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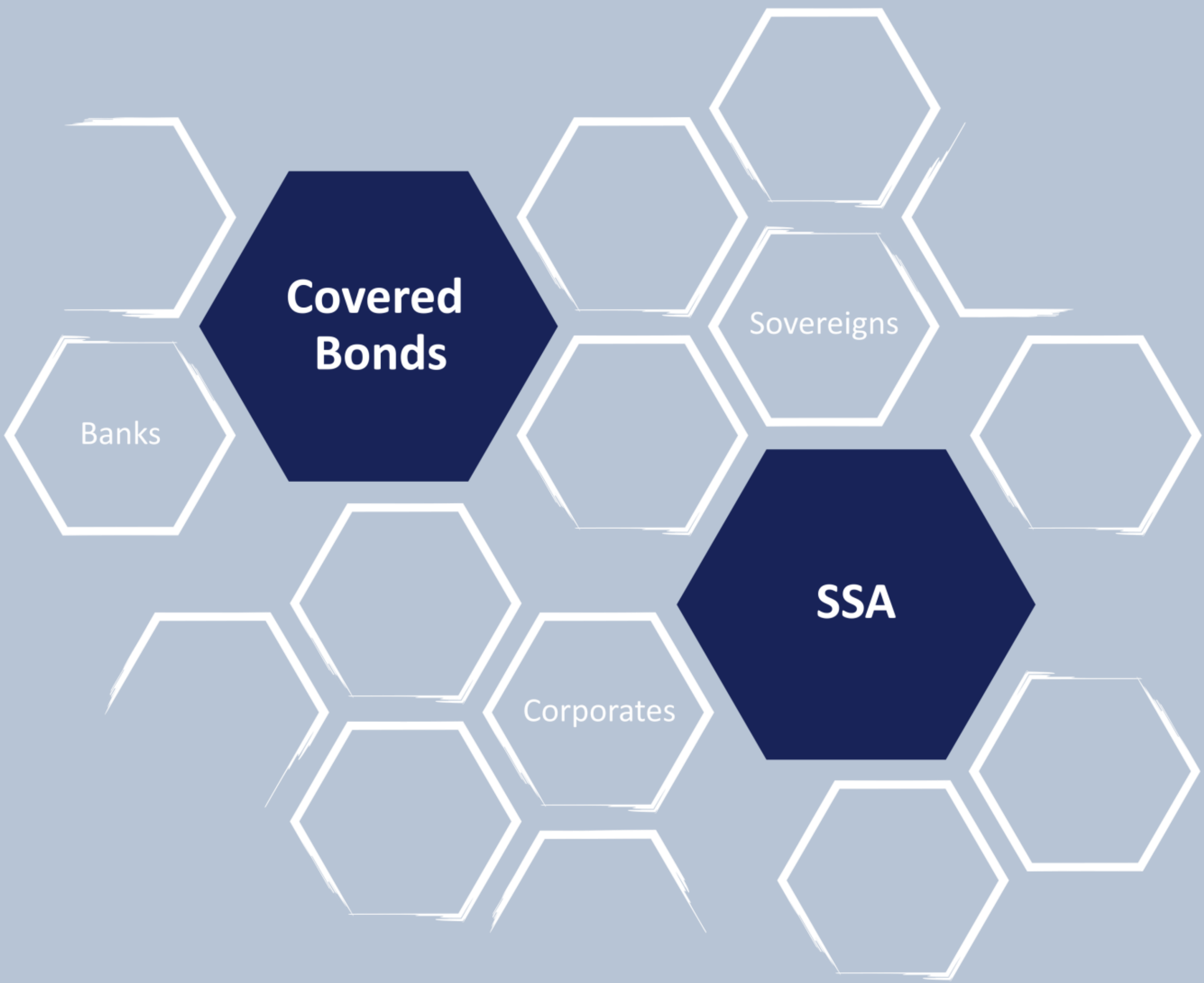

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

28 October 2020 ♦ 41/2020

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

Finanzgruppe

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Market overview Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

Three Pfandbrief issuers place new deals

The market for new issuances was accessed exclusively by German issuers over the previous five trading days. Aareal Bank kicked off this spate of activity in the middle of last week, placing a deal worth EUR 500m (short six years). The transaction entered the marketing phase at ms +5bp area before ultimately being brought to market at ms +1bp. With orders totalling EUR 1.5bn, the deal was three times oversubscribed. The issuing yield was well into negative territory at a lowly -0.430%. Overall, 80% of this deal was allocated to investors from the DACH region. In terms of investor type, banks were the dominant players here (63%). This was also Aareal's first EUR benchmark in the year to-date. The very next day, DZ HYP followed on from Aareal to place what is already this bank's fourth deal so far in 2020. With a term of eight years and a volume of EUR 1.0bn, the bond was an exact replica of the bank's issuance from mid-June. In comparison with this previous deal, however, pricing was fixed three basis points tighter at ms +2bp. In addition, at EUR 2.5bn, the order book was EUR 1bn higher than before, producing a bid-to-cover ratio of 2.5x for this deal. However, at -0.332%, the yield was again well into negative territory. With DACH investors accounting for 46.2% of this deal, the majority of the issuance volume was allocated to foreign buyers. Investors from the UK/Ireland, Nordics and Benelux countries each took a share of around 13%. In terms of investor type, banks took up around half of the deal onto their books, while central banks/OI and asset managers received an allocation of 28.5% and 20.4% respectively. Yesterday, Tuesday, Muenchener Hypothekenbank then became the third issuer in the group. The bank was previously active on the market at the beginning of September, when it raised EUR 500m over 15 years at ms +7bp. This time around, the bank again opted to place a bond worth EUR 500m, albeit over 20 years on this occasion. This makes MUNHYP just the fourth bank in 2020 to approach investors offering a bond with a term to maturity of 20 years. One striking aspect of this deal was the issuing yield, which at +0.02% was not only scraping the zero line, but also well below the yields offered on the other 20-year deals issued so far in 2020 (AXA SCF: +0.334%; CAFFIL: +0.381%; CA Italia: +1.037%). On the basis of lively demand, pricing was fixed four basis points tighter than the guidance, at ms +2bp. With its most recent deals over 20 and 15 years, the Munich-based bank is additionally the only Pfandbrief issuer from Germany to have brought bonds with terms to maturity in excess of 12 years to the market during the current year. The only other Pfandbrief issuer to have been active in the segment over ten years was UniCredit Bank at the start of the year. Overall, 77.9% of the deal went to investors from the DACH region, while a further 11% was allocated to those from the UK/Ireland. As is typical for deals in this maturity segment, banks were less strongly represented (34.9%), while in contrast insurance firms and pension funds were involved to an above-average degree (17.2%). A further 26.4% went to funds, among other investors.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
MünchenerHyp	DE	27.10.	DE000MHB26J9	20.0y	0.50bn	ms +2bp	- / Aaa / -
DZ HYP	DE	22:10.	DE000A289PH2	8.0y	1.00bn	ms +2bp	-/-/AAA
Aareal Bank	DE	21:10.	DE000AAR0272	5.8y	0.50bn	ms +1bp	- / Aaa / -

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

Singapore: MAS makes significant adjustment to covered bond issuance limit

On 15 October 2020, the Monetary Authority of Singapore (MAS) announced that it would be substantially raising the issuance limit for covered bonds. With effect from 16 October 2020, this limit was increased from 4% to 10% of assets on an issuer's balance sheet. The adjustments also entail additional specifications for deriving the total assets as a reference value to calculate the limit. As of now, a total of three issuers from Singapore – DBS, OCBC and UOB – have been active in the EUR benchmark segment, although the last primary market transaction from this Asian country was actually recorded back in 2018 (UOBSP 0 1/4 09/11/23). As at year-end 2019, the outstanding volume of the covered bond market on the basis of ECBC data across all sub-segments, which includes deals denominated in USD, among other foreign currencies, totalled the equivalent of EUR 9bn. Even if, viewed in isolation, the limit adjustment would now result in greater theoretical issuance leeway in purely numerical terms, we do not expect to see any immediate reaction on the part of the issuers. So far in 2020, no new issuances have been recorded in EUR benchmark format from Singapore, as was also the case across 2019 as a whole too.

HSBC Bank Canada joins Covered Bond Label

The Covered Bond Label Foundation has announced that HSBC Bank Canada has become the 116th issuer to join the Covered Bond Label. The Canadian bank will therefore now undertake to provide cover pool reporting in HTT format, among other aspects, which is certainly to be welcomed from an investor perspective. HSBC Bank Canada is therefore the last of a total of eight Canadian covered bond issuers registered with the Canadian Mortgage and Housing Corporation (CMHC) to join the label. In addition, HSBC Bank Canada is the only bank not to have issued any EUR-denominated benchmarks so far. At present, it has just three USD benchmarks outstanding, two of which are in the amount of USD 1.0bn (2019 and 2020), in addition to its inaugural issuance from 2018 totalling USD 750m. As at the reporting date of 30 September, the cover pool amounted to the converted equivalent of EUR 7.54bn, which was offset by outstanding bonds totalling EUR 3.35bn. Not least due to the receptiveness of the market with regard to EUR benchmarks from Canada, we are expecting HSBC Bank Canada to make moves in this segment over the medium term as well.

Market overview
SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

A brief look at the EU's order books

As reported last week, the first offer from the European Union (Bloomberg ticker: EU) generated an order volume of EUR 233bn. This is a record amount for a dual tranche issue in the eurozone. It was also the largest social bond ever and 63% of investors came from the ESG segment. In total, 578 investors participated in the 10y tranche, while 514 were involved with the 20y bond. This deal was interesting for investors because AAA-rated securities are rare and social bonds are currently the fastest growing section of ESG refinancing. Since "only" EUR 17bn was printed, the remaining EUR 216bn will find their way into future EU tranches or other issues. However, it remains to be seen whether the spread will be as attractive again. In any case, the levels of ms +3bp and ms +14bp respectively did not last long on the secondary market and narrowed massively. According to Commissioner Johannes Hahn, the total volume of EU issues will stand at around EUR 900bn by 2026. Under the social bond issuance programme, auctions with a total volume of around EUR 30bn are expected to be held this year. According to Hahn, 17 EU member states have expressed interest in the SURE short-time work programme. Under the PSPP, all EU ISINs – and other supranational institutions such as ESM, EFSF or EIB – can be purchased up to a limit of 50% per bond. Demand from the Eurosystem is therefore gigantic and we believe that the new bonds will be well absorbed. Within the framework of the PEPP, the ECB is less open, but the share of the Supras, at 6.5%, is still lagging considerably behind the imaginary capital key at an assumed 10%. This programme would therefore also appear to have plenty of room on the books for these new bonds.

KfW SME Panel 2020

The coronavirus pandemic is leaving a deep mark on small and medium-sized enterprises (SMEs) in Germany, and the level of concern and uncertainty is still high. Sales are dropping more sharply than during the financial crisis. As a result, many companies fear further pressure on employment. Companies' equity ratios are also under strain. Thanks to their successes over previous years, however, SMEs have a broadly solid foundation. This is demonstrated by the new KfW SME Panel 2020. Over one in two SMEs – around 2 million companies – are expecting declining sales in the current year. Compared to 2019, the respondents expect a drop in sales of around 12%. If jobs were to fall by 3.3% by the end of the year, as feared, this would mean unemployment of over one million people. If another lockdown were to happen, around one in three SMEs would currently be prepared with sufficient liquidity reserves – this is up 12 percentage points on the beginning of April. A further 28% would have liquidity reserves to cover a period of 6-12 months. In 2019, SMEs recorded a sales increase of 3.5% due to a strong domestic economy. At the same time, the average return on sales climbed to 7.5%. In the medium term, the coronavirus crisis could prove to be a hindrance to desperately required investment and innovation.

FMSWER addendum: Nominal volume of the portfolio reduced to EUR 65.6bn
According to a press release, the state-owned winding-up agency FMS Wertmanagement (FMS-WM) achieved a positive result from normal business activity of EUR 46m in the first half-year (same period in the previous year: EUR 70m). Accordingly, the nominal volume of the portfolio has been reduced by EUR 2.7bn since the beginning of the year. Taking into account foreign currency effects of EUR -1.0bn, the nominal volume of the FMS-WM portfolio fell to EUR 65.6bn as of 30 June 2020. Since 2010 the portfolio has therefore been cumulatively reduced by EUR 110.1bn, or 62.7%. However, total assets increased to EUR 163.4bn as of 30 June 2020 (year-end 2019: EUR 146.5bn). The increase was mainly due to the expansion of the liquidity reserve and a rise in the collateral provided for derivatives. The balance of risk provisions and net income from financial investments of EUR -72m is below the level of the previous year (EUR -2m). As a result of the existing market uncertainty in connection with the coronavirus pandemic, FMS-WM has taken account of possible effects on the portfolio in the form of an increase in risk provisions. “Despite the challenging market environment, we were able to continue our successful processing work in the first half of 2020 and achieve a positive result”, said spokesman of the management board Christoph Müller. FMS-WM expects that overall economic development will also be significantly influenced by the coronavirus pandemic in the second half of 2020. It is therefore still not possible to issue a reliable earnings forecast for 2020 as a whole. On the refinancing side, FMS-WM raised a further EUR 5bn in long-term refinancing funds via the Financial Market Stabilisation Fund (FMS) as planned in the first half of 2020 and has therefore now fully exhausted the maximum volume of EUR 30bn. In addition, FMS-WM raised the equivalent of EUR 2.3bn in refinancing funds on the capital market in the period under review. As a result of the progress made since the acquisition of the DEPFA Group in 2014, and irrespective of the further winding-up strategy, FMS-WM continues to assume that the winding-up of the DEPFA Group will remain advantageous compared with the sale that did not take place in 2014. With the publication of a sale announcement, the FMS-WM launched an open, transparent, competitive and non-discriminatory auction procedure in July 2020 for the possible sale of 100% of the shares in DEPFA BANK plc. The Financial Market Stabilisation Fund has an unlimited obligation to make additional contributions in accordance with section 8a of the German Act on the Establishment of a Financial Market and Economic Stabilisation Fund (Stabilisation Fund Act) in order to compensate for losses incurred during the winding-up process. It is supervised by the Federal Financial Market Stabilisation Authority (BaFin). The majority of the outstanding bonds will mature by 2023. In addition, there are only three maturities after that, with one each in the years 2024, 2025 and 2030.

Rarely in the spotlight: The Italian CDEP
CDEP (Cassa Depositi e Prestiti SpA), together with Macquarie and Blackstone, is currently in the process of finalising a non-binding offer for the 88% stake in Autostrade. The first offer was provisional and was subject to a ten-week due diligence process. Although the Benetton family (the current owners) agreed to cede control of the motorway company to investors led by CDEP back in July, the two sides have not yet managed to reach a final deal due to differences over the value of the assets and legal issues. The state lender would subsequently have the right to appoint the Chief Executive Officer and Chairman of Autostrade.

Primary market

Today, we are not starting our primary market coverage with a gigantic order book or Bundeslaender deals. Instead, we are going to take a look at three issuers that have been seen rather rarely over recent times, namely Agence Française de Développement (AFD), Instituto de Credito Oficial (ICO) and the Canadian province of Quebec. As announced last week, AGFRNC had mandated a consortium. Pricing was carried out very soon after our publication, with the result that we are able to cover this deal worth EUR 2bn in the form of a 7y sustainability bond this week. It came in 27 basis points above the French reference curve, or, in other words, at around ms +11bp. The order books totalled in excess of EUR 5.6bn. The Spanish ICO had a green bond up its sleeve. This deal for EUR 500m with a term of 5y resulted in demand of more than EUR 3bn. The bond was priced around seven basis points above the Spanish reference curve, i.e. at around ms +20bp. The French-Canadian province of Quebec launched its second EUR benchmark this year: at ms +24bp, a volume of EUR 2.25bn attracted keen interest in the 10y segment (order books totalled in excess of EUR 4.3bn). To use this issuer’s Bloomberg ticker, Q now has nine benchmarks in EUR outstanding again. These transactions were followed by four further deals above the EUR 500m threshold: the World Bank in the form of the IBRD, Hamburg, the EIB and Erste Abwicklungsanstalt (EAA) all recently mandated and priced-up transactions. This was actually the first EUR-denominated bond in 2020 from ERSTAA (another ticker abbreviation). The deal (EUR 1 bn WNG) was successfully issued with a term of 3y at ms -4bp, while the order books amounted to just over EUR 1.2bn. The EIB was represented in its EARN format and is always very transparent in its announcements regarding format, maturity and, where appropriate, size. In this context, it was clear from the outset that EUR 3bn would be the maximum (also WNG). The guidance for the seven-year bond started at ms -10bp and the pricing was ultimately fixed at ms -12bp, as the book generated orders of more than EUR 20bn. The oversubscription ratios of European supras can still be described as extremely high. Where issuers are not affected by the Eurosystem's purchasing programmes, e.g. the World Bank, oversubscription rates fall to around 2.0x, as in the case of the IBRD (sustainable bond). In total, EUR 2bn changed hands for 30 years at a price of ms +23bp. The order book amounted to just over EUR 4bn. Compared with the guidance, tightening in the amount of two basis points was recorded. No details emerged regarding the order books of the Hamburg deal, although the Free and Hanseatic City did opt for a deal over 15 years in the amount of EUR 500m at a price of ms +2bp. There were also various taps: BAYERN (2027, EUR 250m, ms -7bp), KFW (2025, EUR 1bn, ms -16bp) and BERGER (2030, EUR 150m, ms -1bp) all chose to top up existing bonds as a means of raising funds. In addition, there was a new sub-benchmark from Bavaria (EUR 250m in the 11y maturity segment at ms -3bp). The Bavarian curve now consists of five benchmarks and a total of 20 bonds between EUR 30m and EUR 3bn. The outstanding total debt is around EUR 7.5bn. Yesterday afternoon, another four mandates were announced.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
IBRD	SNAT	27.10.	XS2251330184	30.2y	2.00bn	ms +23bp	- / Aaa / AAA
HAMBRG	DE	27.10.	DE000A2LQPF4	15.0y	0.50bn	ms +2bp	AAA / - / -
EIB	SNAT	27.10.	XS2251371022	7.4y	3.00bn	ms -12bp	AAA / Aaa / AAA
ERSTAA	DE	27.10.	DE000EAA0541	3.0y	1.00bn	ms -4bp	AAA / Aa1 / -
Q	CA	22.10.	XS2250201329	10.0y	2.25bn	ms +24bp	AA- / Aa2 / AA-
ICO	ES	21.10.	XS2250026734	5.5y	0.50bn	ms +20bp	A- / Baa1 / A
AGFRNC	FR	21.10.	FR0014000AU2	7.0y	2.00bn	ms +11bp	AA / - / AA

