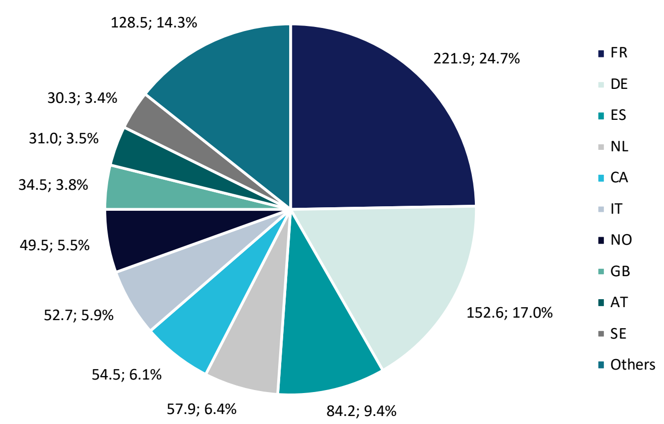
Distribution of weekly purchases



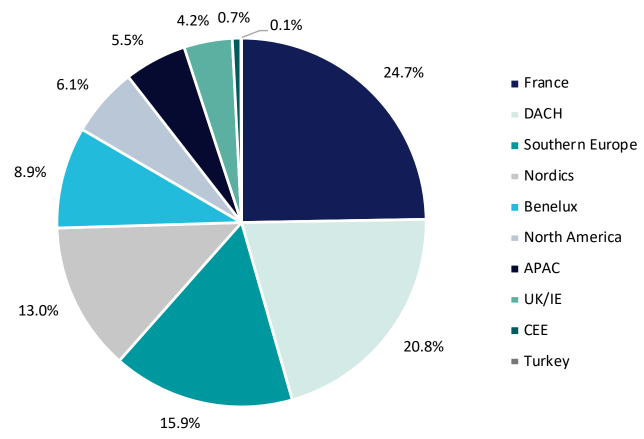
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



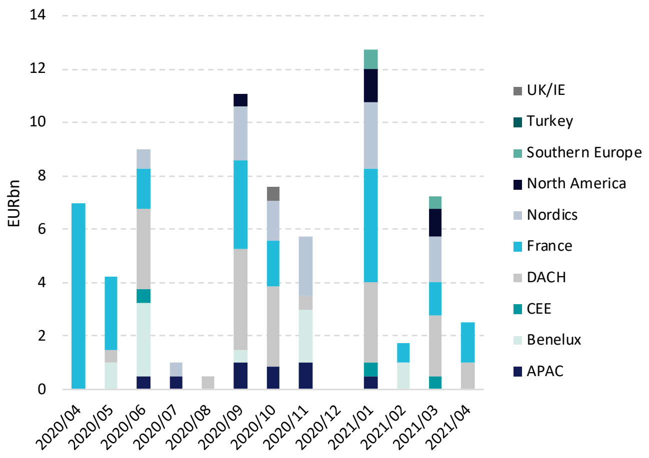
EUR benchmark volume by region (in EURbn)



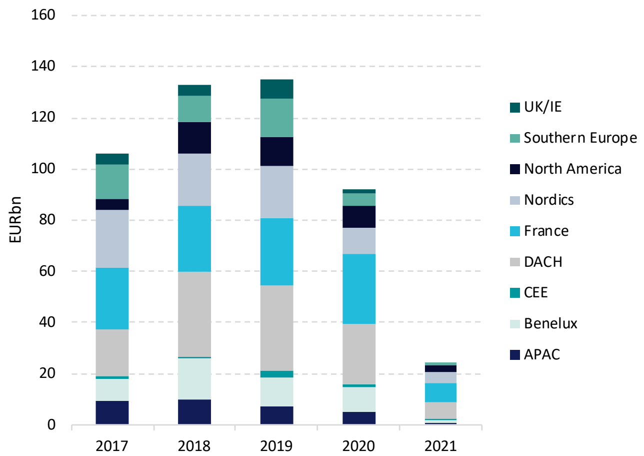
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	221.9	205	7	0.96	10.2	5.6	1.13
2	DE	152.6	227	13	0.61	8.3	4.7	0.45
3	ES	84.2	69	3	1.13	11.2	3.9	1.77
4	NL	57.9	58	0	0.94	11.3	7.4	0.92
5	CA	54.5	47	0	1.13	6.0	3.1	0.27
6	IT	52.7	61	1	0.83	9.1	4.3	1.43
7	NO	49.5	55	7	0.90	7.3	3.9	0.53
8	GB	34.5	40	0	0.89	8.2	3.2	1.05
9	AT	31.0	57	1	0.54	9.6	6.1	0.66
10	SE	30.3	36	0	0.84	7.5	3.5	0.47

EUR benchmark issue volume by month



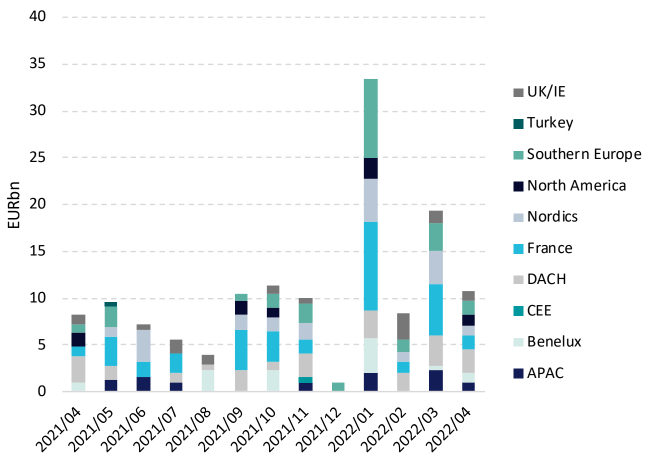
EUR benchmark issue volume by year



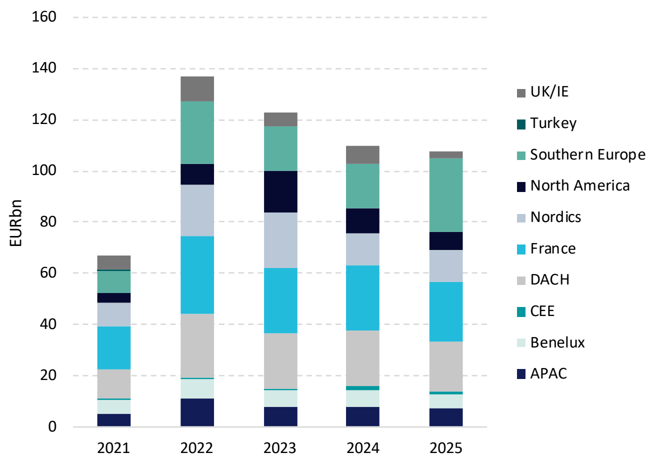
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

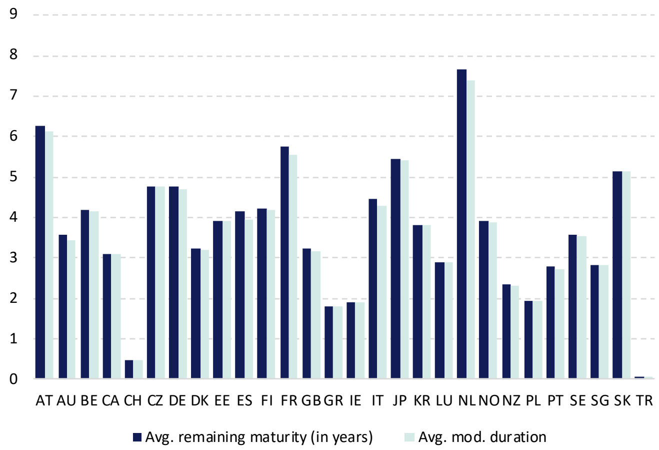
EUR benchmark maturities by month



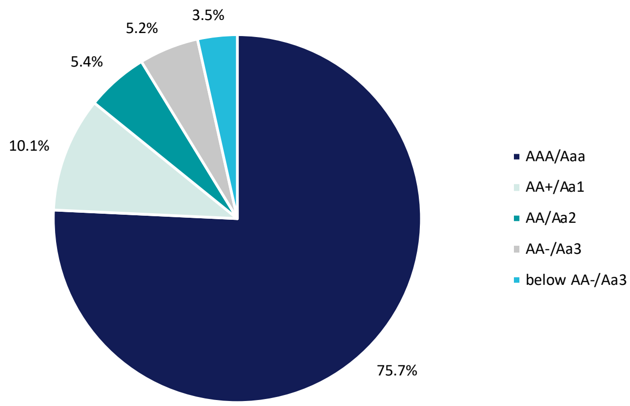
EUR benchmark maturities by year



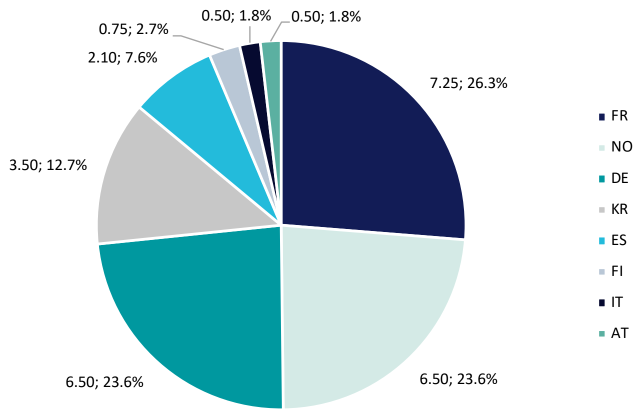
Modified duration and time to maturity by country



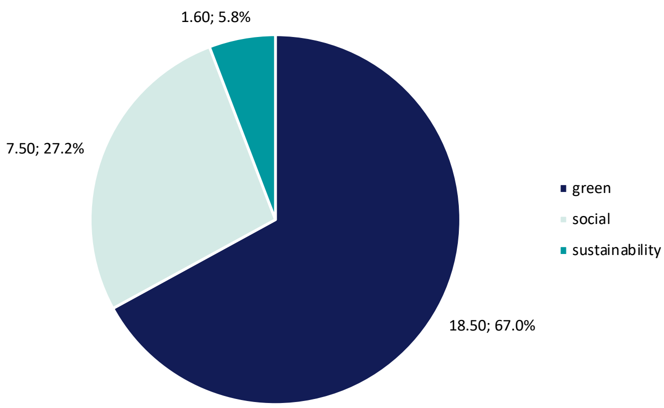
Rating distribution (volume weighted)



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

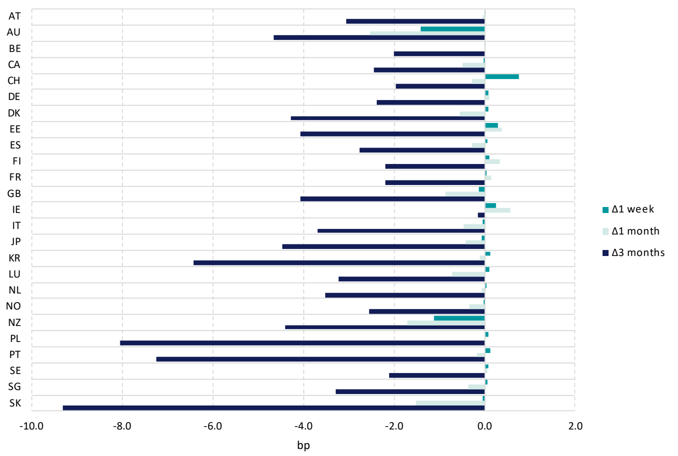


EUR benchmark volume (ESG) by type (in EURbn)