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

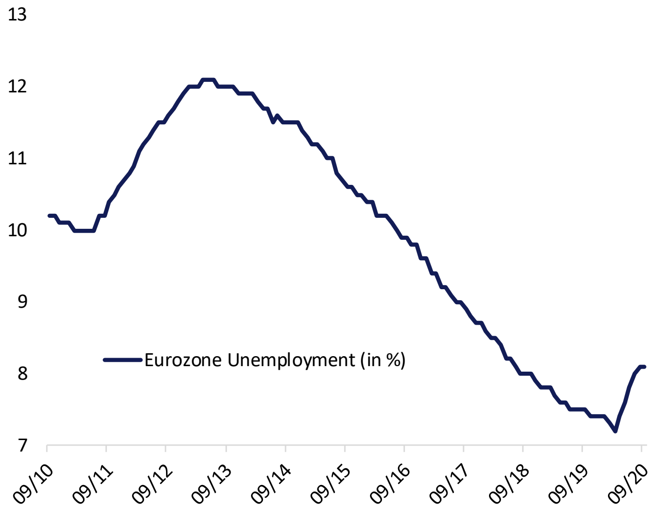
Covered Bonds/SSA
ECB: The year of the owl – review and outlook

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

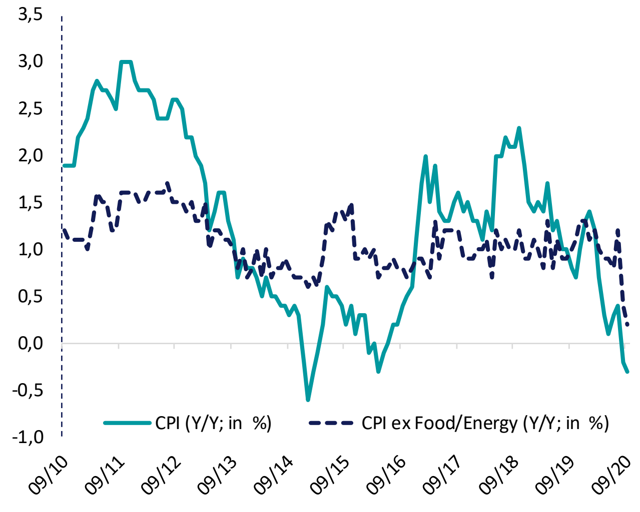
ECB meeting on 29 October likely to end with no great announcements, but …

We believe that it is unlikely that there will be any surprise announcements regarding the monetary policy of the European Central Bank (ECB) that would directly affect the fixed income segment when the ECB publishes its key interest rate decision tomorrow. This view is based in particular on the ECB's current unconventional monetary policy instruments such as the securities purchasing programmes (PEPP and APP) and targeted longer-term refinancing operations (TLTRO-III). However, a question mark is currently hanging over the ECB's scope over the coming months, or even years, to adjust its own monetary policy so that it also reduces its impact on rates products, especially public sector bonds and covered bonds. The trend in consumer prices within the eurozone clearly signals that the ECB has a long way to go to meet its inflation target (of below, but close to 2% over the medium term), while inflation expectations are also displaying no indication of any rapid trend reversal. In purely economic terms, the existing strains on the labour market, coupled with the additional burdens to be expected in light of the recent escalation of the coronavirus crisis, are likely to lead to muted stimulus on the demand side. In this article, we look at the impact of ECB monetary policy on both the SSA segment and the market for covered bonds (focus: EUR benchmarks) and examine potential adjustments to, or continuation of, the central bankers' monetary policy direction. So as to avoid the coronavirus pandemic from overshadowing her term in office yet again, we would also like to mention at this juncture that on 1 November, Christine Lagarde will celebrate one year in office – "the year of the owl" as it were.

Eurozone: trend in unemployment rate



Eurozone: price trends

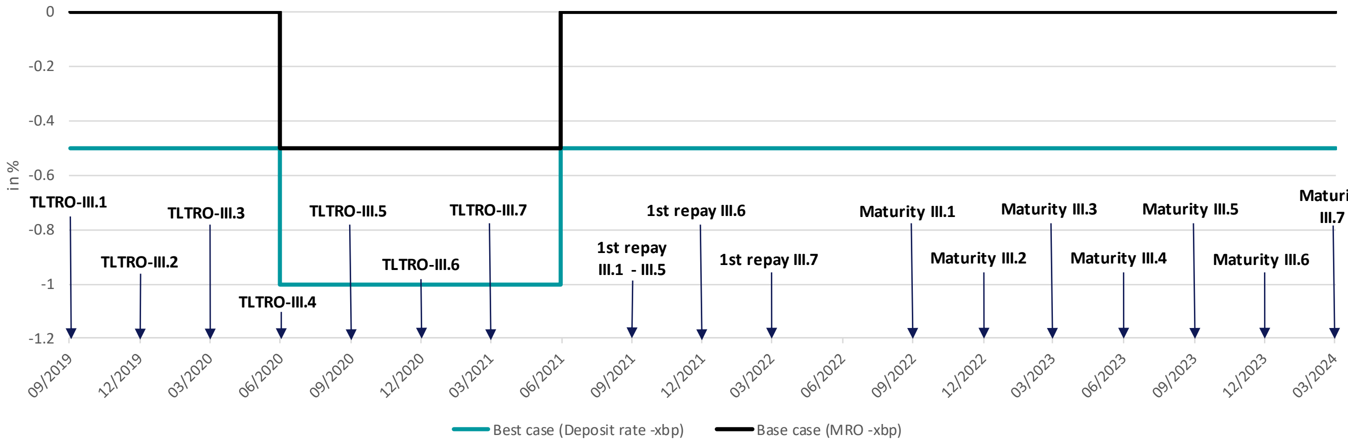


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Impact of existing monetary policy measures on the public issuer segment
Looking back, much was indeed accomplished by the ECB in March: while the first measure, increasing the existing Extended Asset Purchase Programme by EUR 120bn until the end of 2020, has still had only a relatively small impact, the ECB followed up just a week later with the Pandemic Emergency Purchase Programme (PEPP) totalling EUR 750bn overall. Naturally, both of these Eurosystem purchase programmes encompass more than just the issuers mentioned in the title and the lion's share of all purchases in 2020 (as was the case from the start of quantitative easing) is attributable to sovereigns, supranationals, sub-sovereigns and agencies. The PEPP, which was initially scheduled to be in place until the end of the year, was increased by EUR 600bn during the course of 2020 and extended to at least mid-2021. Reinvestments under the programme were also pushed back until the end of 2022 at least. Whoever thought the Eurosystem would run out of paper available or eligible for purchase had failed to take the supplementary budgets into account. All states in the eurozone, as well as the German Bundeslaender and institutions such as the European Union, have firmly braced themselves against the pandemic in order to mitigate the financial and economic fallout. Consequently, there was always enough eligible material at national, supranational and sub-sovereign level. The German promotional banks were the only ones to cut some of their funding targets, with KfW, for instance, participating in TLTRO-III.4 and set to receive EUR 30bn from the German government's Economic Stabilisation Fund (WSF) in Q3. One positive effect for the public sector, if anything positive can even come out of this pandemic, is the focus on ESG criteria. There are, for example, social bonds to combat (long-term) unemployment as well as green bonds aimed at transforming the economy and the long overdue digitisation of Europe. Initially, the pandemic resulted in spreads widening across the board, but as time went on, the stress abated again. The Eurosystem's huge programmes also played a role here. Yet public issuers were not the only beneficiaries of this since the covered bond segment also benefited, as we explain in greater detail below.

Impact of existing monetary policy measures on covered bonds
The ECB's impact on the covered bond market is clear on both the demand and supply sides. While the central bank mainly appears as a major buyer in both the primary and secondary market under its current purchasing programme (CBPP3) as well as its predecessors (CBPP1 and CBPP2) (see ECB Tracker), in our opinion, its TLTRO programmes have triggered and are triggering substitution effects with regard to the primary market activities of covered bond issuers. In particular, we believe it should be noted that the latest format of its targeted longer term refinancing operations (TLTRO-III) is having the greatest impact on primary market supply to date, essentially due to the attractive terms and conditions of the TLTRO-III tender (see also NORD/LB Covered Bond & SSA View dated 17 June 2020).

TLTRO III timetable



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

TLTRO: new launches and adjustments possible

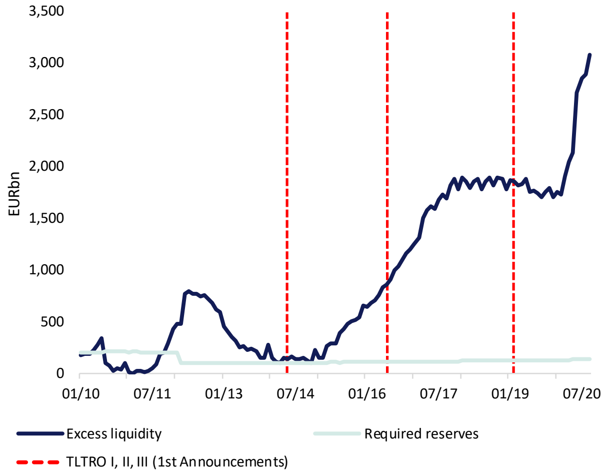
Two tenders of the current TLTRO-III operations are still outstanding: TLTRO-III.6 (December 2020) and TLTRO-III.7 (March 2021) (see above table). Moreover, voluntary repayments under TLTRO III.1 to TLTRO III.5 cannot start until September 2021 at the earliest. However, we believe it will not be long before talk of new launches escalates. The previous rounds have shown that each new TLTRO launch was used to roll over older tenders and consequently the corresponding repayments were made ahead of maturity. The question of whether there will be a TLTRO-IV and TLTRO-V is followed directly by the question regarding the structure and modalities of the new operations. Ultimately, it is precisely these variables, such as maturity and interest rate, which will affect the covered bond segment. Longer maturities and lower interest rates tend to have a curbing impact on primary market activity. To date real estate loans have been excluded, but it is also conceivable that the ECB will take them into account as part of TLTRO-III+x. We consider it quite probable that the ECB will decide to set up new TLTROs. We would see the end of Q3/start of Q4 as the earliest time for TLTRO-IV, since this would be a first roll-over date from TLTRO-III to TLTRO-IV. We expect such plans to be communicated much sooner and the launch of TLTRO-III was announced on 7 March 2019, around six months before its first tender.

ECB: Open Market Operations (EUR)

Ref.	Type	Settlement date	Maturity date	Days	Allotted amount (EUR)	Outstanding amount (EUR)
20200207	LTRO [TLTRO III]	30.09.2020	27.09.2023	1092	174.46 bn	174.46 bn
20200131	LTRO [TLTRO III]	24.06.2020	28.06.2023	1099	1,308.43 bn	1,308.43 bn
20200029	LTRO [TLTRO III]	25.03.2020	29.03.2023	1099	114.98 bn	114.98 bn
20190129	LTRO [TLTRO III]	18.12.2019	21.12.2022	1099	97.72 bn	97.72 bn
20190097	LTRO [TLTRO III]	25.09.2019	28.09.2022	1099	3.4 bn	3.4 bn
20170028	LTRO [TLTRO II]	29.03.2017	24.03.2021	1456	233.47 bn	20.87 bn
20160133	LTRO [TLTRO II]	21.12.2016	16.12.2020	1456	62.16 bn	8.42 bn

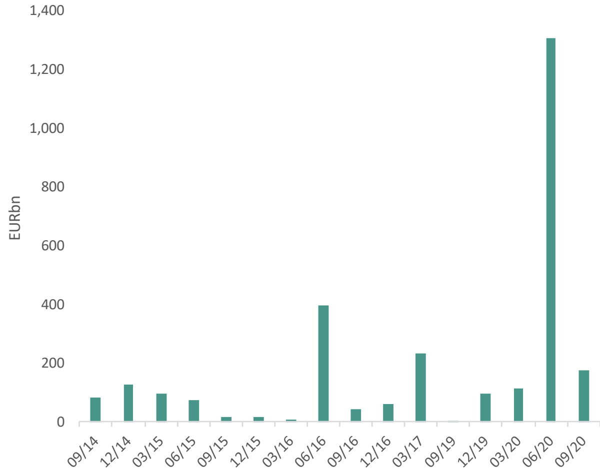
Source: ECB, NORD/LB Markets Strategy & Floor Research

Eurozone: trend in excess liquidity



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

Eurozone: TLTRO III utilisation



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

What could lead the ECB to initiate new measures or launch new operations?

The ECB's monetary policy direction is aligned with its mandate of price stability and the 2% inflation target. However, maintaining financial market stability also falls within the remit of the central bankers. With regard to the escalation of the coronavirus crisis at the start of the year, Lagarde recently highlighted that the measures implemented by the central banks have successfully contributed to calming the markets. Accordingly, all assessments of future monetary policy should take the necessary reactions to shock events into account, along with the economic constraints triggered by the present worsening of the pandemic around the world. In this article, we assume that the economic environment will remain challenging at least with the associated subdued upward pressure on prices. However, we do not explicitly take additional ad hoc strains on financial market stability into account.

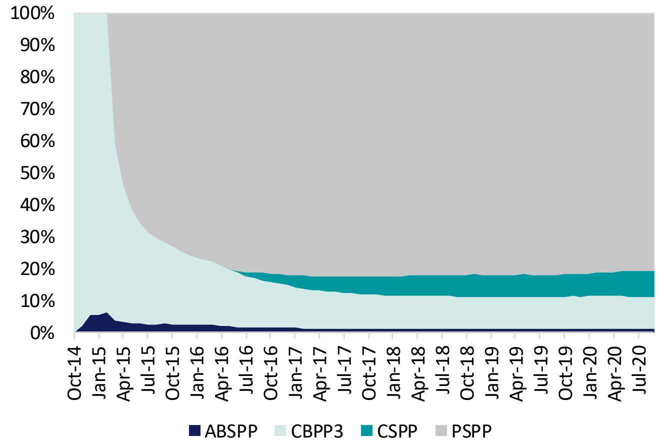
Tiering multiplier: adjustment conceivable in 2021

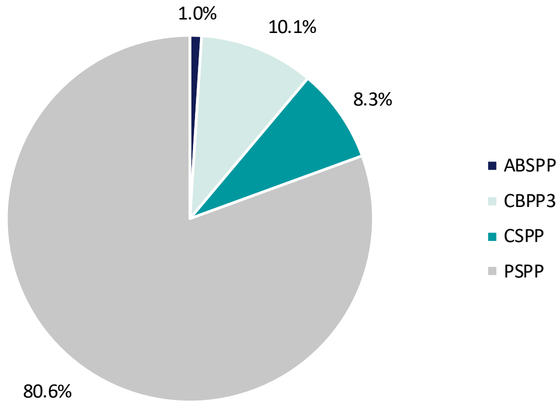
Negative interest rates represent a burden for the banking sector, which it is up to the ECB to mitigate. The ECB alleviated this by introducing tiering for interest rates on excess liquidity. However, the current multiplier of 6, with which the required minimum reserve of the individual banks is multiplied to determine the corresponding amount of excess reserves that can be deposited with an interest rate of 0.00%, dates back to 12 September 2019. Since the start of the coronavirus crisis, the aggregate excess liquidity for the eurozone has risen by 61.5% to EUR 3,085bn (reporting date: 30 September 2020), up from an already high level (31 March 2020: EUR 1,910bn). Although the strain on commercial banks from excess liquidity should also be viewed against the backdrop of the generous TLTRO-III terms, in our opinion, the ratio between TLTRO-III volumes and excess liquidity is moving in a direction that is to the detriment of the banking sector. We believe an adjustment to the multiplier is looking increasingly likely in order to continue to significantly mitigate the extent of these burdens, particularly assuming further rises in excess liquidity. While this step would result in an improved profit position for the banking sector as a whole, for the covered bond market, a significant adjustment could mean a decline in demand for bank treasuries in particular. This would apply especially to those issues with a negative yield.

Volumes of the purchase programmes (EUR m)

	ABSPP	CBPP3	CSPP	PSPP	APP
Aug 2020	29,542	284,464	228,224	2,273,588	2,815,818
Sept 2020	29,124	286,852	236,349	2,290,140	2,842,465
Δ	-418	+2,388	+8,125	+16,552	+26,647

Portfolio structure

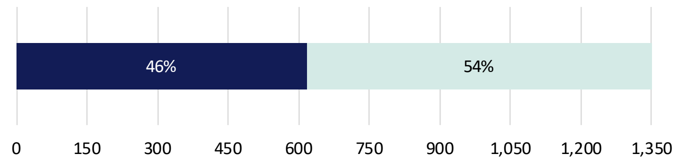




Volume of the PEPP (EUR m)

	PEPP
Aug 2020	499,876
Sept 2020	567,183
Δ	+67,308

Volume already invested (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 20.6bn	36 weeks (02 July 2021)

Volumes of the asset classes (EUR m)

	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
July 2020	0	3,128	17,620	34,845	384,464	440,057
Sept 2020	0	3,123	20,418	31,988	510,112	565,641
Δ	0	-5	+2,798	-2,857	+125,648	+125,584

Overview of private sector assets under the PEPP up to end of September 2020

	Asset-backed Securities		Covered Bonds		Corporate Bonds		Commercial Papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EUR m	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%

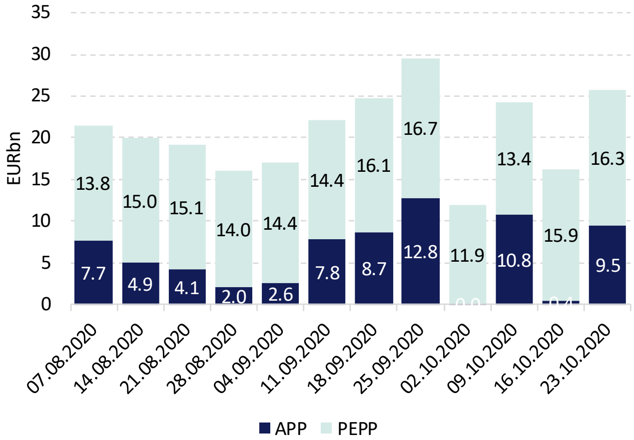
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under the APP and PEPP

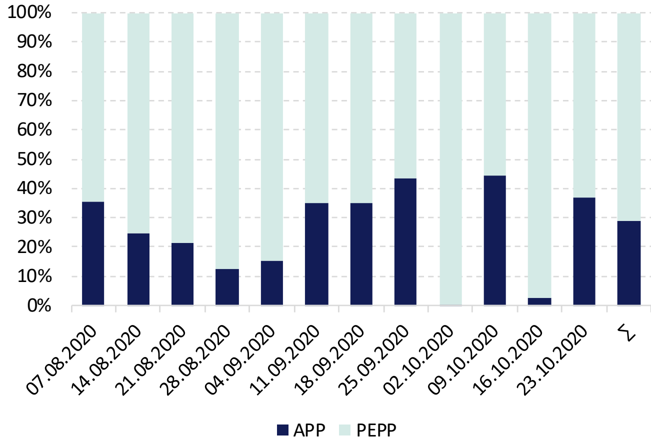
Volumes of the purchase programmes (EUR m)

	APP	PEPP	APP & PEPP
Aug 2020	2,815,818	499,876	3,315,694
Sept 2020	2,842,465	567,183	3,409,648
Δ	+26,647	+67,308	+93,955

Weekly purchase volume



Distribution of weekly net purchases



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

Changes to APP and launch of PEPP in 2020

Over six months ago, the ECB reacted to the global Covid-19 pandemic with a dedicated purchasing programme: the PEPP (Pandemic Emergency Purchase Programme). This came in the wake of having already increased its existing Asset Purchase Programme (APP) by EUR 120bn until the end of the year. While the purchasing volume of the PEPP initially amounted to EUR 750bn as described above, and net purchases were scheduled to continue to the end of 2020 at least, the volume was increased by a further EUR 600bn on 4 June to the present level of EUR 1,350bn and net purchasing activity was also extended by at least 6 months to the end of June 2021. Termination of net purchasing at this point in time is contingent on the ECB determining that the pandemic is already over by this date. The reinvestment of securities maturing under the PEPP, on the other hand, will continue at least until the end of 2022 in line with existing plans. The universe of assets eligible for purchase is also deliberately broader than for the APP. For instance, in the public sector segment, Greek government bonds and money market paper can be acquired, while in the corporate sector, non-financial commercial paper can also be purchased. The requirements regarding the minimum maturity of securities also differ in places and, in most cases, paper with shorter residual maturities can be purchased under the PEPP.