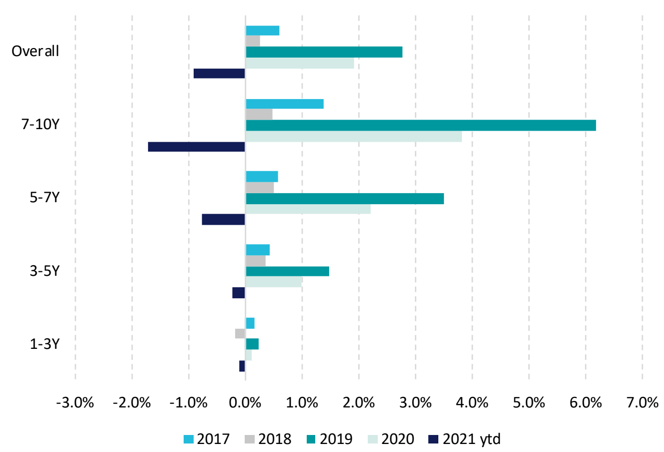


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

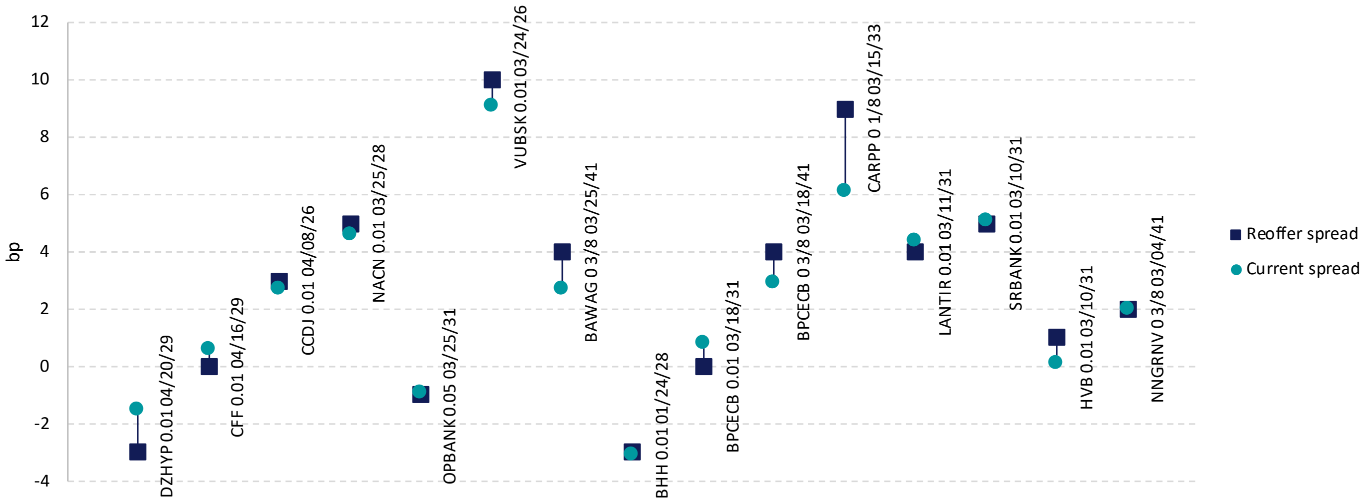
Spread development by country



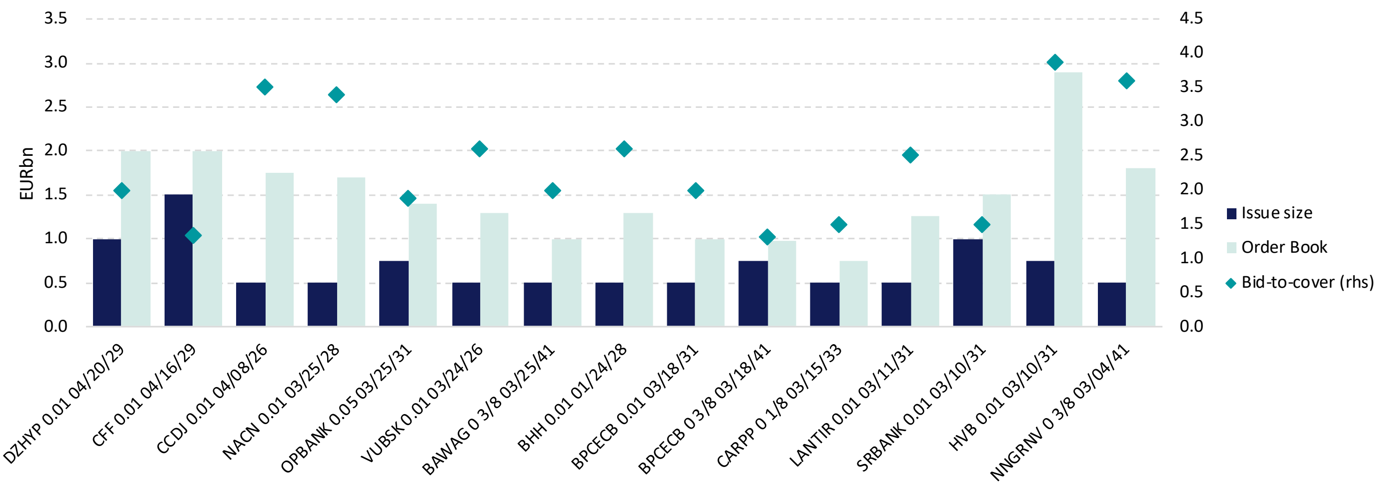
Covered bond performance (Total return)



Spread development (last 15 issues)



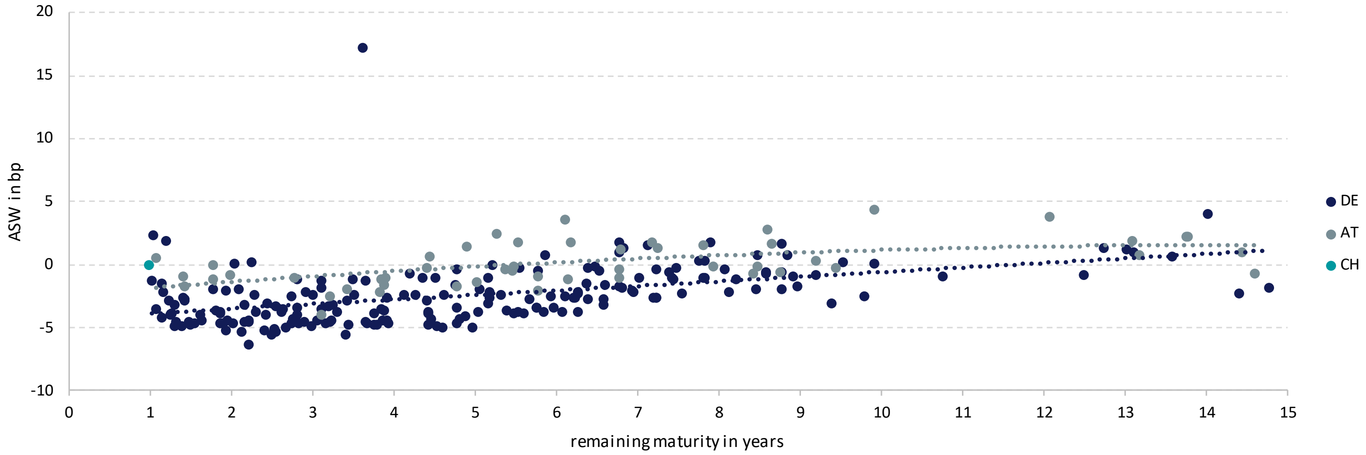
Order books (last 15 issues)



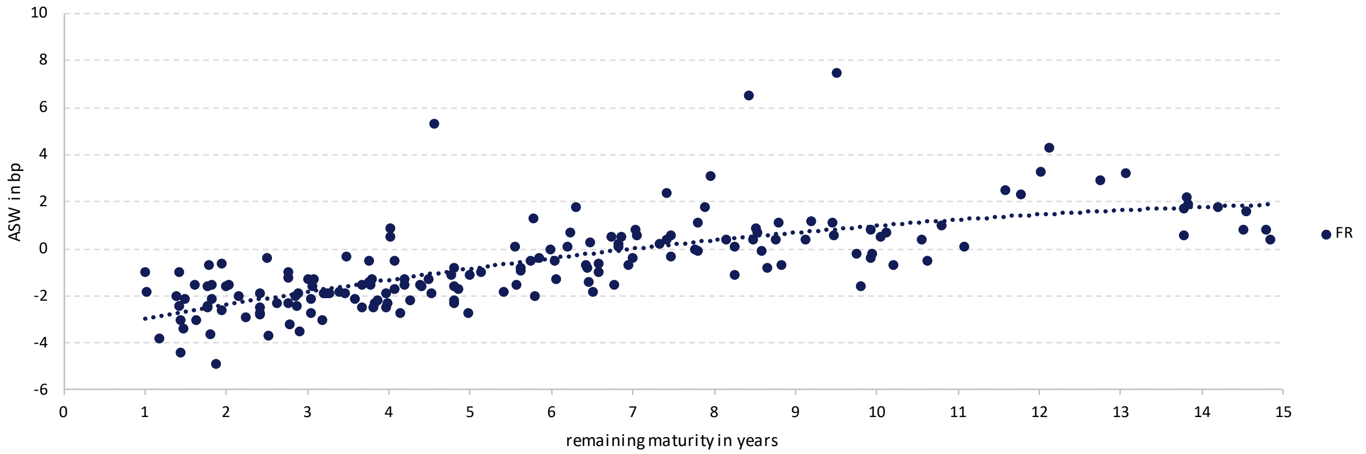
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