PEPP likely to be increased again before the year-end

Once again, the situation regarding the number of cases is serious and consequently we believe there is little likelihood that the ECB will decide that the pandemic is under control (as early as June 2021), let alone over, and move to end net purchasing under the PEPP. On the contrary, we rather assume that the ECB will increase the PEPP volume once more by EUR 400bn in December and will have to extend its term at the same time. As with the first successful increase, the signal this sends is likely to be important and understood as communication of room to manoeuvre on the part of the ECB. The reinvestment of maturing securities beyond 2022 would not come as a surprise either.

Possible PSPP extension overshadowed by the PEPP

Only one quarter of the economists surveyed by news agencies, such as Reuters or Bloomberg, expect the older and less efficient quantitative easing programme (APP) to be extended. In total, the APP had purchased a volume of EUR 2,842.5bn by the end of September and is therefore still five times larger than the actual PEPP. With a minimum volume of EUR 1,750bn, however, month by month, the PEPP will swiftly approach the level of the former heavyweight APP over the course of 2021. Moreover, the purpose and rationale of both programmes are clearly different. The APP is not aimed at tackling the crisis caused by the pandemic and is significantly less flexible. However, the eligible bond universe of the two programmes is fairly similar. We do not expect an interest rate cut, let alone a hike, in the near future or throughout all of 2021.

Conclusion and comment

"The year of the owl" ends on 31 October 2020. By this time, Christine Lagarde will have been in office for a full year and from the outset has shown herself to be neither a dove nor a hawk. This has prompted us not only to examine the measures taken to counter the pandemic but also to look at ideas such as TLTRO IV/V or an adjustment to the tiering multiplier. We are not expecting any earth-shattering news from tomorrow's meeting and are therefore already looking ahead to the meeting on 10 December. In our baseline scenario, we expect this last meeting of the ECB Council in 2020 and subsequent press conference to increase the PEPP by EUR 400bn. We are also forecasting a time extension for net purchasing activities until the end of 2021 at least (previously 30 June 2021) and an extension in reinvestment timelines (previously year-end 2022). The pandemic is rife again in a second wave and the package of measures will keep us busy way beyond the end of 2020. The ECB is practically being forced to react dynamically to the situation. The PEPP is gradually eclipsing the older and less effective APP and we are not expecting any adjustments to this programme for the time being. Consequently, a correct forecast here would have only a superficial impact on the Eurosystem's inflation target.

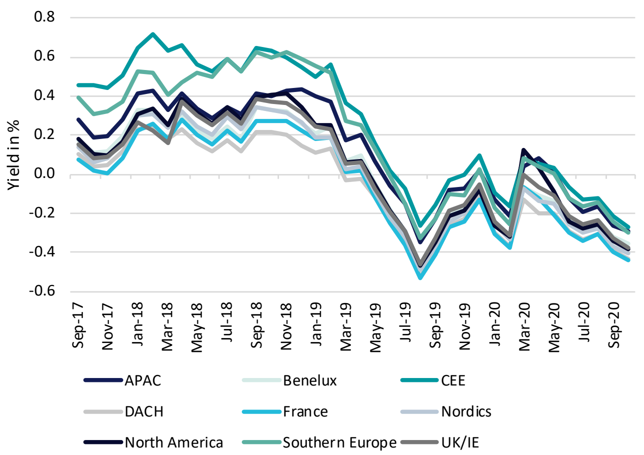
Covered Bonds
Yield developments on the covered bond market

Author: Henning Walten, CIIA

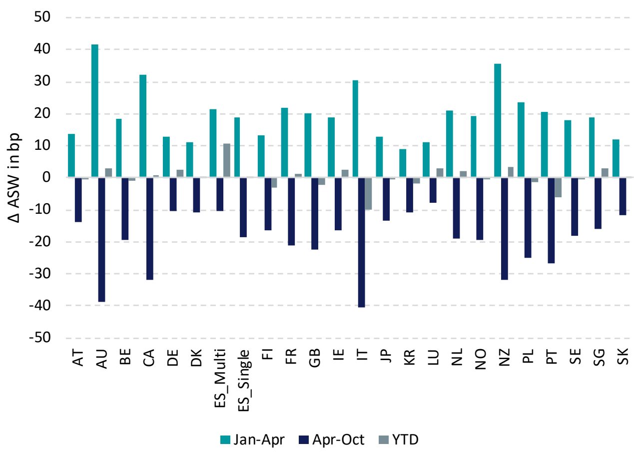
Issuing yields at new lows

New issuance yields on EUR benchmarks are currently reaching new lows almost irrespective of the maturity segment. For example, the deals placed by Wüstenrot Bausparkasse (13 October, 7y), Bausparkasse Schwäbisch Hall (15 October, 10y) and CFF (19 October, 15y) set new records in terms of negative issuing yields for the respective maturities. While yesterday's placement by Münchener Hypothekenbank (20y) only just escaped negative yield territory, at +0.02% it still has by far the lowest yield of a new issue with a term of at least 20 years. Aareal Bank's transaction on 21 October also brought a bond (new issue yield: -0.430%) in the 5y segment very close to the still existing low recorded just over a year ago (UniCredit Bank; 3 Sept. 2019; 5y; -0.511%). This situation has been brought about by the combination of negative net supply on the market, which has coincided with unbroken investment interest, especially from the Eurosystem, and has caused spreads to narrow significantly since the peak of the COVID 19 pandemic in the spring. For this reason, we propose take a look at the yield situation on the market for covered bonds in the article below.

Yield trend by region (5Y generic)



Spread trend in 2020 (5Y generic)



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

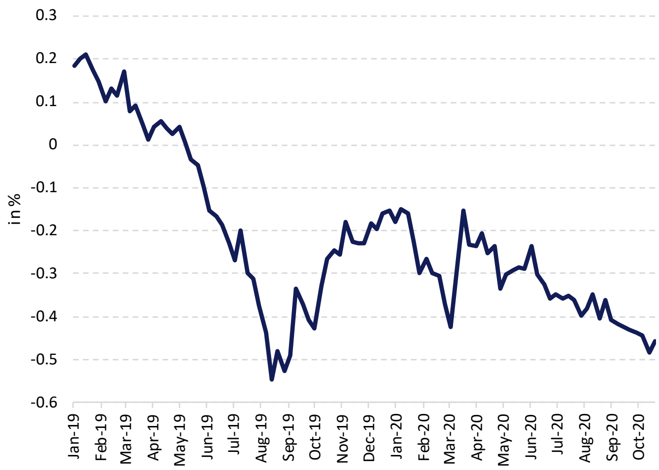
Spread and yield development in 2020

As can be seen from the charts, the current year was, unsurprisingly, characterised by two movements with regard to spreads. While spreads widened significantly up to the end of April with the increasing spread of the coronavirus throughout Europe and North America, from this point on both the (occasionally drastic) social measures to contain infection as well as the numerous and high-volume instruments on the part of central banks began to take effect, initiating a phase of opposing spread movement in the covered bond market. Therefore, covered bond yields with a term of five years are now below pre-crisis levels, and spreads have also almost returned to pre-pandemic levels.

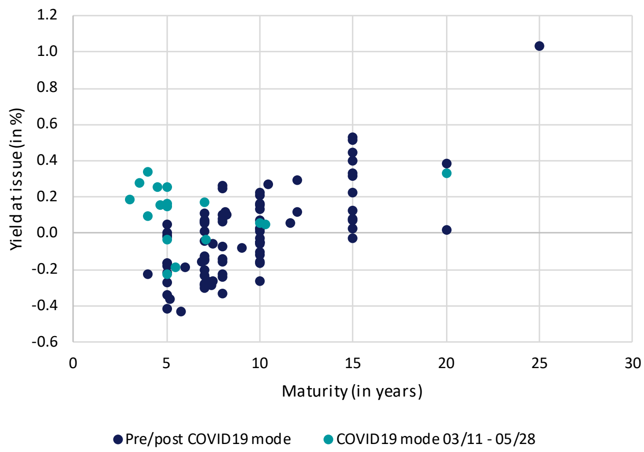
Spreads and swap yields fall in sync

In addition to the spread trend, the development of swap yields is also important for yields on covered bonds, which also sends out a clear signal and has a significant influence on the current yield situation. The current level is only about ten basis points away from the all-time low of late summer 2019. A further escalation of the coronavirus situation and therefore deteriorating economic prospects as well would likely push swap yields further south. The extent to which such a scenario actually occurs will depend to a large extent on the measures taken in the coming weeks. Further spread development is likely to remain characterised by slightly narrowing spreads for the time being, but at the beginning of next year, with a gradual return to normality in terms of issuance activity on the primary market, it will lose momentum and initially move sideways. This is, however, an assumption that is once again dependent on the pandemic situation and is therefore a forecast that comes with a high degree of uncertainty.

Trend in 5y swap yields (YTD)



New issuance yields 2020

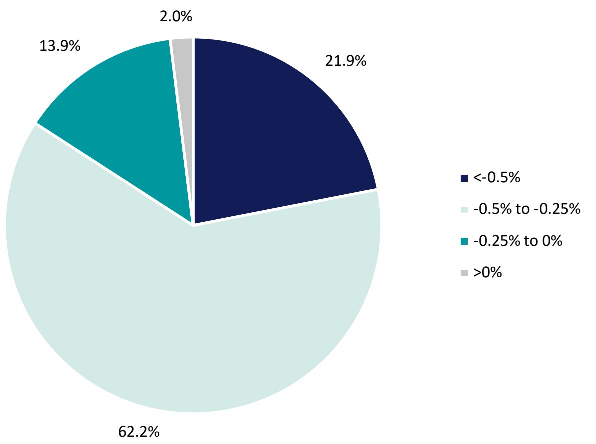


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

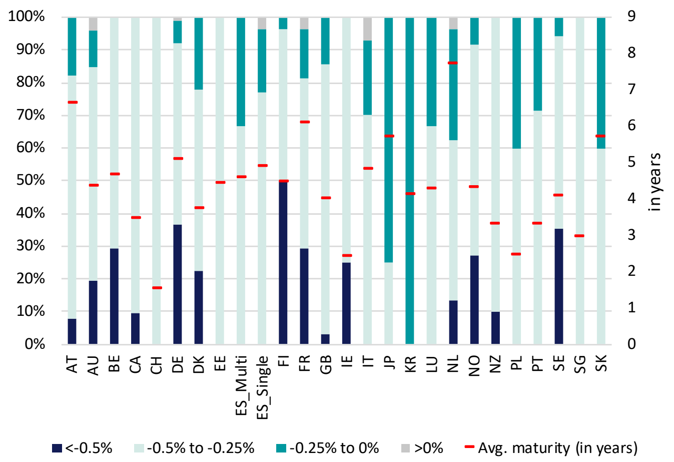
COVID-19 led to the short-term issuance of short maturities with positive yields

While issuers increasingly focused on short maturities in the range of five years due to the prevailing uncertainty on the market during the (previous) peak phase of the pandemic and these came to market at that time with positive issue yields, at the beginning of the year, and thus before the outbreak of the pandemic, even greater emphasis was placed on longer maturities in order to offer investors yields that were not too firmly entrenched in negative territory. For example, only six of the 31 bonds placed in January had a negative yield, whereas of the 26 covered bonds issued since the end of the summer recess only five transactions have had a positive yield. As mentioned above, these included numerous deals that marked new lows in issue yields. The CFF deal dated 19 October was all the more remarkable because it was the first EUR benchmark with a maturity of at least 15 years to have a negative yield when it went to market. Demand was by no means impaired in the current market phase, and so the deal was more than twice oversubscribed and also performed well in the secondary market.

Yields in iBoxx EUR Covered



Yields by jurisdiction

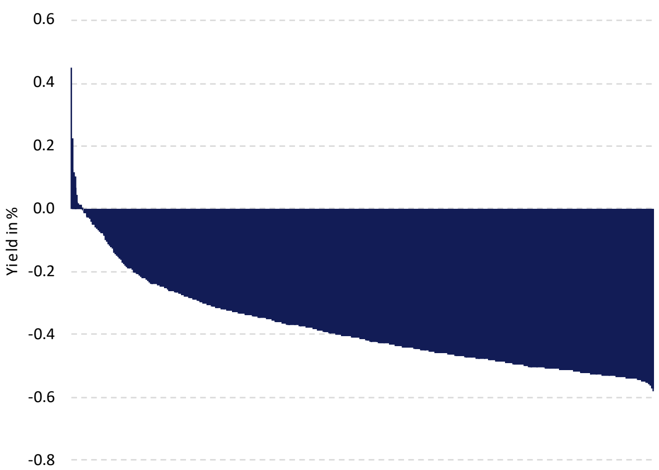


Source: Markit, Bloomberg, NORD/LB Markets Strategy & Floor Research

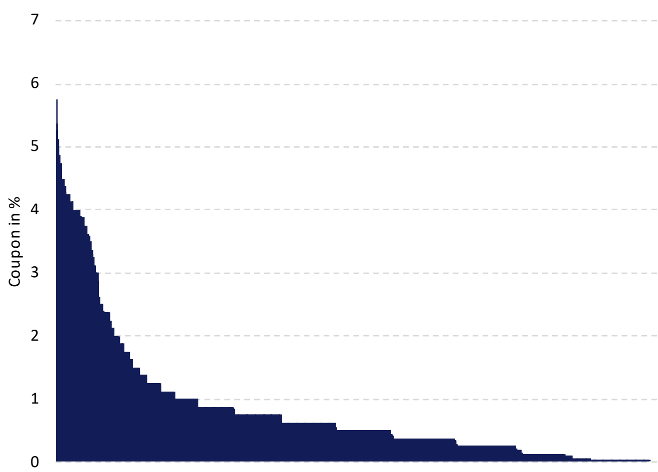
Bonds in the iBoxx EUR Covered almost completely negative interest rate

For an assessment of the current yield situation on the market for EUR benchmark bonds, it is worth taking a look at the iBoxx EUR Covered, as we did towards the end of last year (see [Covered Bond & SSA View of 4 December 2019](#)). The recent review reveals that currently only 2% (18 bonds) of the ISINs included in the index have a positive yield. With the exception of two Italian deals with short and medium residual terms, this is due to the high average residual term of 17.1 years. French institutions dominate with seven bonds. With 62.2% and 573 benchmarks respectively more than half of the covered bonds included in the index can be allocated to the yield cluster "-0.5% to -0.25%". Overall, 21.9% (202 deals) are in the lowest yield category. It is not a surprise that these are increasingly bonds with only a limited residual maturity (average: 2.2 years). However, it also includes three Finnish EUR benchmarks, which each have a remaining term of more than four years.

Distribution of yields: iBoxx EUR Covered



Distribution of coupons: iBoxx EUR Covered



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

The coupon: a relic from old times

While the iBoxx EUR Covered certainly still includes benchmarks with a significant coupon (182 bonds with a coupon of more than 1%), the current situation for new issues looks much bleaker. In total, 64 of the 103 new issues in the current year have the smallest possible coupon of 0.01%. This equates to a share of 62.1%. KBC Bank from Belgium even placed a bond without a coupon at the end of May. According to our database, this was only the case for 16 EUR benchmarks in total. It can therefore be said that, in addition to positive issue yields, coupons are also becoming increasingly rare on the covered bond market at the moment and, in our opinion, are not likely to experience a revival any time soon.

Conclusion

The majority of covered bonds in EUR benchmark format are once again in negative yield territory. This situation is caused both by the massive demand from the ECB and the negative net supply resulting from the pandemic. The economic outlook and inflation expectations are doing the rest, pushing swap yields ever closer to an all-time low. After CFF from France recently brought a 15y deal to market with a negative yield, Münchener Hypothekenbank scraped the zero line with yesterday's 20y deal and assigned a deal with an issue yield of +0.02%. The iBoxx EUR Covered is also dominated by bonds with negative yields. A reversal of the current trend in terms of yields is therefore unlikely for the time being. At any rate, there is no sign that demand is set to collapse, as the current situation regarding oversubscription ratios (bid-to-cover) underlines.