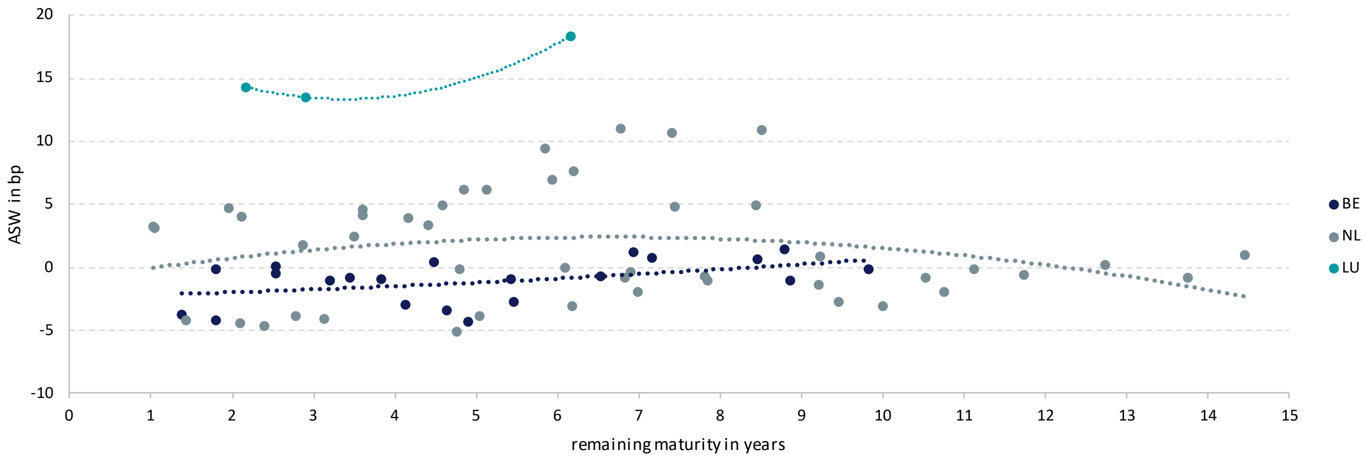
DACH



France

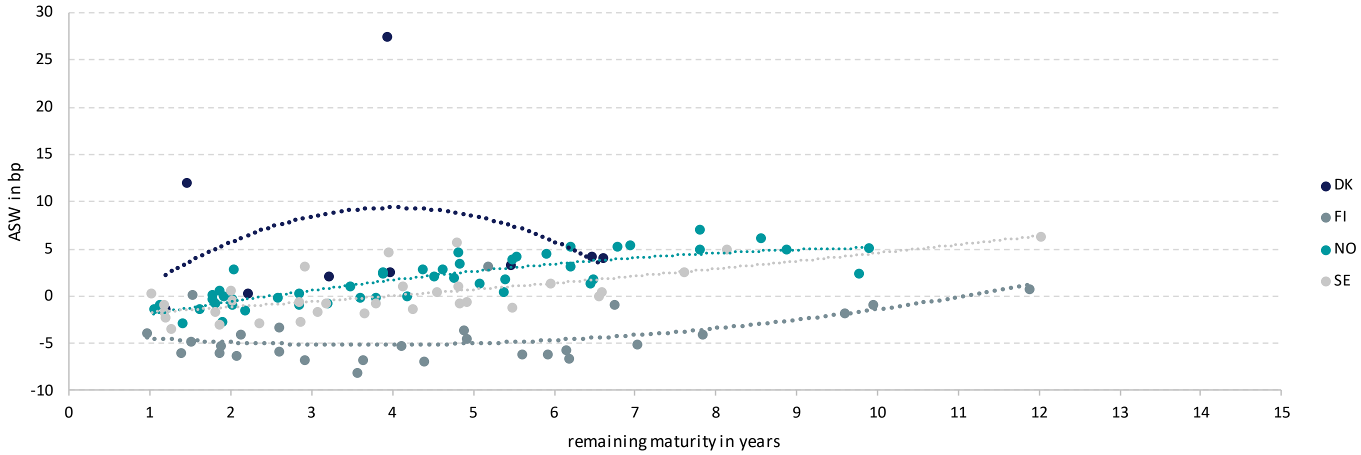


Benelux

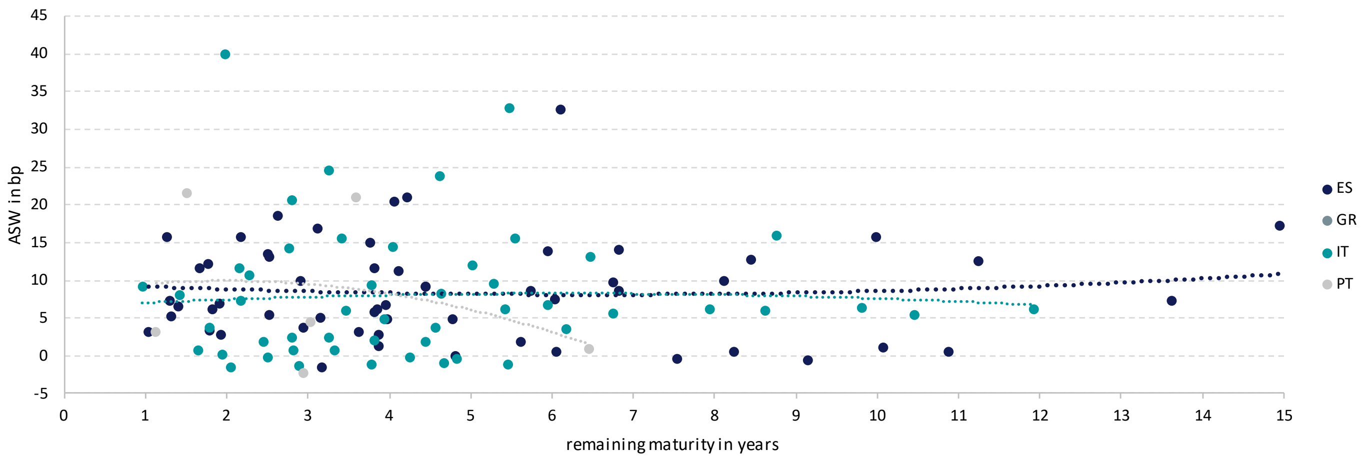


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

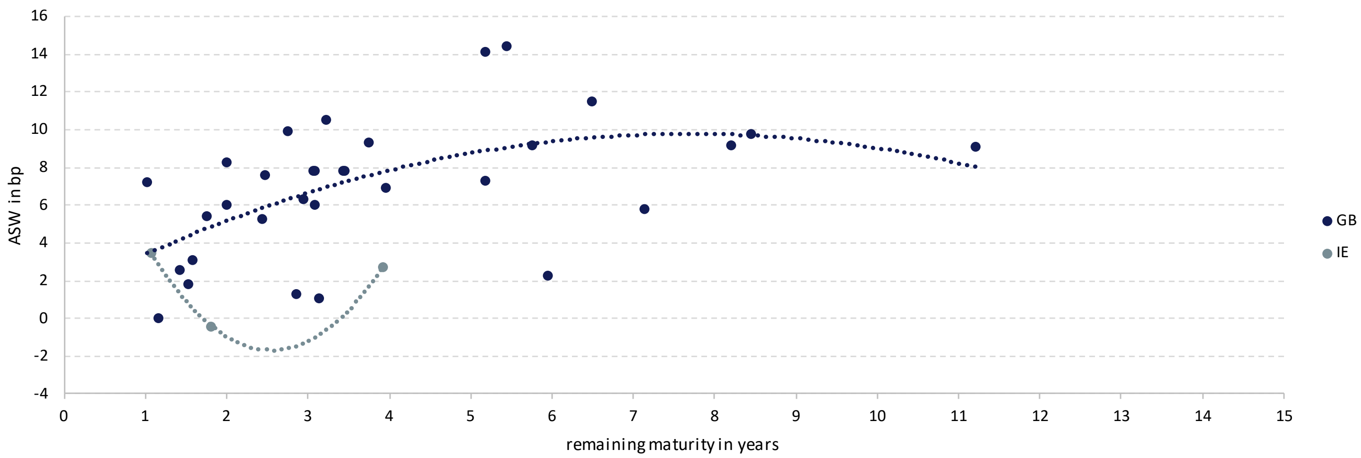
Nordics



Southern Europe

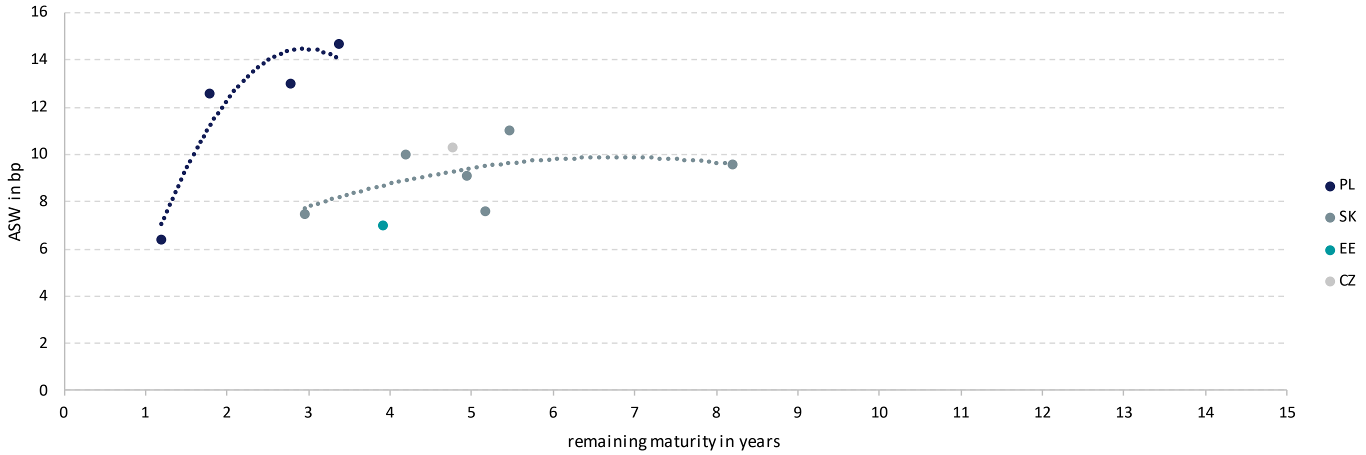


UK/IE

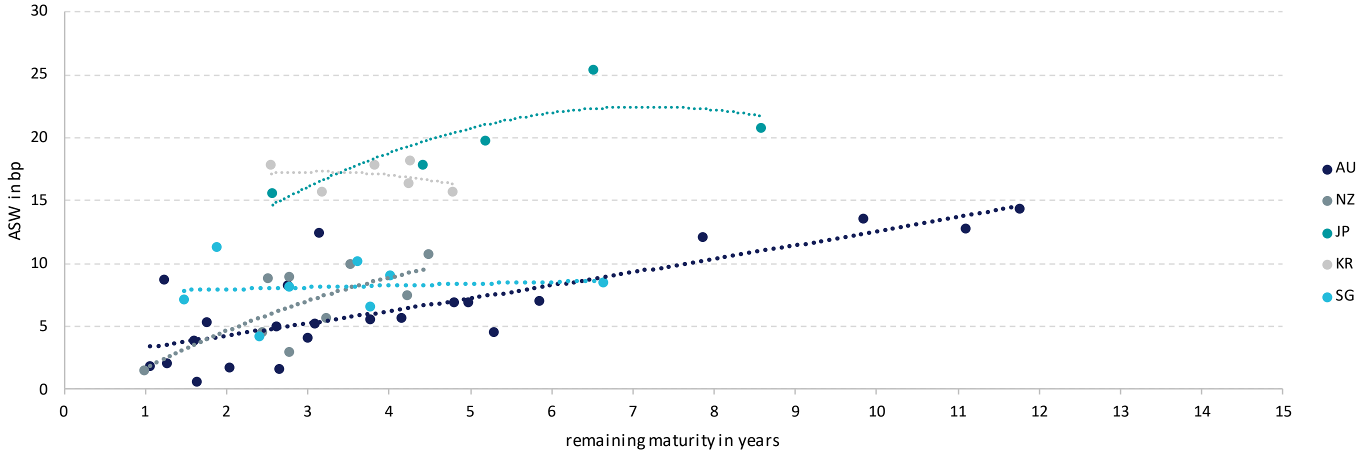