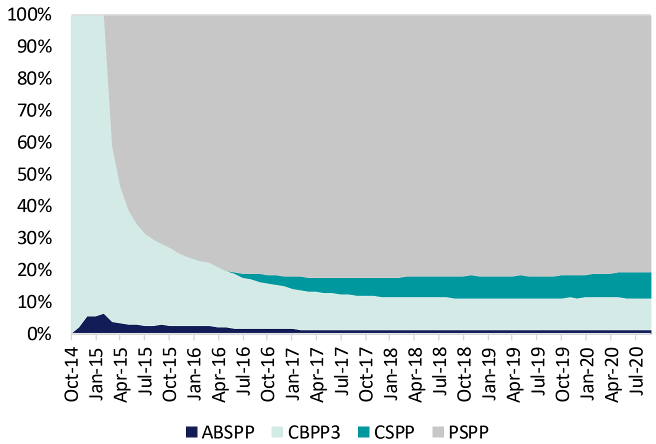
ECB tracker

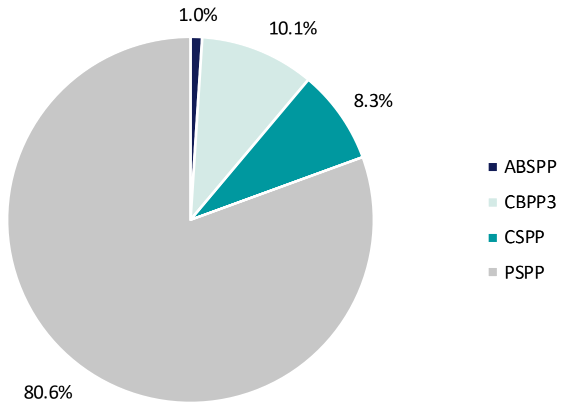
Asset Purchase Programme (APP)

Holdings (in EURm)

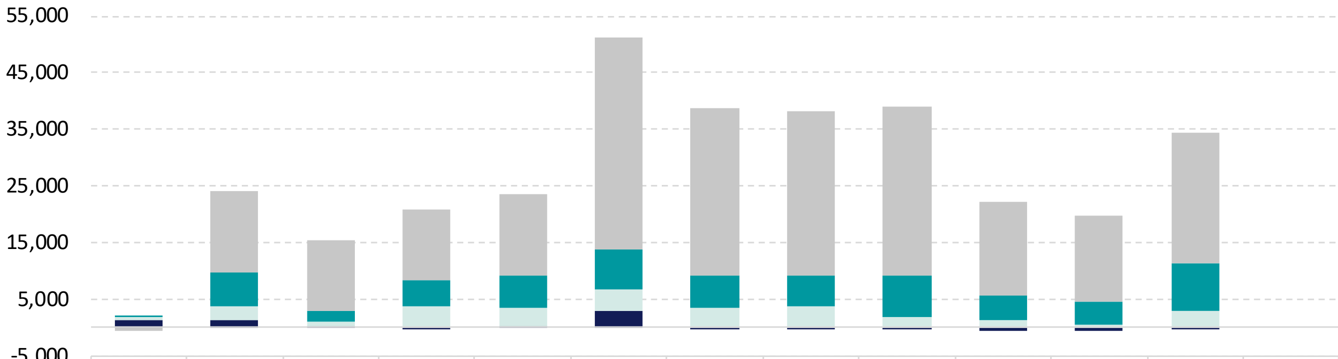
	ABSPP	CBPP3	CSPP	PSPP	APP
Aug-20	29,542	284,464	228,224	2,273,588	2,815,818
Sep-20	29,124	286,852	236,349	2,290,140	2,842,465
Δ	-418	+2,388	+8,125	+16,552	+26,647

Portfolio structure





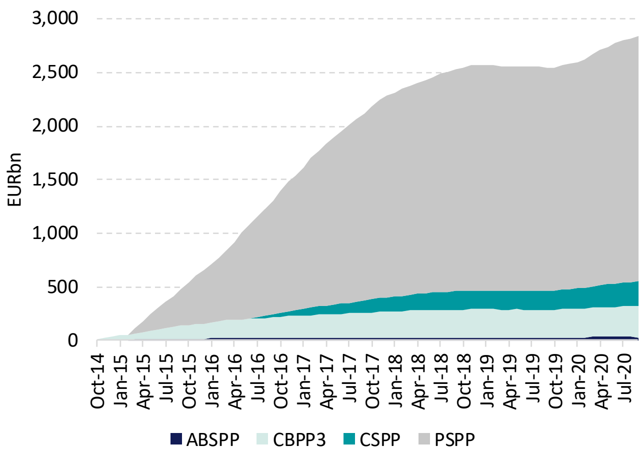
Monthly net purchases (in EURm)



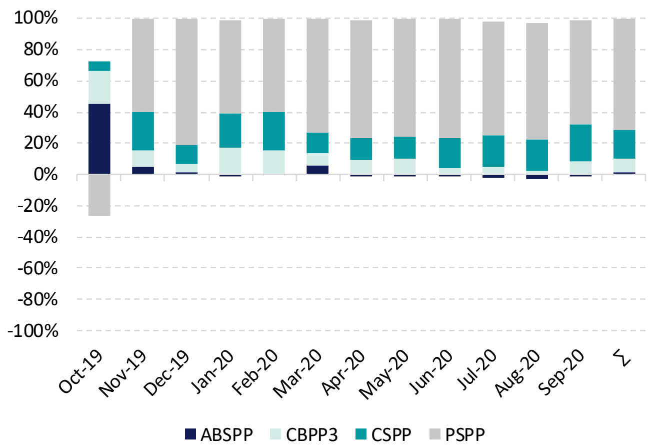
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
APP	1,180	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,025	325,712
PSPP	-698	14,478	12,515	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	233,168
CSPP	159	5,917	1,799	4,611	5,738	6,965	5,560	5,438	7,515	4,502	4,004	8,496	60,704
CBPP3	559	2,448	865	3,684	3,334	3,931	3,582	3,785	1,731	1,198	500	2,839	28,456
ABSPP	1,160	1,253	229	-328	221	2,923	-325	-14	-255	-541	-527	-412	3,384

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

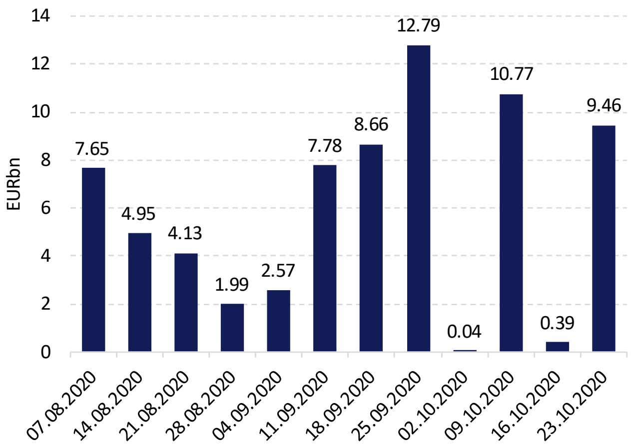
Portfolio development



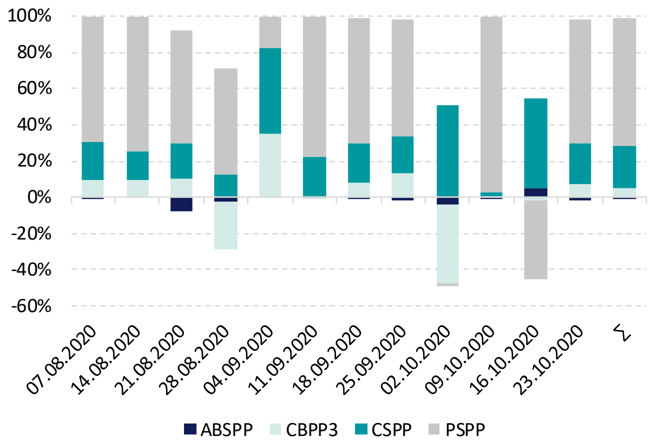
Distribution of monthly purchases



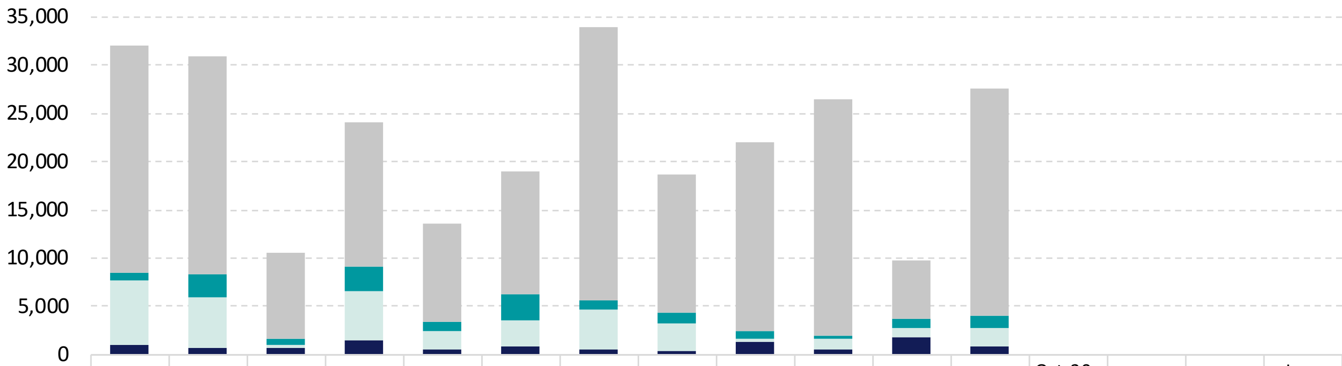
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

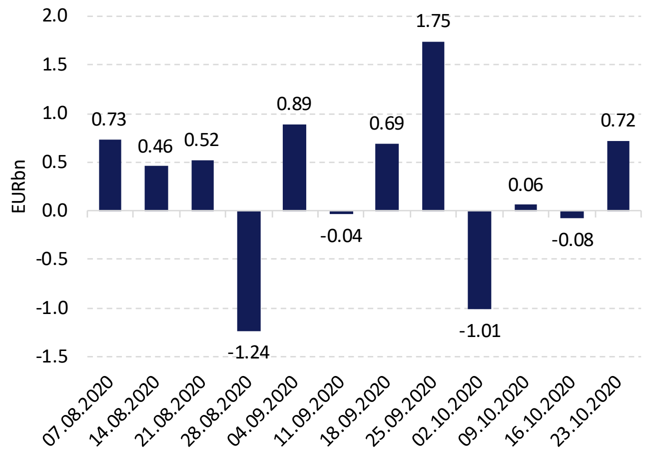


	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-20 - Sep-21	2019	2020	Jan - Sep-21
APP	32,140	30,889	10,544	24,169	13,584	18,989	34,029	18,754	21,971	26,496	9,726	27,590	268,881	204,542	260,115	195,308
PSPP	23,629	22,509	8,871	15,064	10,268	12,677	28,417	14,353	19,519	24,538	6,056	23,642	209,543	167,334	201,482	154,534
CSPP	875	2,431	701	2,589	846	2,730	981	1,144	773	331	966	1,276	15,643	7,070	16,313	11,636
CBPP3	6,568	5,281	302	5,092	2,002	2,759	4,047	2,840	356	1,116	962	1,772	33,097	21,948	33,219	20,946
ABSPP	1,068	668	670	1,424	468	823	584	417	1,323	511	1,742	900	10,598	8,190	9,101	8,192

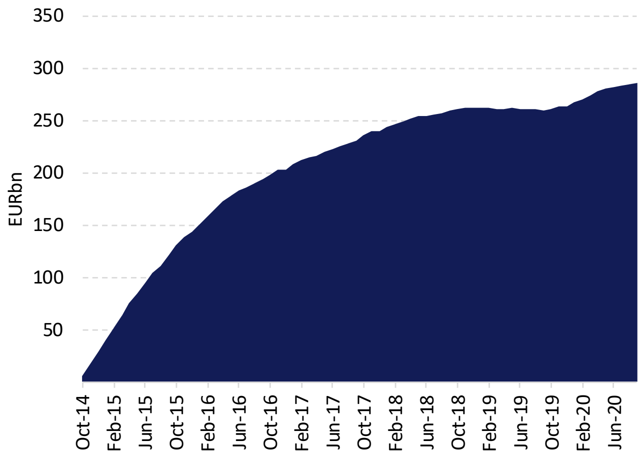
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

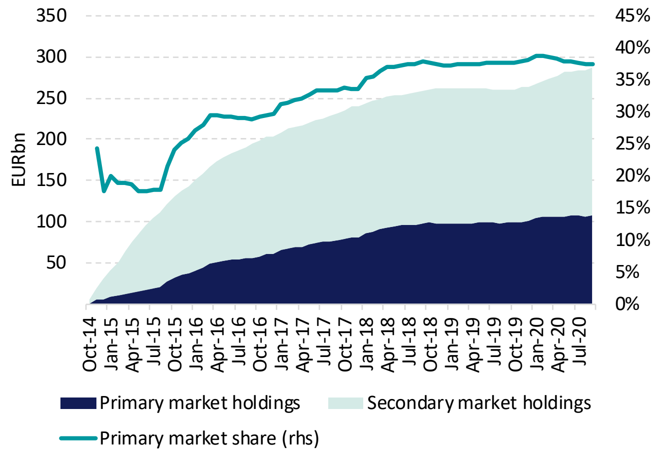
Weekly purchases



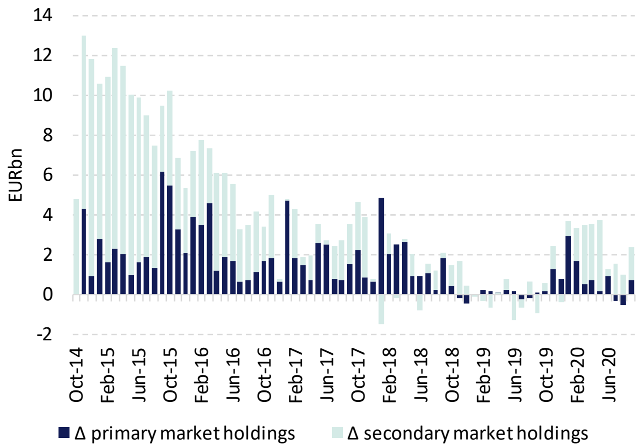
Development of CBPP3 volume



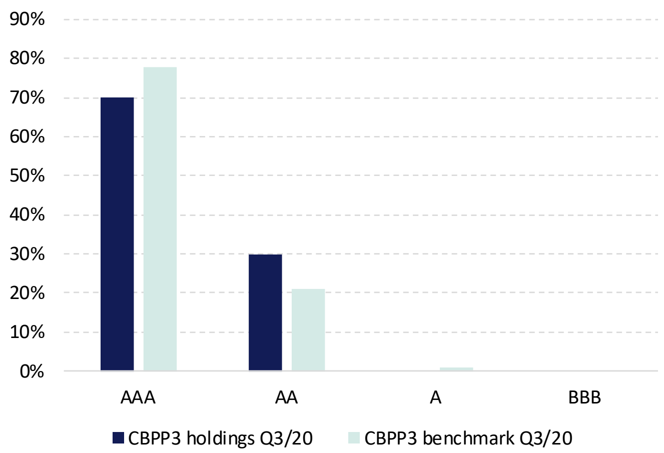
Primary and secondary market holdings



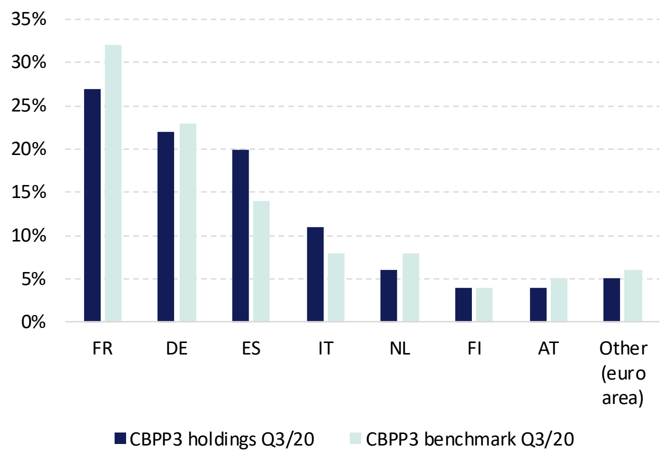
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



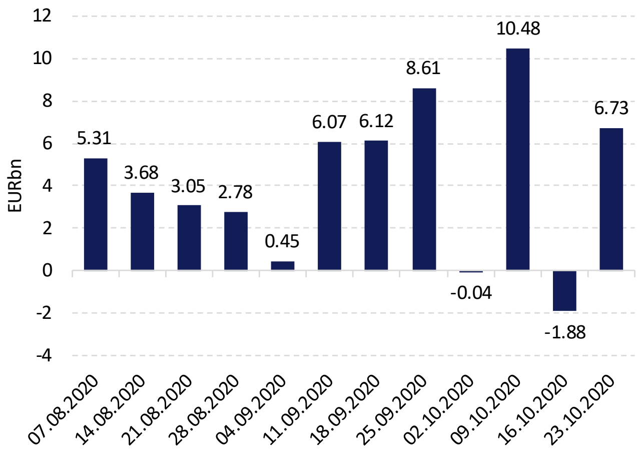
Distribution of CBPP3 by country of risk



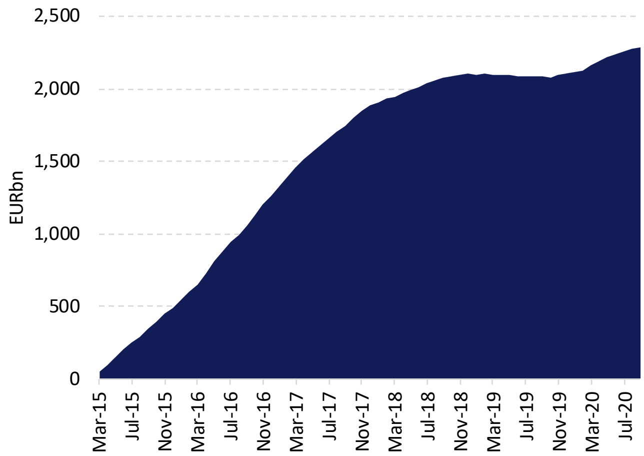
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