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

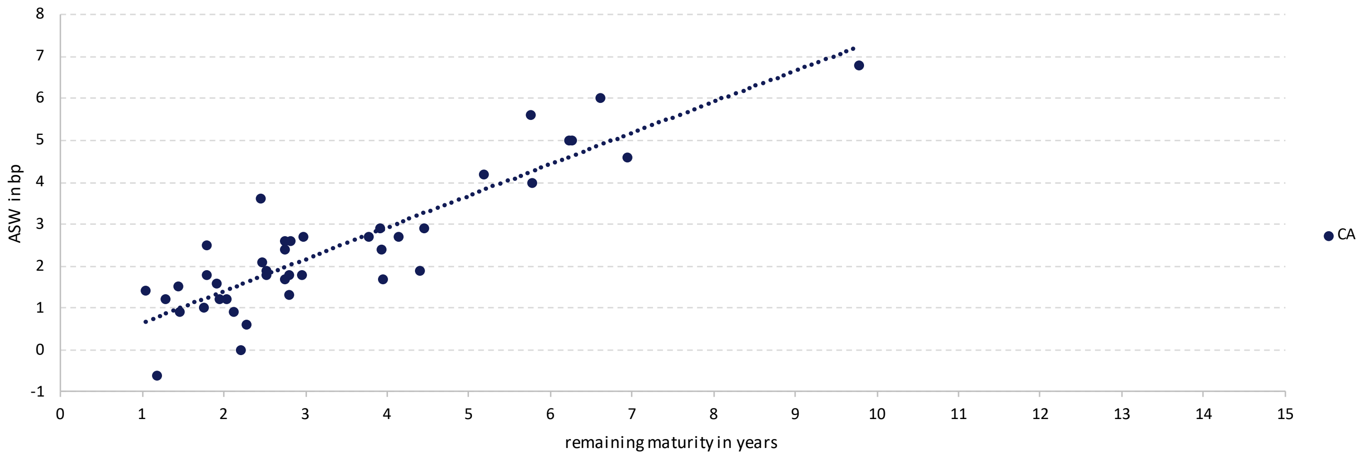
CEE



APAC



North America

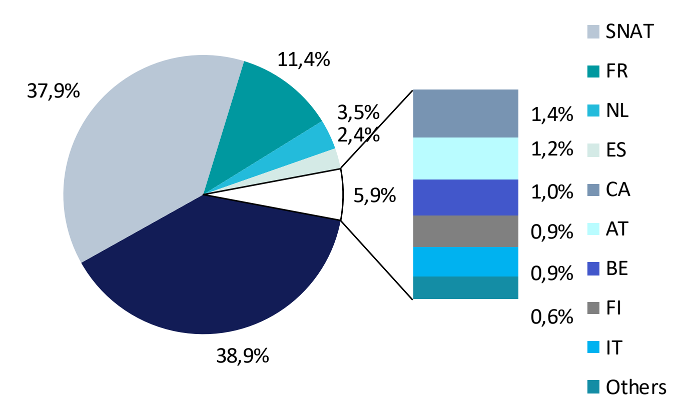


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
SSA/Public Issuers

Outstanding volume (bmk)

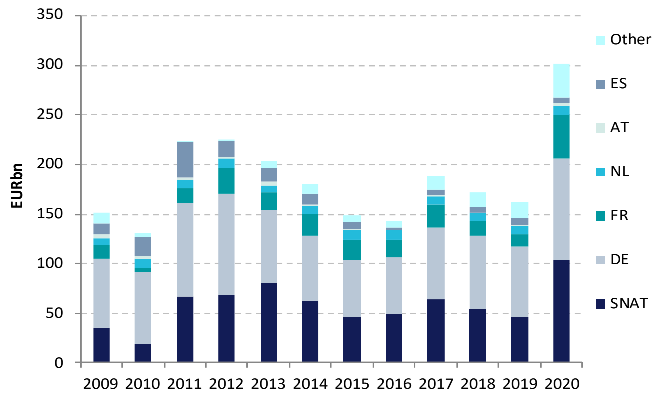
EUR 1846,4bn



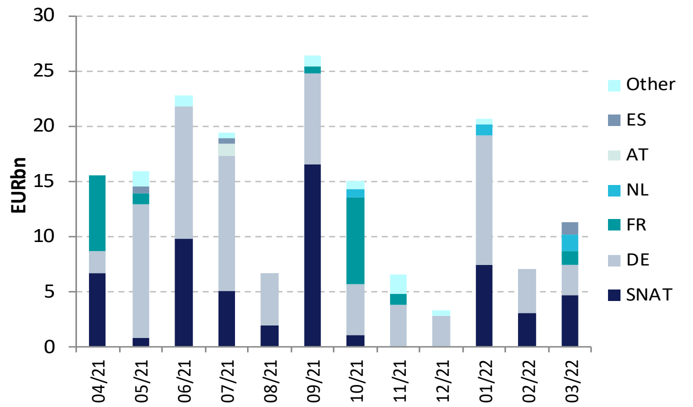
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	715,0	560	1,3	6,7
SNAT	696,2	184	3,8	8,1
FR	211,8	142	1,5	5,4
NL	61,9	63	1,0	6,4
ES	42,8	53	0,8	5,1
CA	25,0	18	1,4	5,4
AT	22,5	24	0,9	5,1
BE	18,7	22	0,9	15,1
FI	16,5	21	0,8	6,0
IT	15,8	20	0,8	5,8

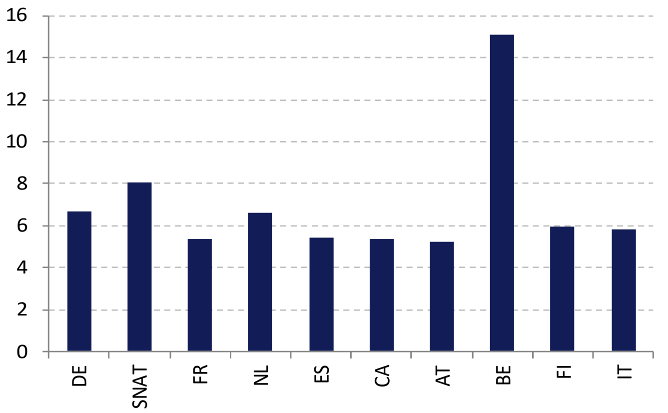
Issue volume by year (bmk)



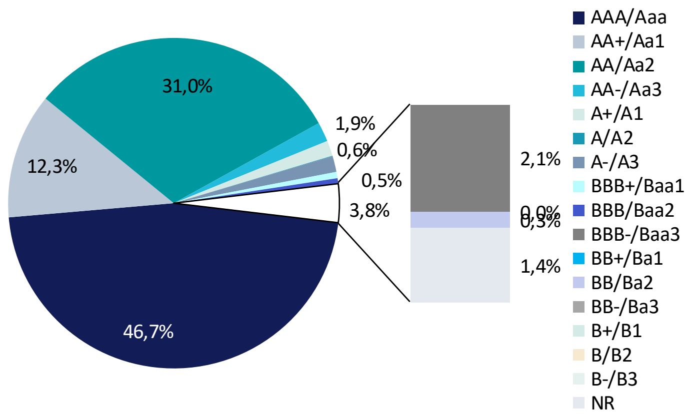
Maturities next 12 months (bmk)