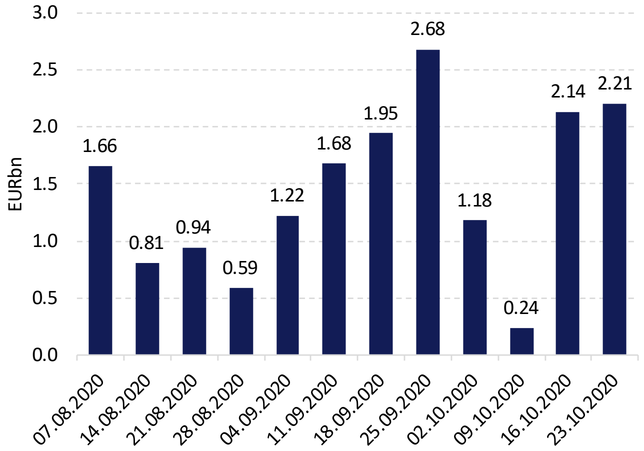
Overall distribution of PSPP buying at month-end

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%	66,079	64,956	1,123	7.85	7.53	0.3
BE	3.362%	84,096	80,854	3,242	8.40	9.77	-1.4
CY	0.199%	2,894	4,775	-1,881	10.12	9.26	0.9
DE	24.327%	554,810	585,035	-30,225	6.50	7.56	-111
EE	0.260%	224	6,252	-6,028	9.68	9.68	0.0
ES	11.004%	284,516	264,640	19,876	8.14	8.38	-0.2
FI	1.695%	34,173	40,765	-6,592	7.17	8.02	-0.8
FR	18.848%	482,382	453,273	29,109	7.04	8.16	-1.1
IE	1.563%	36,011	37,581	-1,570	8.63	9.95	-1.3
IT	15.677%	411,405	377,022	34,383	7.07	7.54	-0.5
LT	0.360%	4,298	8,648	-4,350	9.51	11.29	-1.8
LU	0.304%	2,646	7,310	-4,664	5.02	6.53	-1.5
LV	0.534%	2,789	12,844	-10,055	10.02	10.49	-0.5
MT	0.097%	1,203	2,328	-1,125	10.03	9.27	0.8
NL	5.408%	114,094	130,059	-15,965	7.52	8.56	-1.0
PT	2.160%	44,501	51,942	-7,441	7.19	7.44	-0.3
SI	0.444%	8,630	10,686	-2,056	9.36	9.39	0.0
SK	1.057%	13,527	25,416	-11,889	8.35	8.67	-0.3
GR	0.00%	0	0	0	0.00	15.95	0.0
SNAT	10.00%	254,597	240,487	14,110	7.23	8.23	-1.0
Total / Avg.	**100.0%**	**2,404,873**	**-**	**-**	**7.21**	**8.14**	**-0.9**

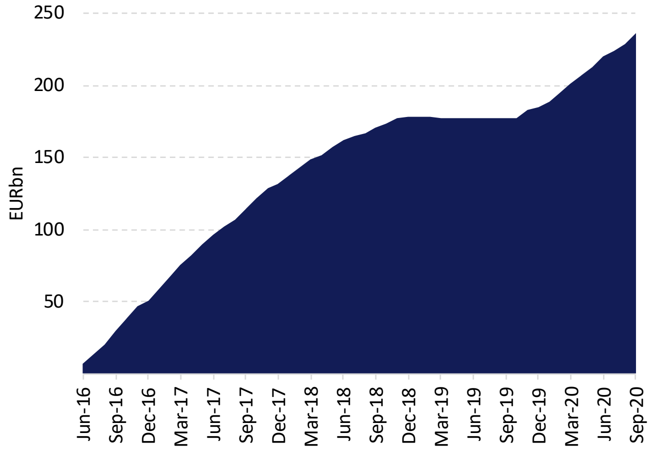
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

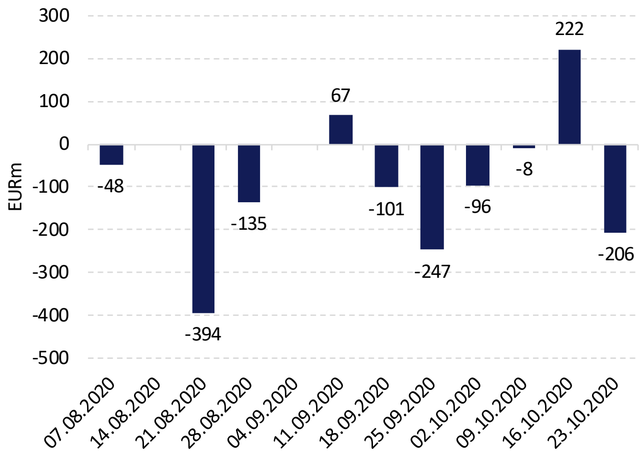


Development of CSPP volume

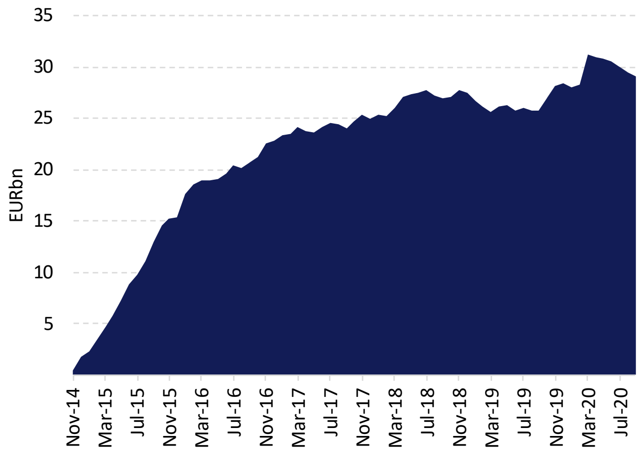


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



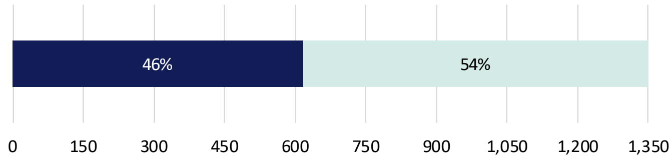
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Aug-20	499,876
Sep-20	567,183
Δ	+67,308

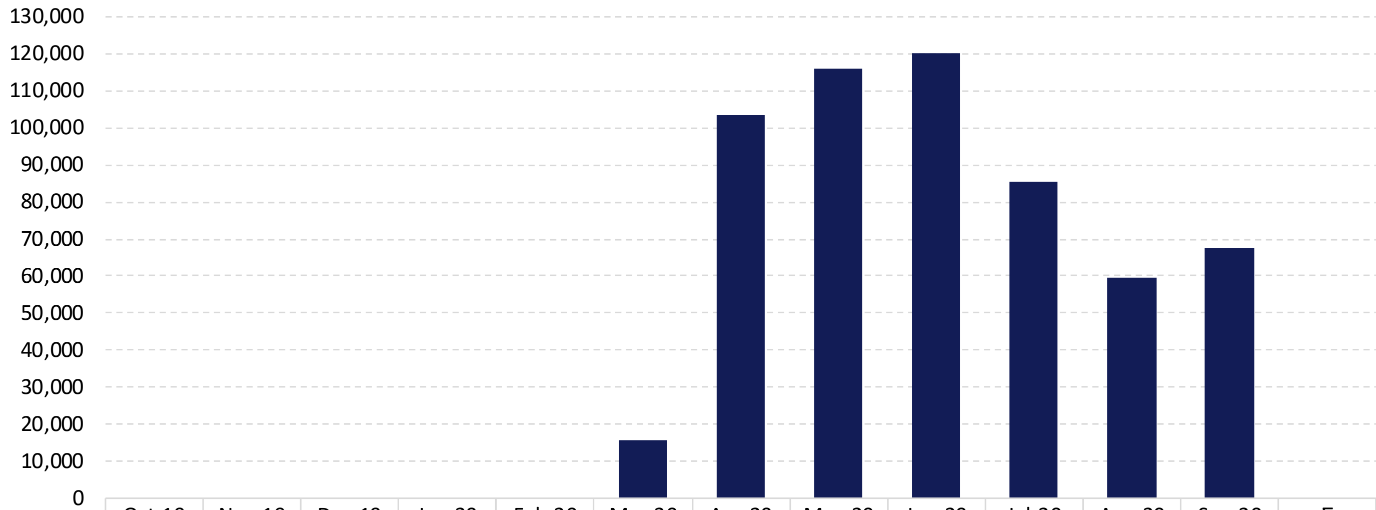
Volume already invested (in EURbn)



Estimated portfolio development

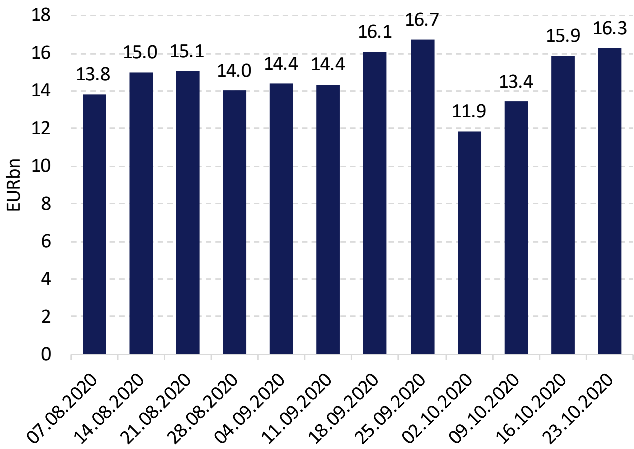
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 20.6bn	36 weeks (02.07.2021)

Monthly net purchases (in EURm)

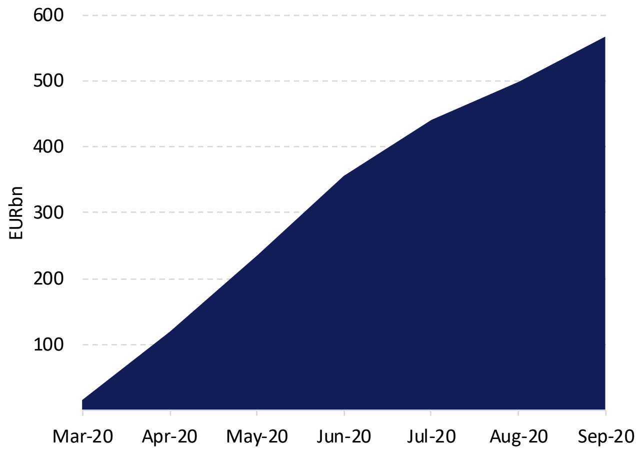


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
■ PEPP	0	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	567,183

Weekly purchases



Development of PEPP volume

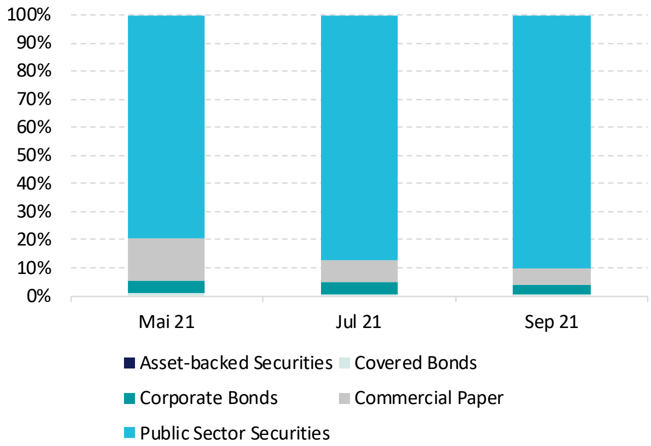


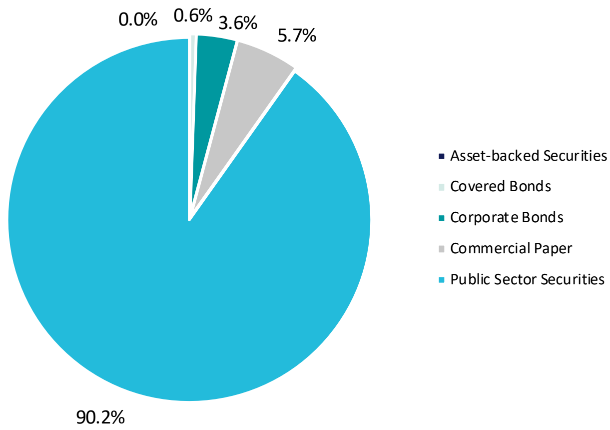
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

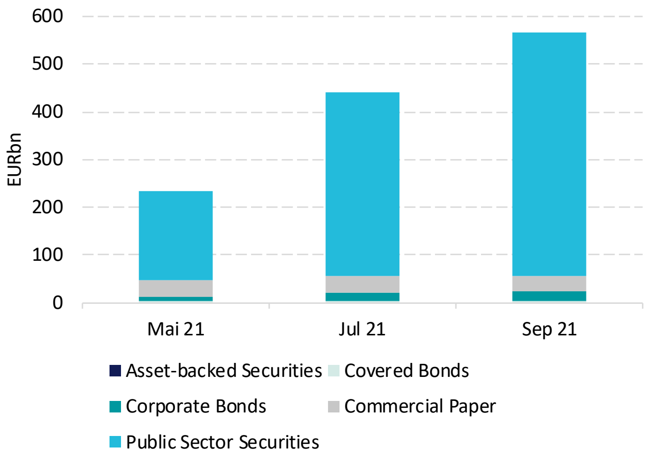
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Jul-20	0	3,128	17,620	34,845	384,464	440,057
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Δ	0	-5	+2,798	-2,857	+125,648	+125,584

Portfolio structure

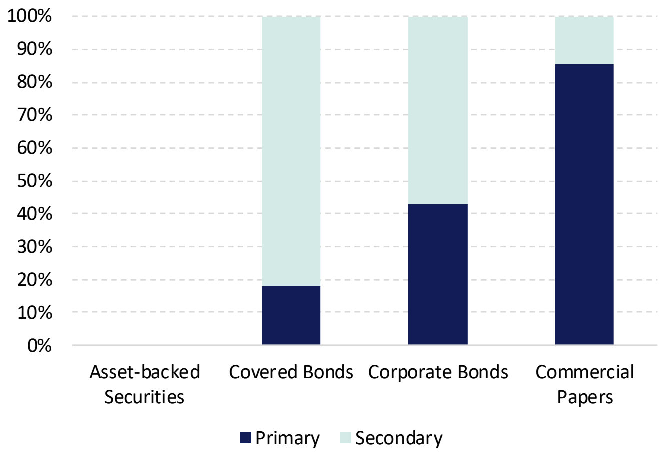




Portfolio development



Share of primary and secondary market holdings



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

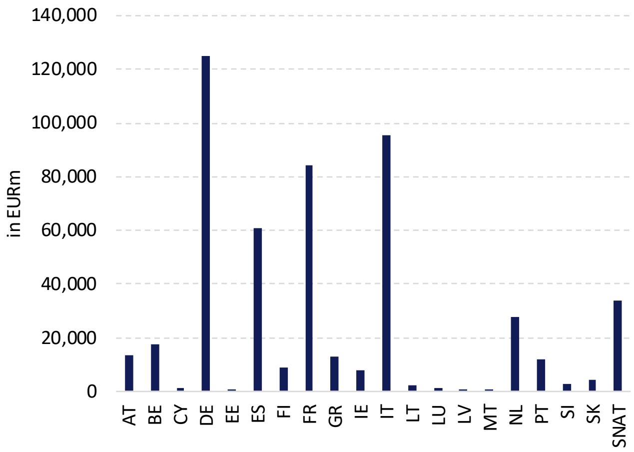
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	557	2,566	8,735	11,683	27,281	4,707
Share	0.0%	0.0%	17.8%	82.2%	42.8%	57.2%	85.3%	14.7%

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

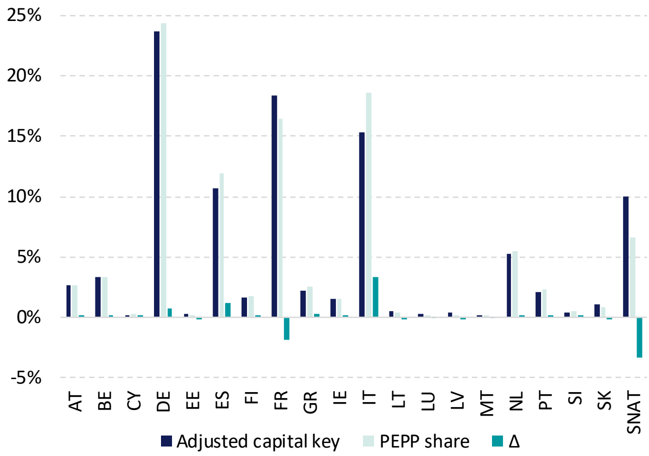
Breakdown of public sector securities under the PEPP

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



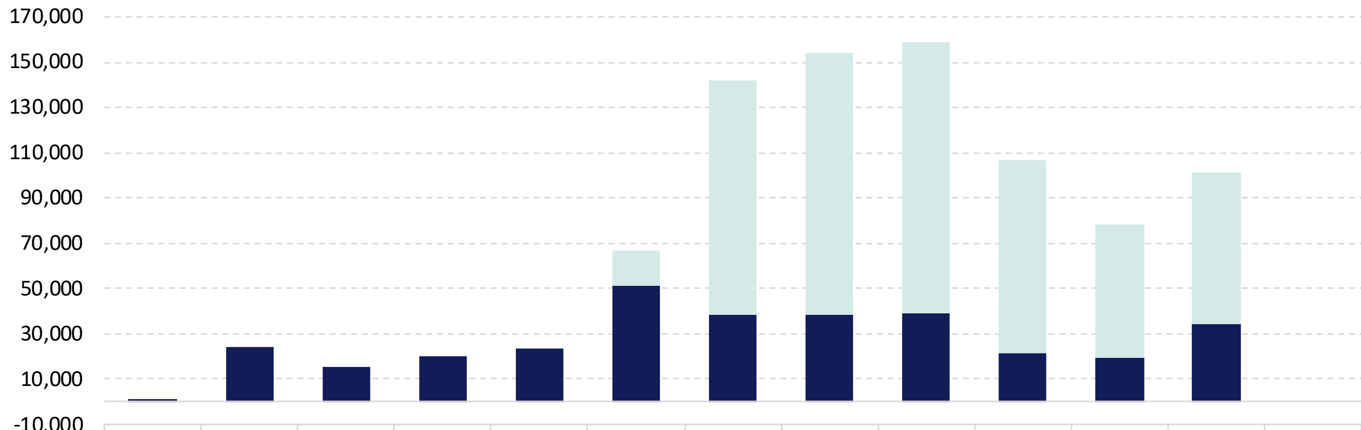
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

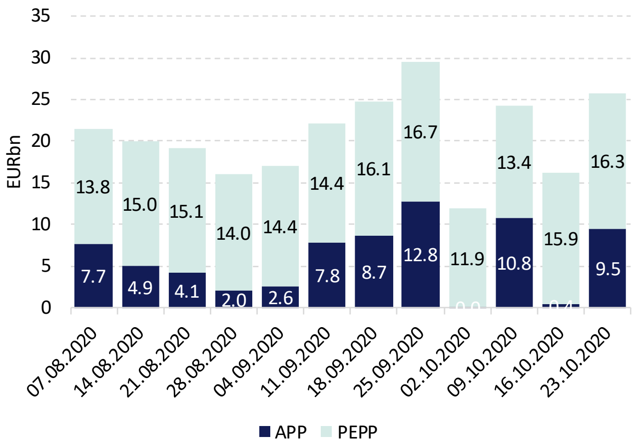
	APP	PEPP	APP & PEPP
Aug-20	2,815,818	499,876	3,315,694
Sep-20	2,842,465	567,183	3,409,648
Δ	+26,647	+67,308	+93,955

Monthly net purchases (in EURm)

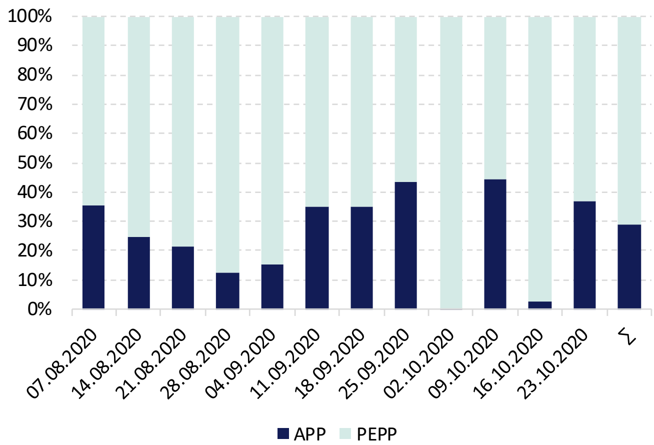


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
∑	1,180	24,096	15,408	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,333	892,895
PEPP	0	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	567,183
APP	1,180	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,025	325,712

Weekly purchases



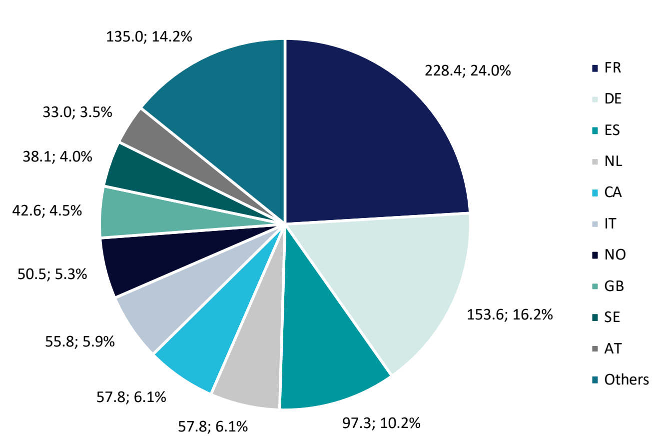
Distribution of weekly purchases



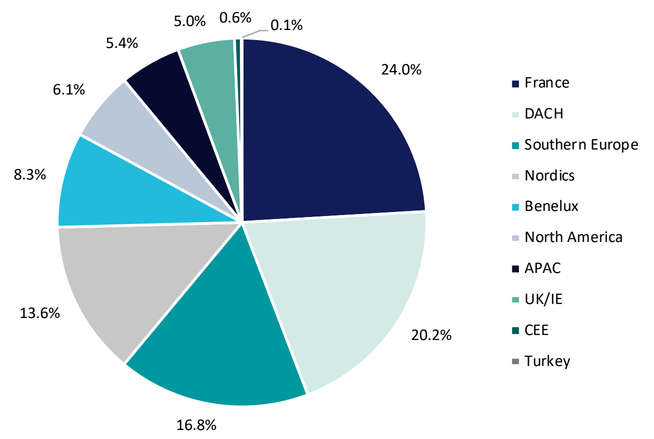
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



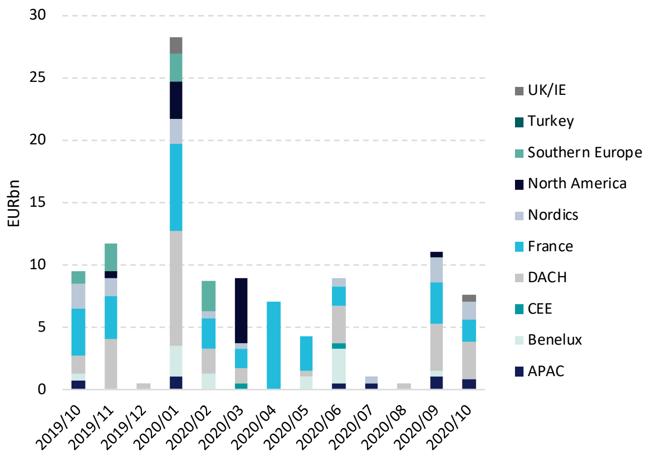
EUR benchmark volume by region (in EURbn)



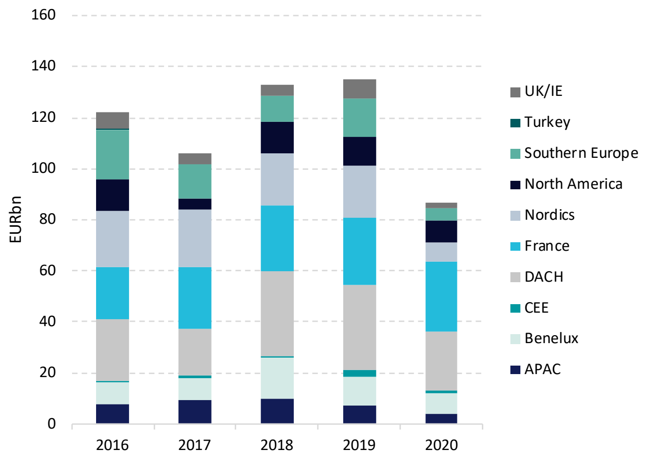
Top-10 jurisdictions

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	228.4	207	7	0.97	10.1	5.5	1.28
2	DE	153.6	228	12	0.61	8.1	4.8	0.50
3	ES	97.3	78	3	1.15	11.2	3.9	1.85
4	NL	57.8	56	0	0.98	10.8	7.0	1.02
5	CA	57.8	49	0	1.15	5.9	3.0	0.32
6	IT	55.8	64	0	0.84	8.8	4.2	1.58
7	NO	50.5	57	6	0.89	7.1	3.7	0.62
8	GB	42.6	46	0	0.94	8.2	3.2	1.24
9	SE	38.1	43	0	0.88	7.3	3.2	0.63
10	AT	33.0	59	0	0.56	9.2	5.6	0.84

EUR benchmark issue volume by month

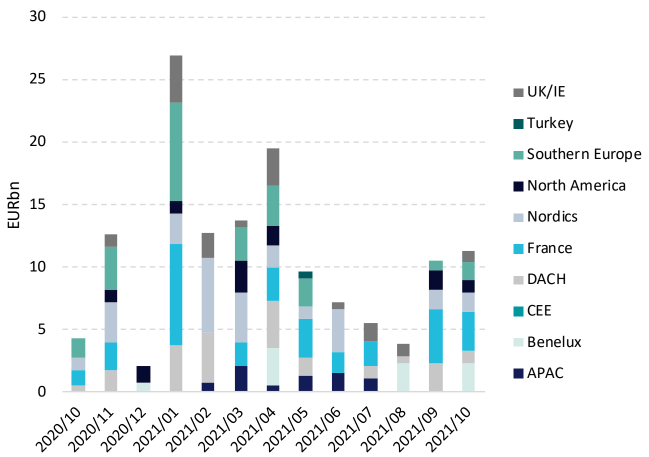


EUR benchmark issue volume by year

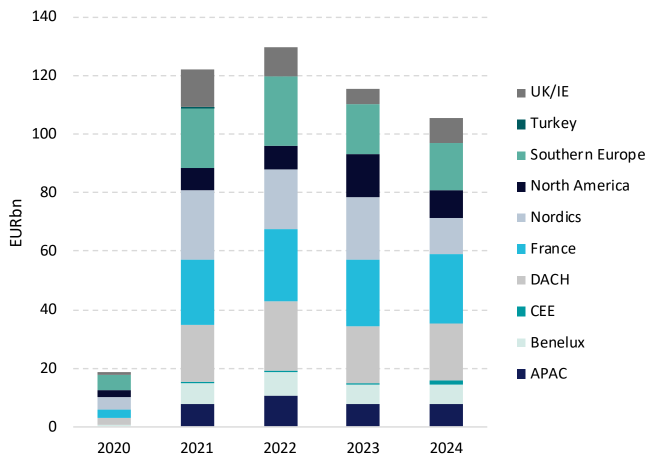


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

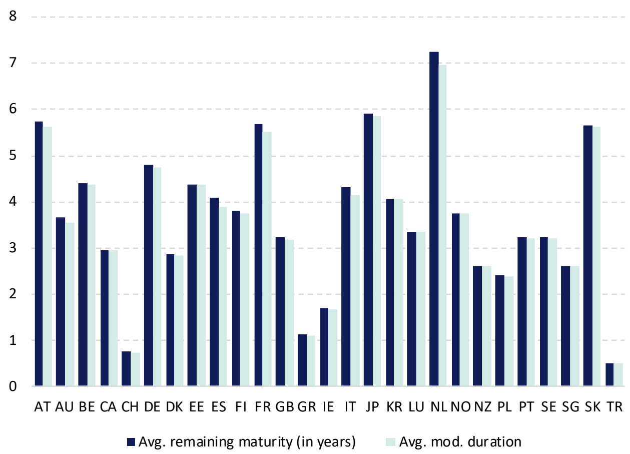
EUR benchmark maturities by month



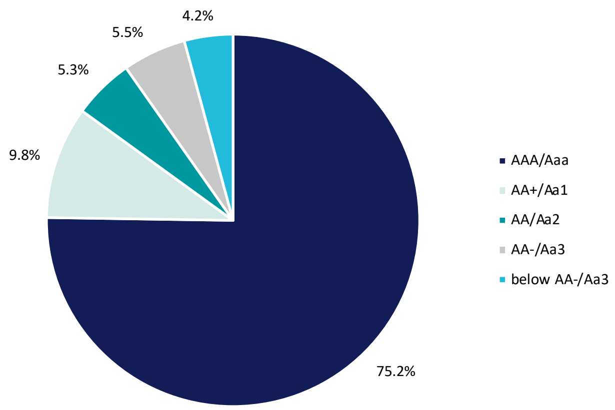
EUR benchmark maturities by year



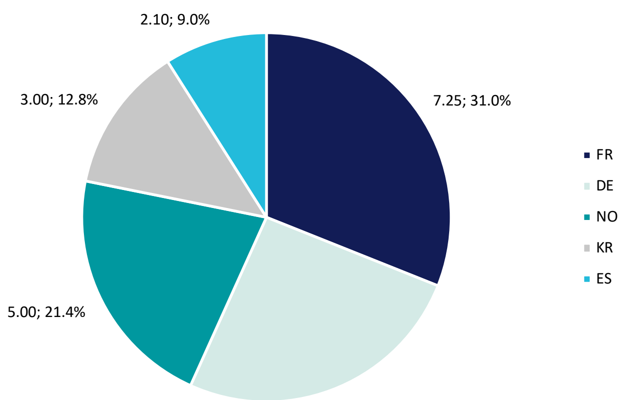
Modified duration and time to maturity by country



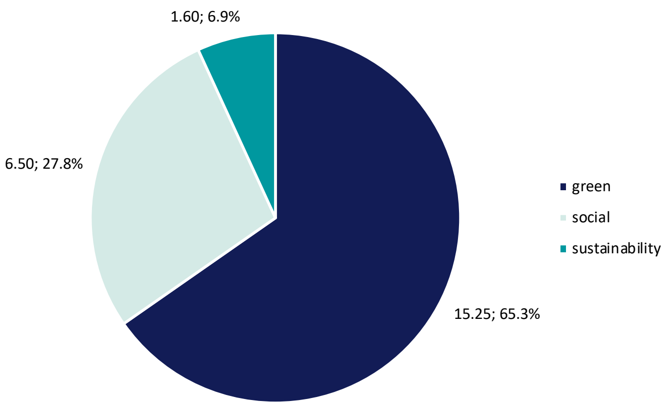
Rating distribution (volume weighted)



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

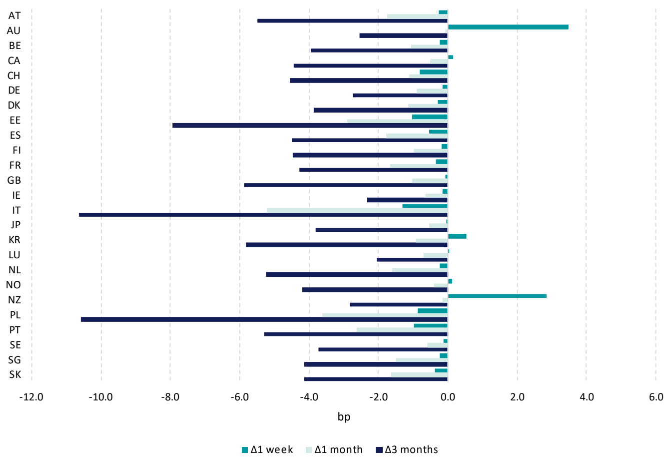


EUR benchmark volume (ESG) by type (in EURbn)

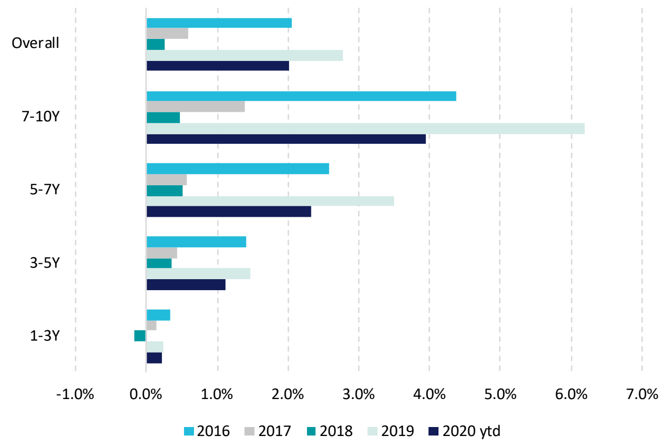


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

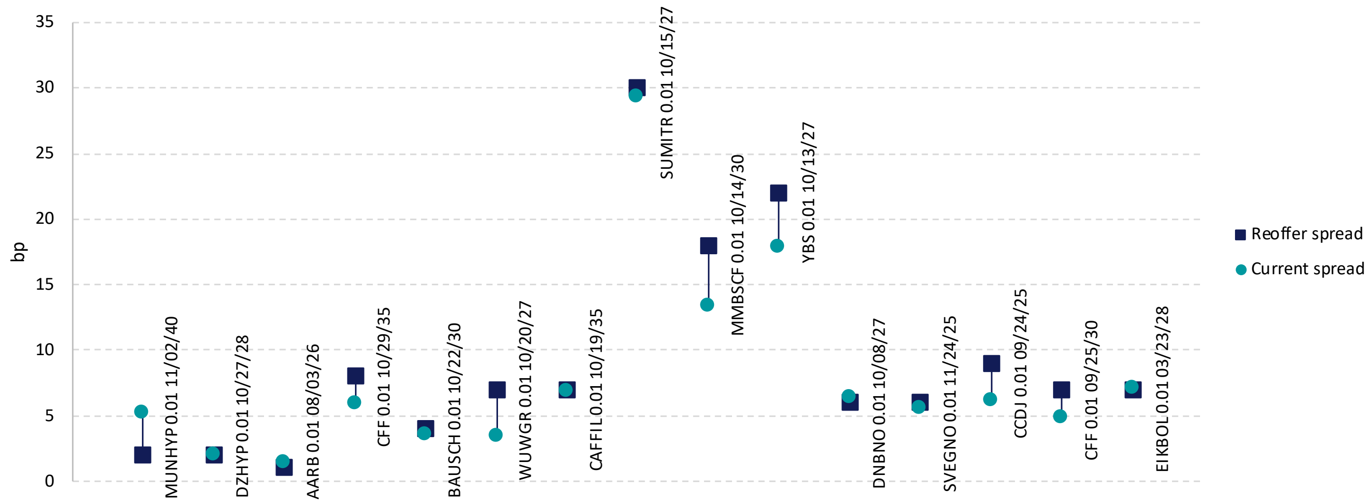
Spread development by country



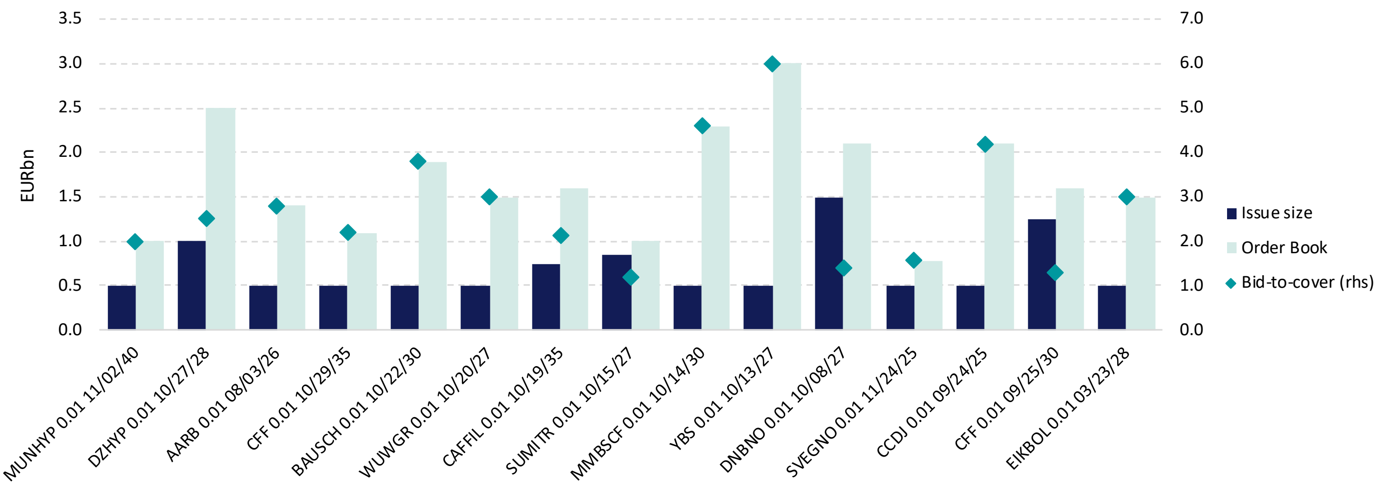
Covered bond performance (Total return)