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

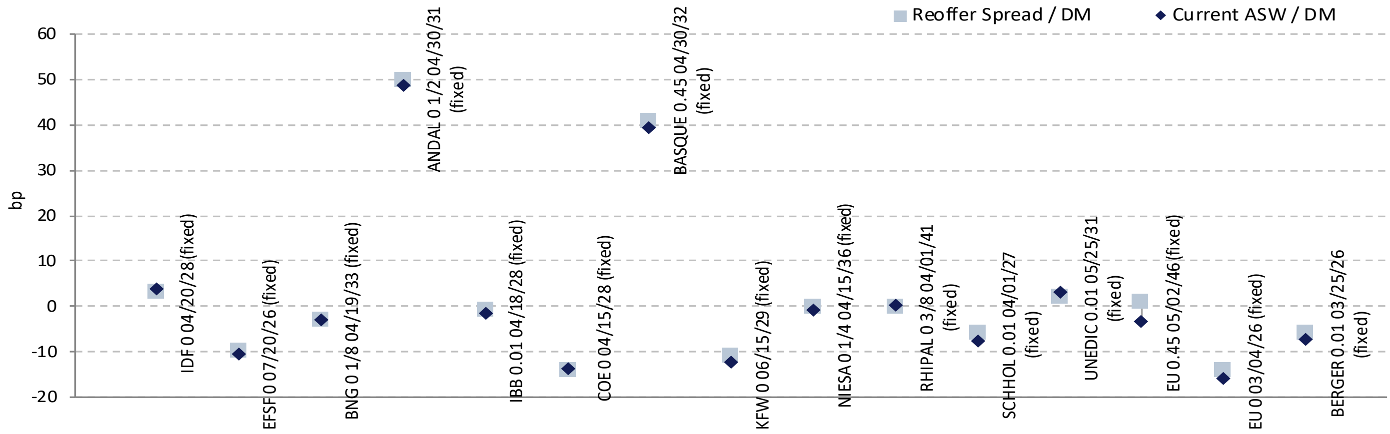


Rating distribution (vol. weighted)

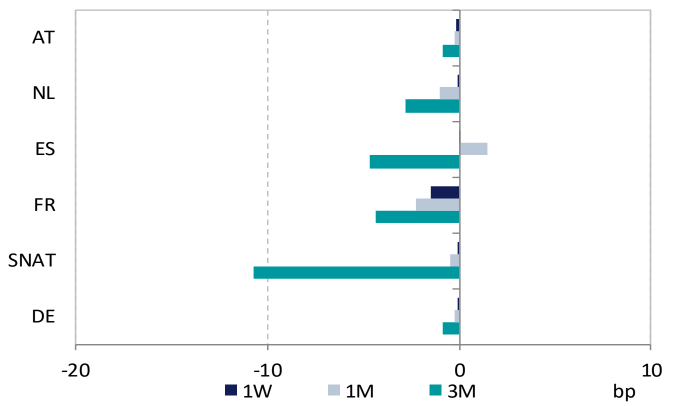


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

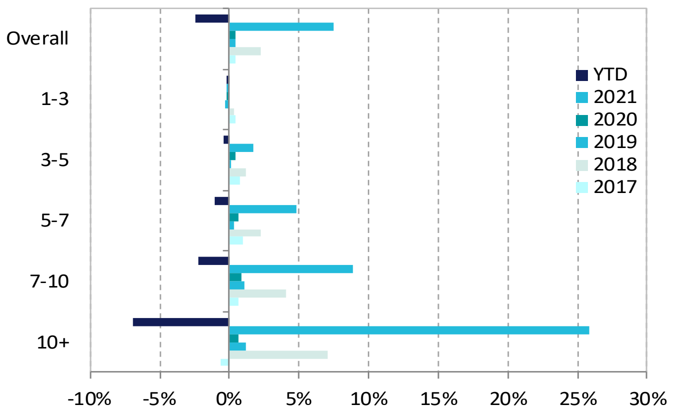
Spread development (last 15 issues)



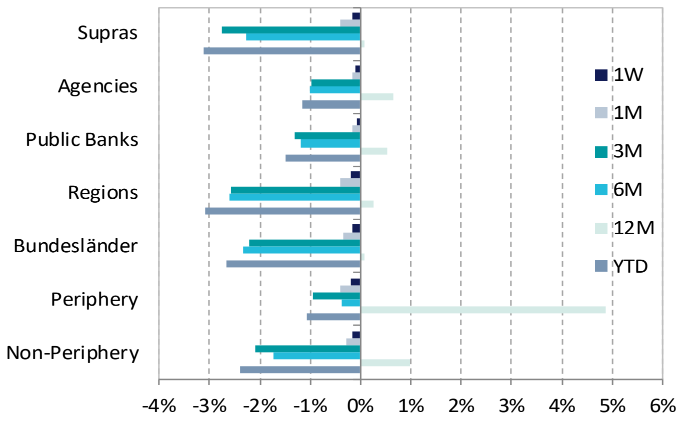
Spread development by country



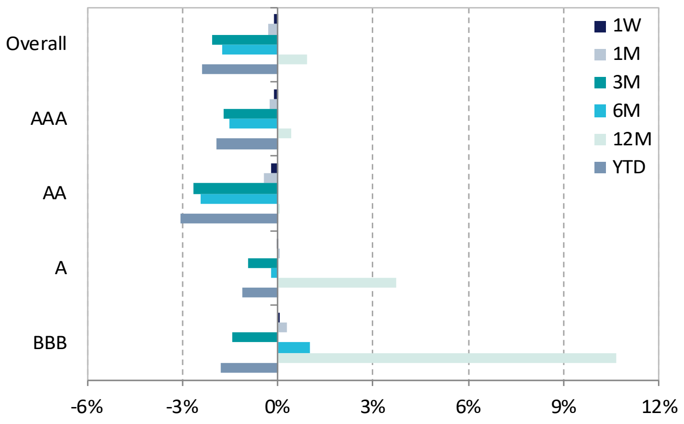
Performance (total return)