Spread development (last 15 issues)



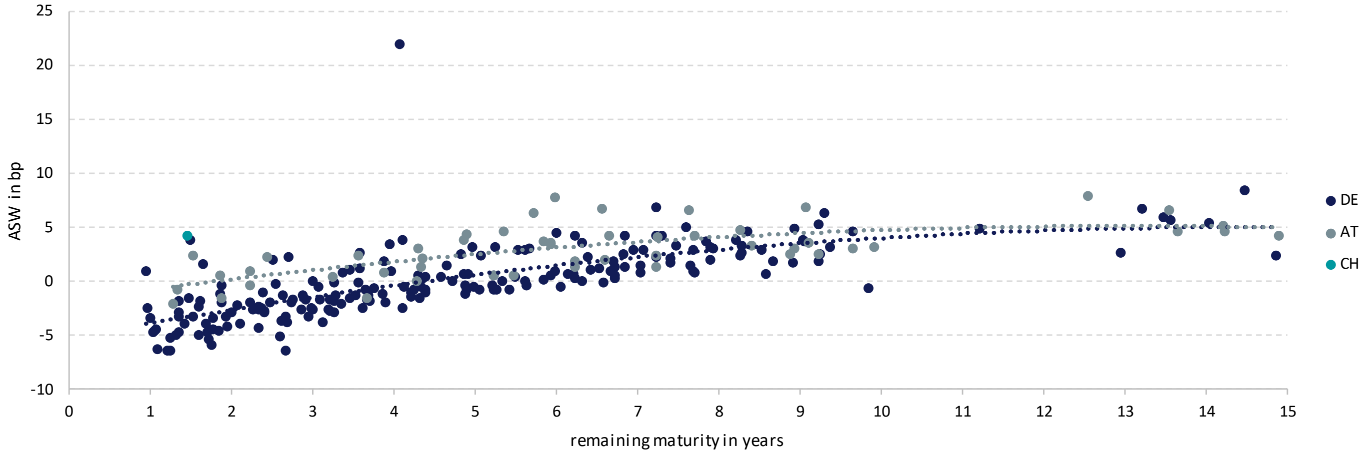
Order books (last 15 issues)



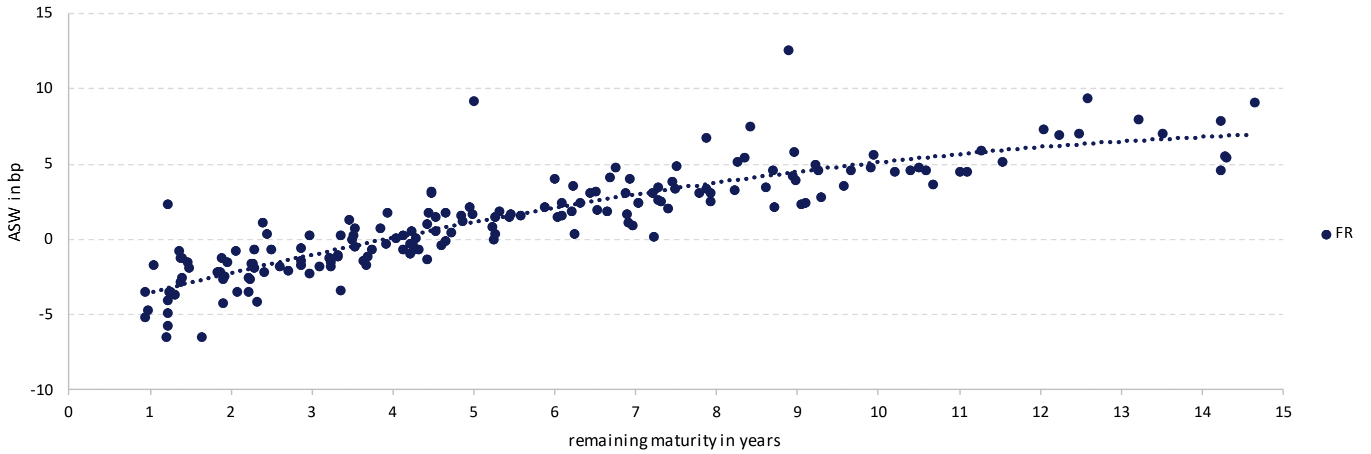
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

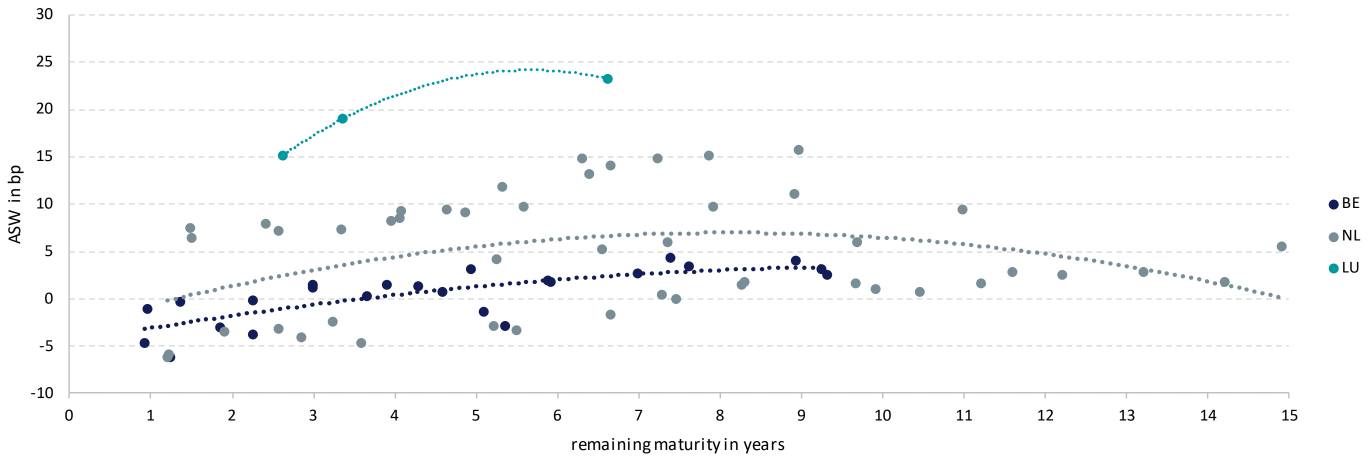
DACH



France

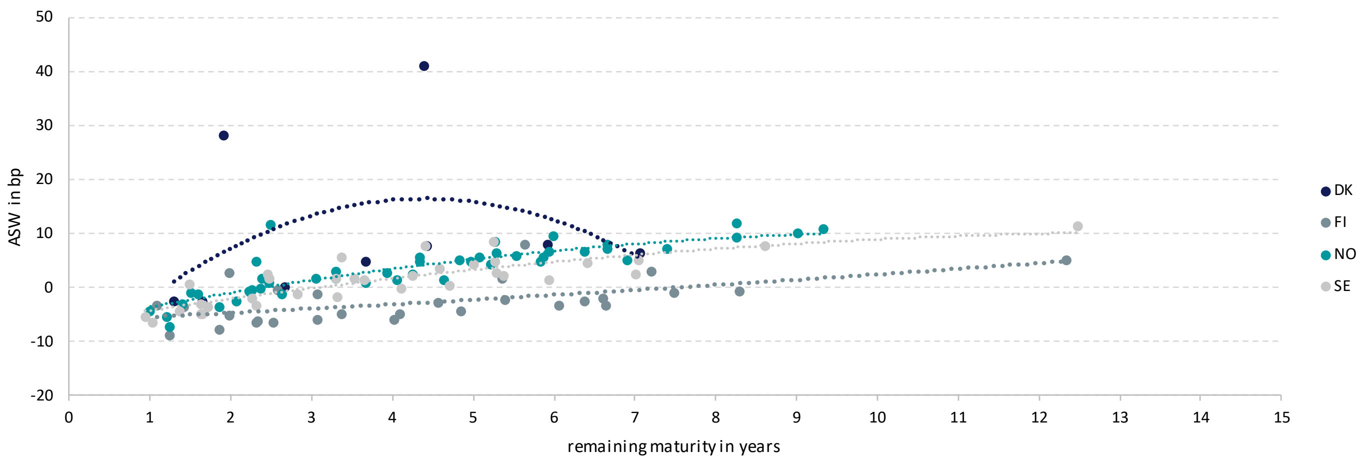


Benelux

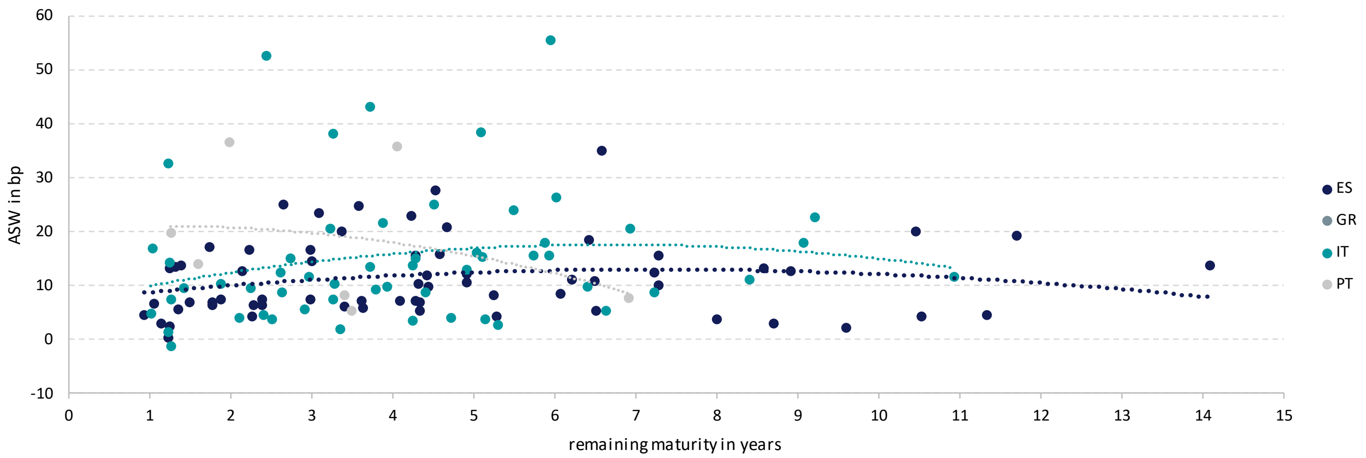


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

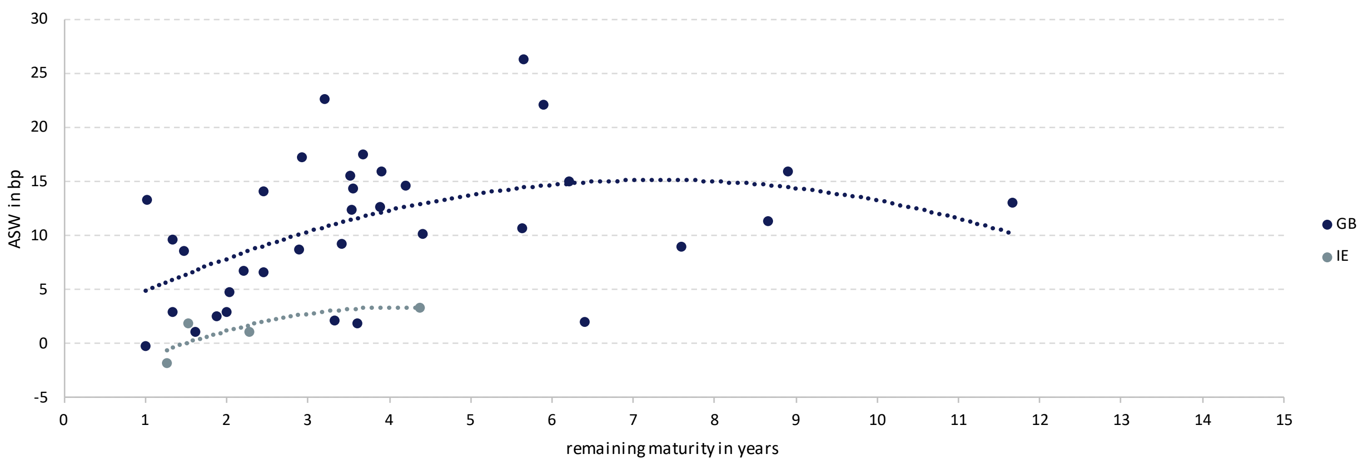
Nordics



Southern Europe

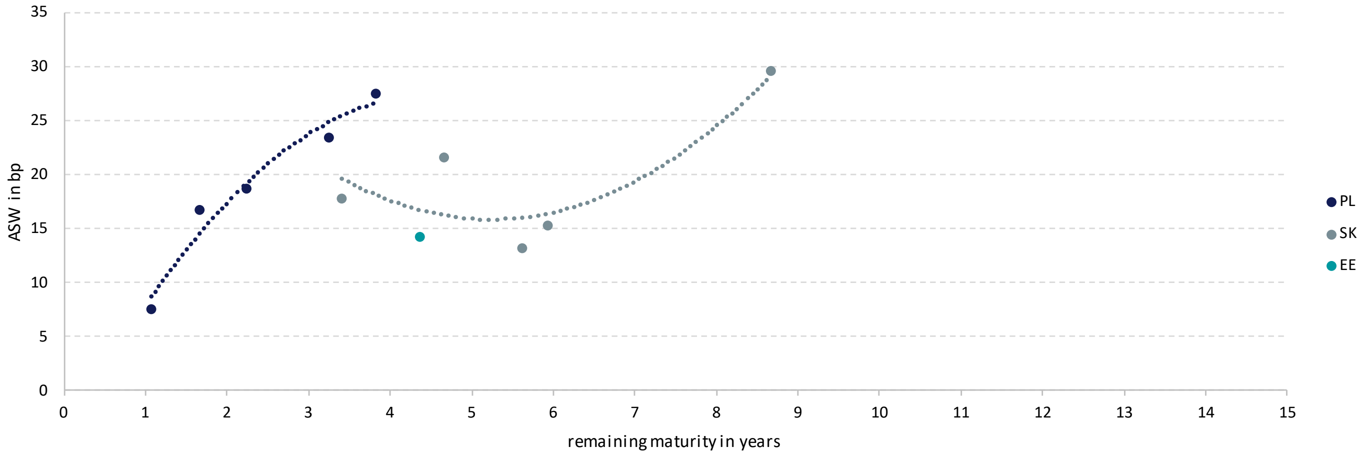


UK/IE

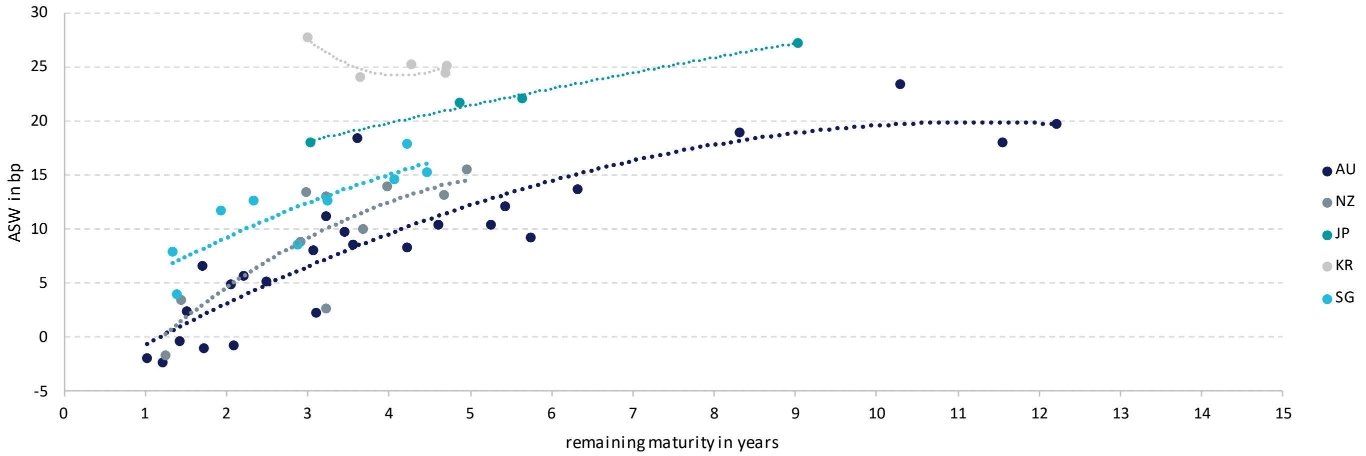


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

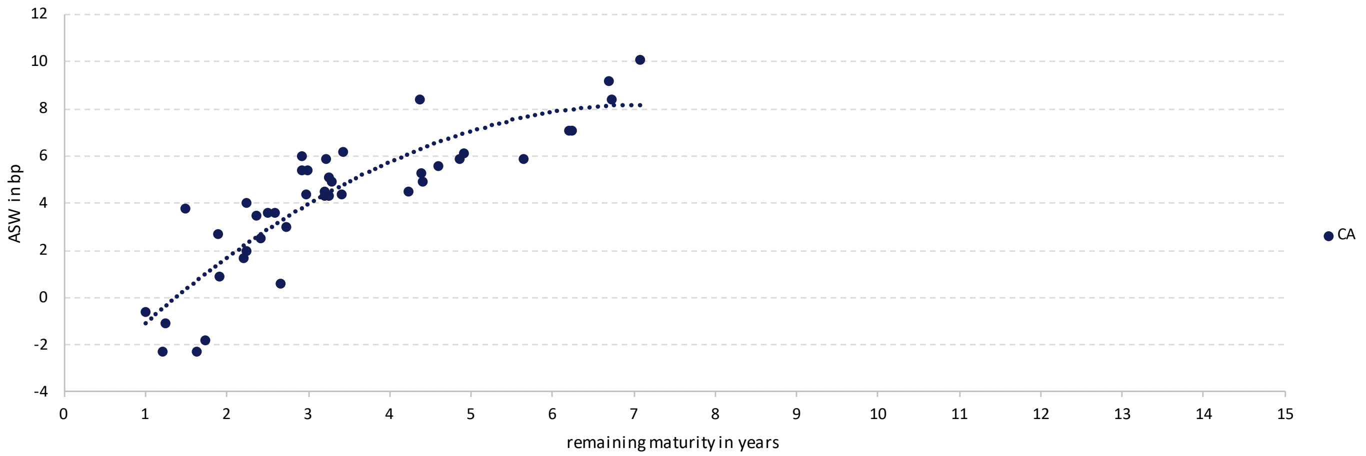
CEE



APAC



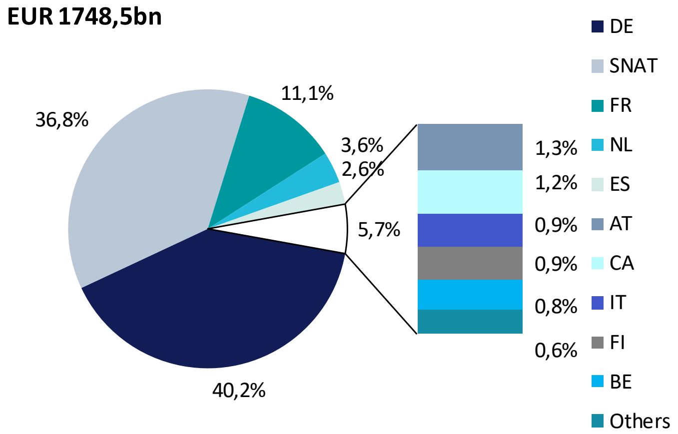
North America



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

Charts & Figures
SSA/Public Issuers

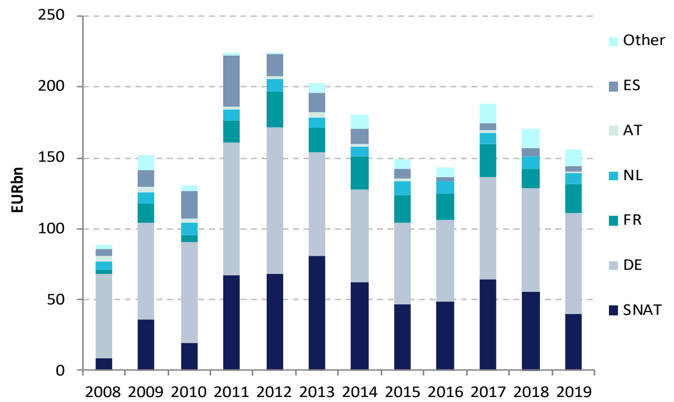
Outstanding volume (bmk)