Performance (total return) by regions

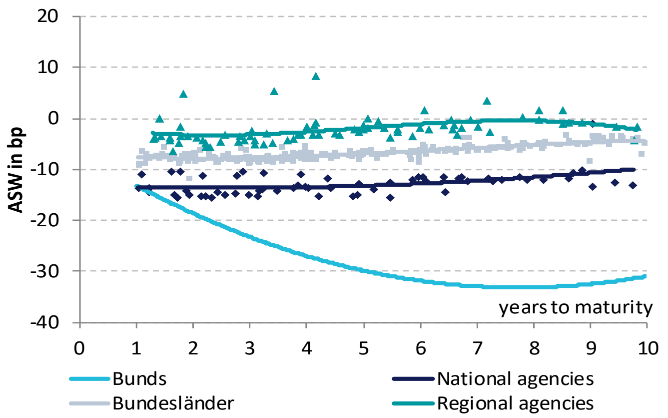


Performance (total return) by rating

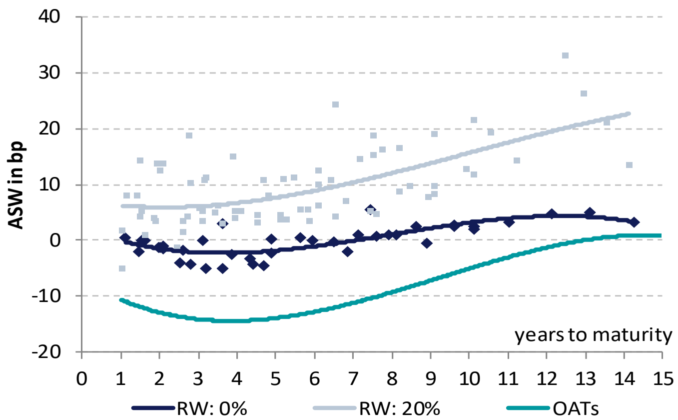


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

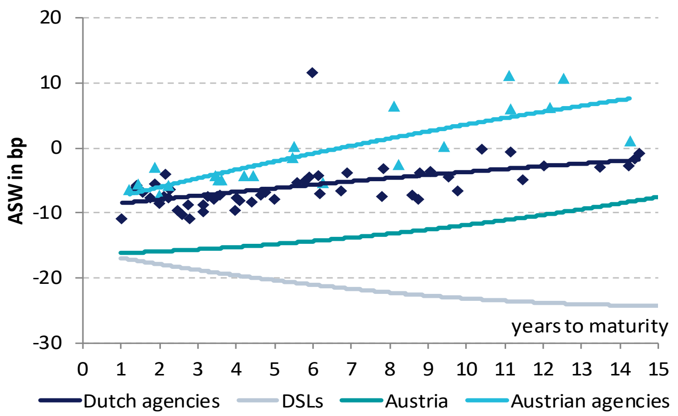
Germany (by segments)



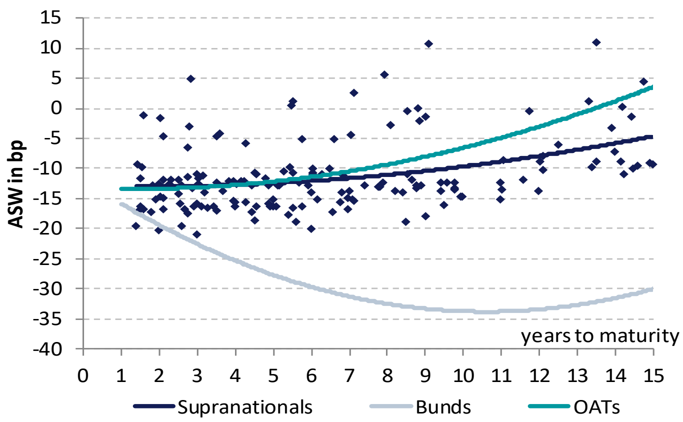
France (by risk weight)



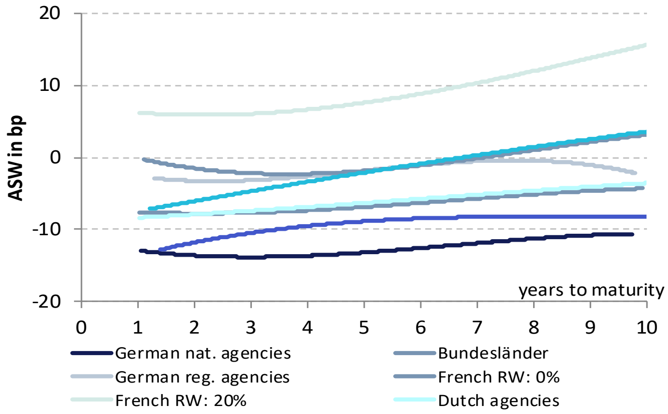
Netherlands & Austria



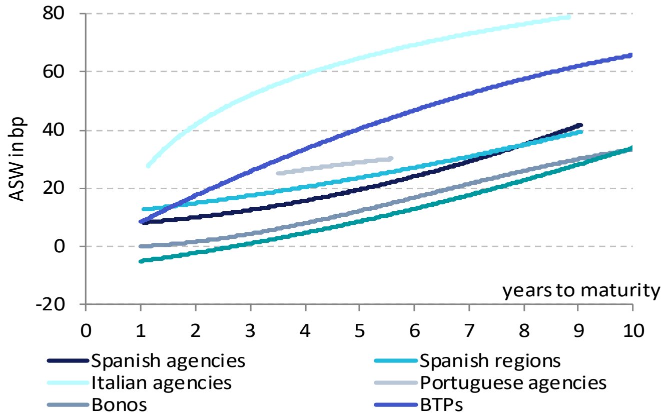
Supranationals



Core



Periphery



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

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
12/2021 ♦ 31 March	▪ Unusual Q1 and revised supply forecast for 2021 ▪ Collective Action Clauses (CACs)
11/2021 ♦ 24 March	▪ Surprising dynamic: Eurosystem lends EUR 331bn to EMU banks via TLTRO III.7 ▪ German Pfandbrief savings banks in Q4 2020
10/2021 ♦ 17 March	▪ Transparency requirements §28 PfandBG Q4/2020 ▪ Credit authorisations for German Bundeslaender in 2021
09/2021 ♦ 10 March	▪ Moody's covered bond universe – an overview ▪ Oldenburgische Landesbank expands sub-benchmark segment
08/2021 ♦ 03 March	▪ Repayment structures on the covered bond market ▪ ECB in a tight spot: litmus test for PEPP flexibility and preview of the second interest rate meeting of the year
07/2021 ♦ 24 February	▪ An overview of the EUR sub-benchmark segment ▪ ECB: crowding-out effects take hold ▪ PEPP vs. PSPP: Similarities and differences
06/2021 ♦ 17 February	▪ Insights into the iBoxx EUR Covered ▪ Development of the German property market
05/2021 ♦ 10 February	▪ PEPP reporting: upswing in public sector assets continues; covered bonds inconsequential
04/2021 ♦ 03 February	▪ Argenta Spaarbank expands Belgian market for EUR benchmarks ▪ An overview of the Fitch covered bond universe ▪ January 2021 packs a punch to kick off the new year
03/2021 ♦ 27 January	▪ An unusual – albeit expected – start to the year? ▪ A look at USD benchmarks ▪ ESM reform – restructuring continues
02/2021 ♦ 20 January	▪ Spread considerations – APAC covered bonds riding the wave of ECB purchase programmes? ▪ Return of the Danish market for EUR benchmark bond issues ▪ 22nd meeting of the Stability Council (Dec. 2020)
01/2021 ♦ 13 January	▪ EUR benchmark from the Czech Republic: Komerční Banka launches a new covered bond programme ▪ New covered bond programme from South Korea: Hana Bank ▪ Annual review of 2020 – covered bonds ▪ Annual review of 2020 – SSA
48/2020 ♦ 16 December	▪ TLTRO III: ECB extends tender and also raises the threshold
47/2020 ♦ 09 December	▪ Fourth and final round of PEPP reporting in 2020 ▪ Investment alternative: Paris metropolitan area (IDF and VDP)
46/2020 ♦ 02 December	▪ The ECB ahead of its course-setting meeting for 2021 ▪ Covered Bonds – Outlook 2021: Waiting for the game changer? ▪ SSA – Outlook 2021: Coronavirus and ECB dominate public-sector segment

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 holds course, but ups the ante – PEPP running until 2022

ECB launches corona pandemic emergency

ECB responds to corona risks

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

Origination & Syndicate

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

Treasury

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

Trading

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

Sales Wholesale Customers

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

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Additional information
Time of going to press: 14 April 2021 08:56h (CET)

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None

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Issuer / security	Date	Recommendation	Bond type	Cause