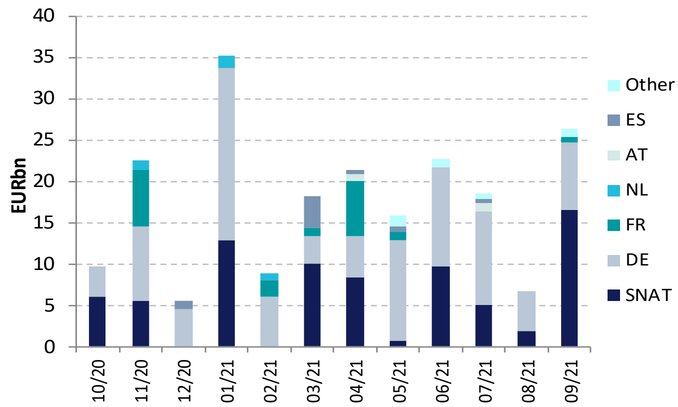
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	702,7	545	1,3	6,2
SNAT	642,9	171	3,8	6,5
FR	196,7	134	1,5	5,0
NL	63,0	66	1,0	6,3
ES	45,0	52	0,9	4,5
AT	23,0	24	1,0	4,9
CA	20,5	15	1,3	4,9
IT	15,8	20	0,8	5,9
FI	15,5	20	0,8	6,2
BE	14,4	17	0,8	13,9

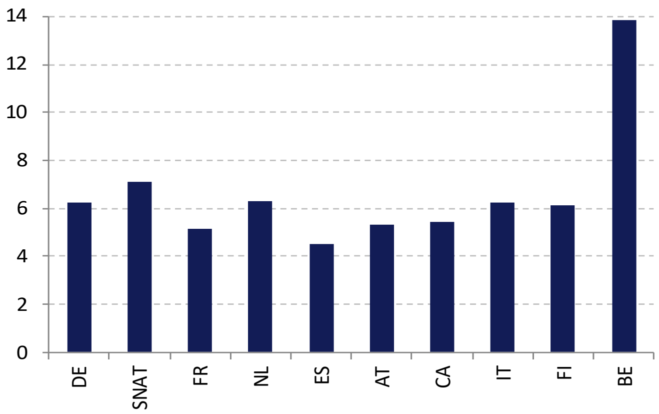
Issue volume by year (bmk)



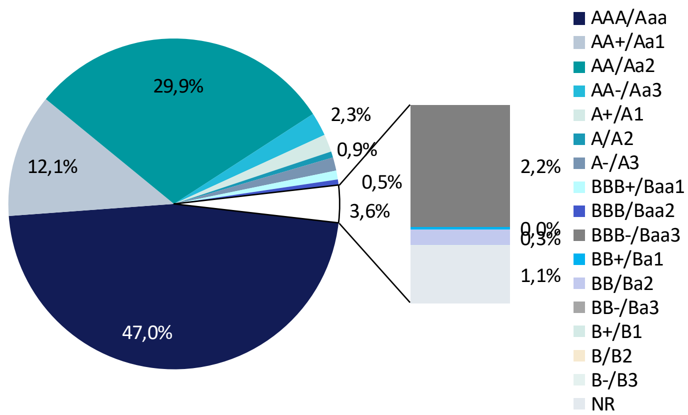
Maturities next 12 months (bmk)



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

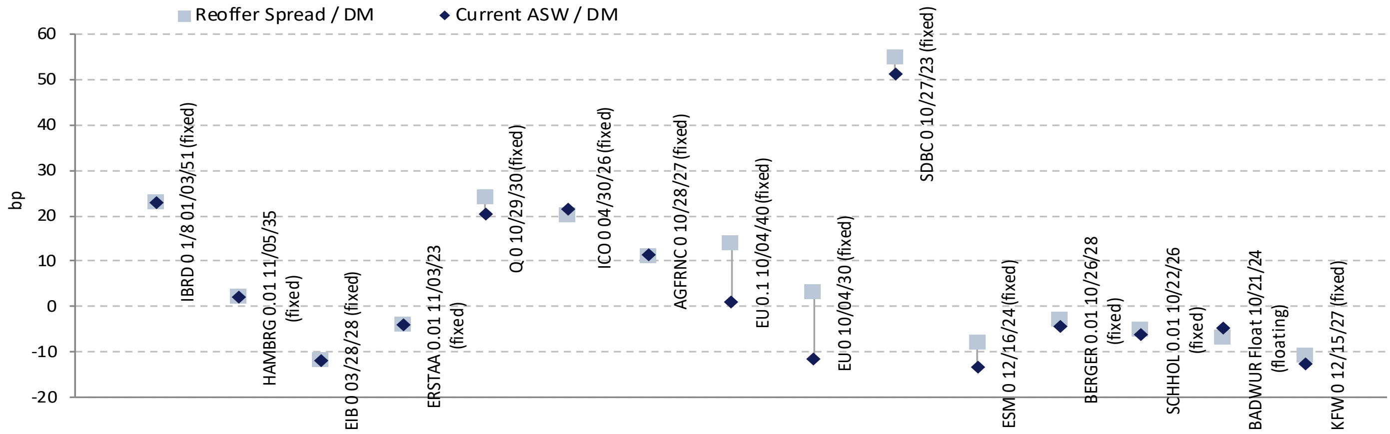


Rating distribution (vol. weighted)

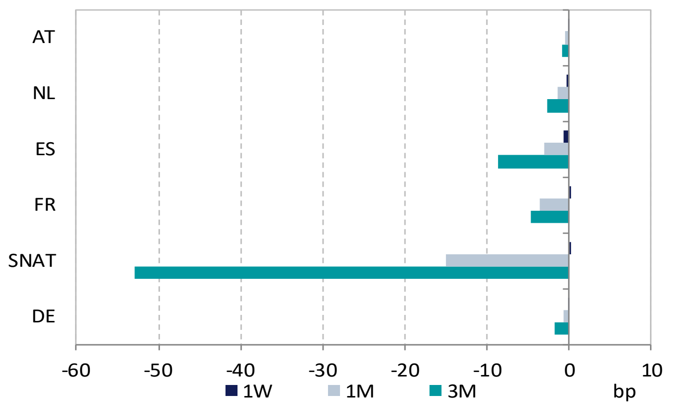


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

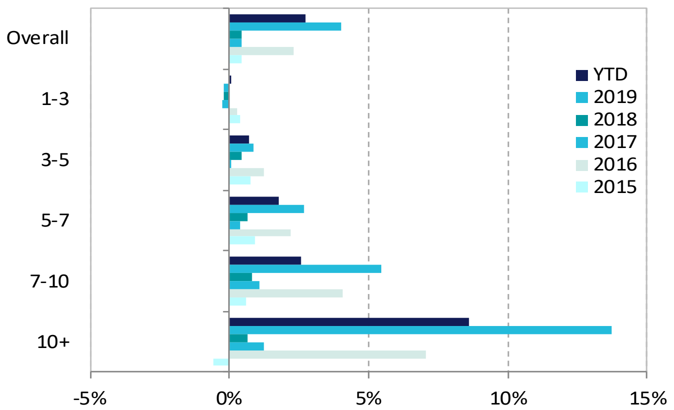
Spread development (last 15 issues)



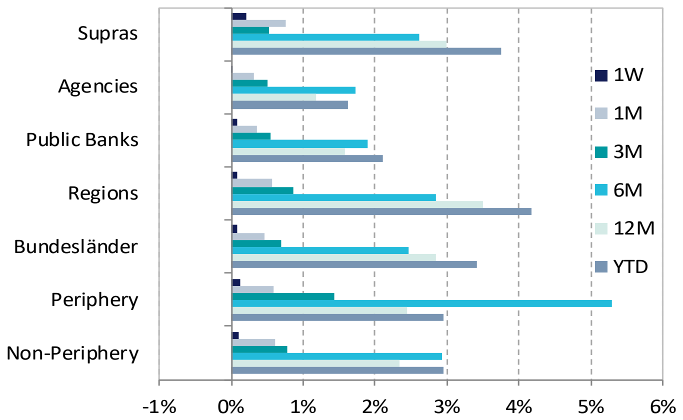
Spread development by country



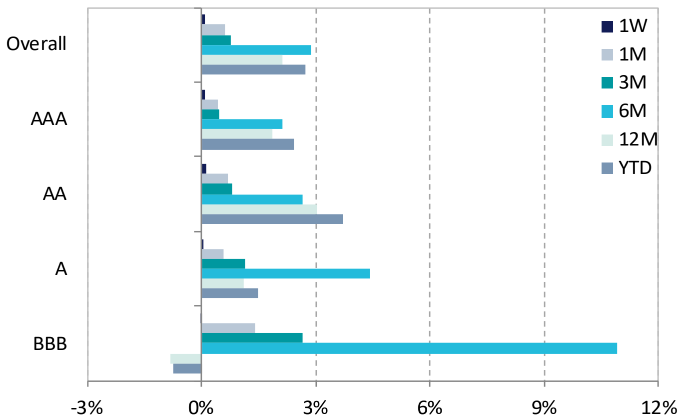
Performance (total return)



Performance (total return) by regions

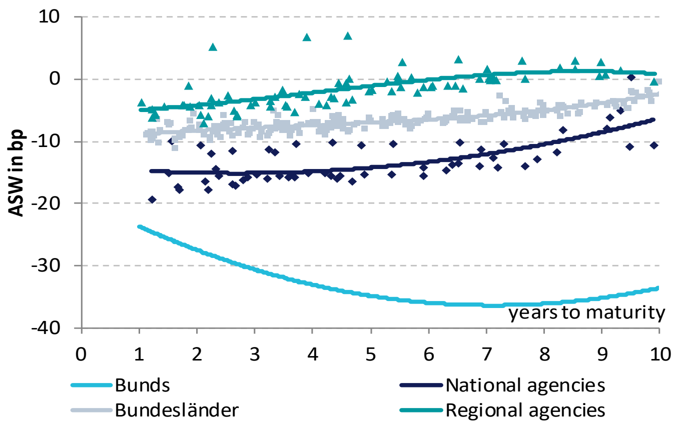


Performance (total return) by rating

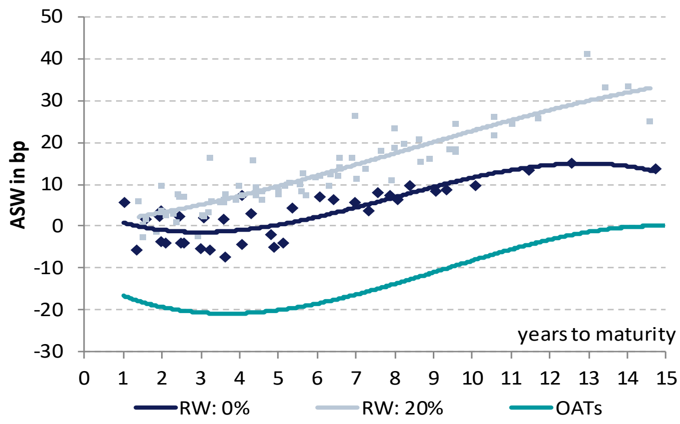


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

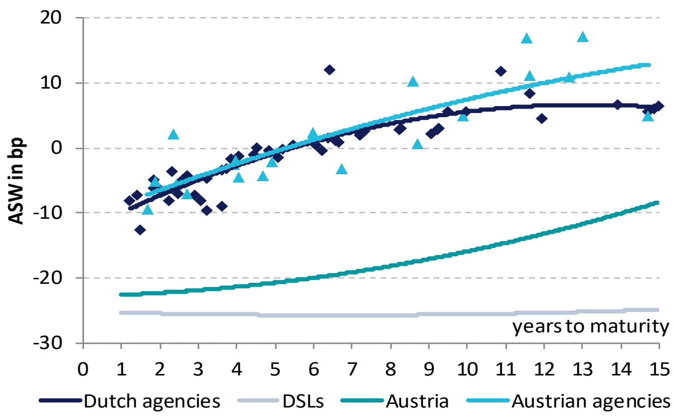
Germany (by segments)



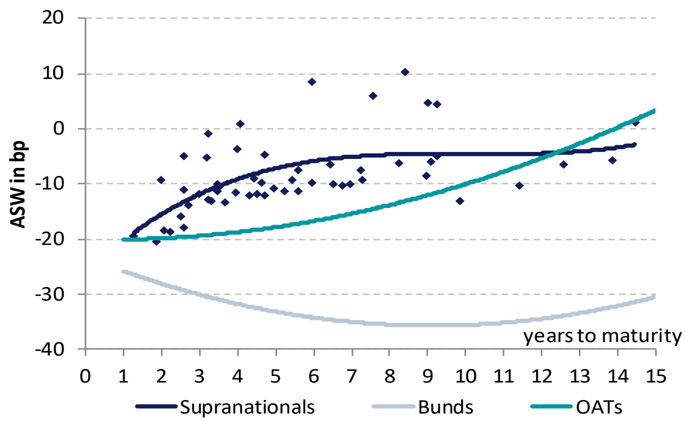
France (by risk weight)



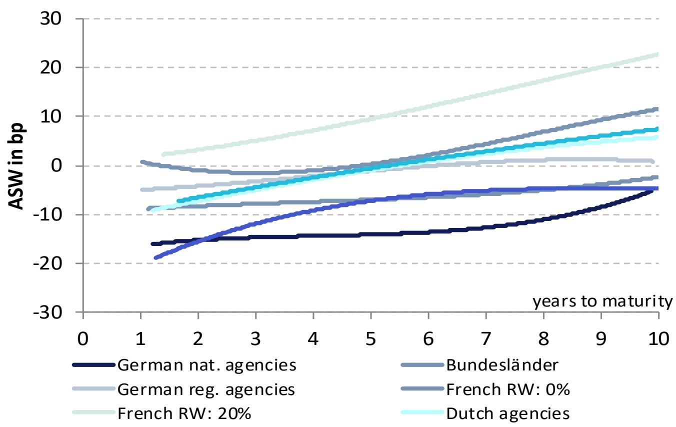
Netherlands & Austria



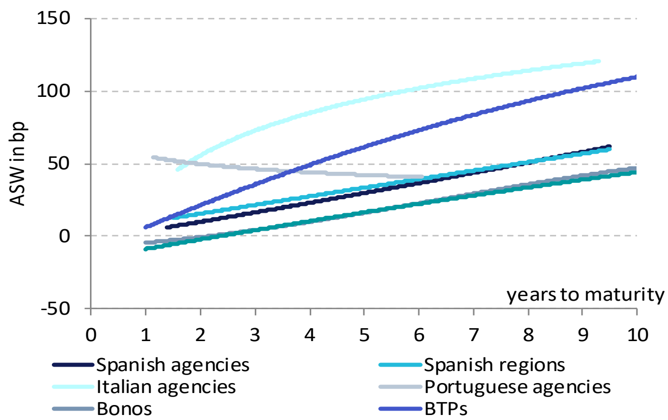
Supranationals



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
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)
29/2020 ♦ 22 July	▪ iBoxx Covered indices: current status and criteria ▪ Update: Joint Laender jumbos (LANDER)
28/2020 ♦ 15 July	▪ Repayment structures on the covered bond market ▪ 21st meeting of the Stability Council
27/2020 ♦ 08 July	▪ Sparebanken Vest issues first EUR benchmark in ESG format ▪ Second issuer from South Korea: Kookmin Bank to shortly make its debut in the EUR benchmark segment ▪ KfW reduces 2020 funding target to EUR 65bn
26/2020 ♦ 01 July	▪ Half-year review and outlook for the second half of 2020 ▪ The German debt brake in 2020
25/2020 ♦ 24 June	▪ EUR benchmark covered bonds in ESG format – an overview ▪ BULABO falling due – R.I.P.
24/2020 ♦ 17 June	▪ TLTRO-III.4 vs. covered bonds: are bond repurchases worth it? ▪ TLTRO-III now of increased interest for promotional banks too?
23/2020 ♦ 10 June	▪ The adjustment follows the reporting: insights into the PEPP
22/2020 ♦ 03 June	▪ Moody's covered bond universe – an overview

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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Time of going to press: 28 October 2020 08:53h (CET)

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Issuer / security	Date	Recommendation	Bond type	Cause