Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

21 September 2022 ♦ 29/2022

NORD/LB

Agenda

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Market overview
Covered Bonds

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Primary market: running like clockwork…

Our weekly publication was last published on 7 September. Between our editorial deadline and yesterday (Tuesday 20.09.), no less than 18 (!) issuers have been active on the primary market. First on 7 September, Aareal Bank (DE), Nordea (FI) and Macquarie (AU) approached investors. Aareal issued a mortgage Pfandbrief (EUR 625m; 7y) at ms +11bp (guidance: ms +13bp area), while Nordea placed a benchmark (EUR 1.0bn; 10y) on the market at the same reoffer spread. Macquarie marked its return to the EUR benchmark segment with a bond of EUR 600m at ms +30bp (guidance: ms +32bp area). On 12 September, further issuers from German-speaking countries followed. NORD/LB made its second appearance on the market in 2022 with a green Pfandbrief (EUR 500m; WNG; 5y) at ms +1bp. The order book amounted to EUR 2.6bn, which corresponds to a bid-to-cover ratio of 5.2x. NORD/LB was therefore only the second issuer – after BHH in mid-August – to achieve a bid-to-cover ratio of more than 5x this year. It is notable that both Pfandbriefe had a green ESG background. Deutsche Bank raised the number of Pfandbriefe on this trading day to three with its dual tranche (EUR 1.0bn; 5y and EUR 500m; 10y). At ms +4bp (5y) and ms +12bp (10y), the reoffer spreads were a respective 4bp and 2bp below the guidance. Erste Group from Austria was also active on the market. Its deal of EUR 750m (8y) generated an order volume of EUR 1.4bn. After starting the marketing phase at ms +19bp, the bond was ultimately priced at ms +16bp. The next deals followed on 13 September from UniCredit Bank Austria (AT), DZ HYP (DE) and Coventry Building Society (UK). UniCredit Bank Austria issued a new benchmark (EUR 500m; 5y) at ms +10bp. DZ HYP strengthened its presence in the EUR benchmark segment with a new EUR 750m bond (9.2y; reoffer spread: ms +7bp). The first EUR benchmark from the UK since the new European legal framework came into effect was somewhat highly anticipated. Uncertainty with regard to the LCR eligibility of UK covered bonds will to some extent have been dispelled by the high percentage of EMU investors and "banks". However, the issuance of EUR 500m with a term of 4.2 years was also boosted by the rather favourable pricing at ms +27bp (guidance: ms +30bp area). Deals followed from Helaba (DE), Sparebanken Vest (NO) and ING Bank (NL) on 14 September and Eika Boligkreditt (NO) on 15 September. Helaba's bond of EUR 1.5bn ultimately generated an order book of EUR 3.7bn (bid-to-cover ratio: 2.5x) and narrowed by five basis points to ms -3bp in the marketing phase. Sparebanken Vest placed its new benchmark (EUR 750m; 5y) at ms +10bp (guidance: ms +14bp area). ING brought the new issue volume from the Netherlands for 2022 to EUR 8bn with its benchmark of EUR 1.0bn (reoffer spread: ms +9bp). Eika Boligkreditt placed a green covered bond of EUR 500m (maturity: 6y), which was met with impressive investor interest (order book: EUR 2bn; bid-to-cover ratio: 4x). The deal narrowed by 5bp over the course of the book-building process to ms +12bp.

…in the new trading week as well

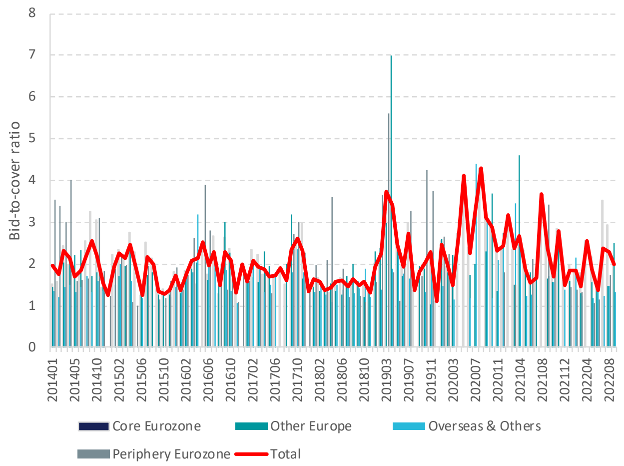
Despite the bank holiday in the UK, LBBW (DE) placed a EUR benchmark (EUR 1bn; 4.4y; order book: EUR 2.9bn) backed by its public sector pool at the start of the new trading week at ms -4bp (guidance: ms +1bp) and therefore once again served investor demand at the short end. Yesterday, on Tuesday, Raiffeisen Bank International AG (EUR 500m; WNG; 4y) and a green Pfandbrief from UniCredit Bank AG (EUR 500m; WNG; long 5y) were also active in the short maturity segment. RBI approached investors with guidance in the region of ms +24bp and as the order book was just EUR 500m, the final spread did not narrow. The success of NORD/LB in terms of the bid-to-cover ratio was further exceeded by HVB, which generated investor interest of EUR 3.25bn for its fourth market issuance this year, fixed at a final issue spread of ms +0bp. Initial guidance for this issue had been in the region of ms +6bp. The bid-to-cover ratio was therefore an almost record 6.5x and has, according to our records, only been exceeded twice before: in 2020, by Belfius Bank (book: EUR 3.3bn; issue volume: EUR 500m; ratio: 6.6x) and in 2019 by the Yorkshire Building Society (book: EUR 3.5bn; issue volume: EUR 500m; ratio: 7.0x). Stadshypotek from Sweden yesterday tested the waters in the 7y segment with guidance in the region of ms +16bp. The final issue spread was set at ms +12bp with a book of EUR 1.5bn, while the bond volume amounted to EUR 1.0bn. In light of the imminent Fed interest rate decision and the ECBC conference in Vienna, which will be attended by many covered bond market players, a considerable slowdown in primary market activity is expected for the rest of the week. However, it is likely to gain momentum again swiftly in the coming weeks.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
Stadshypotek	SE	20.09.	XS2536938439	7.0y	1.00bn	ms +12bp	- / Aaa / -	-
UniCredit Bank	DE	20.09.	DE000HV2AY12	5.6y	0.50bn	ms +0bp	- / Aaa / -	X
Raiffeisen Bank International	AT	20.09.	XS2537097409	4.0y	0.50bn	ms +24bp	- / Aa1 / -	-
LBBW	DE	19.09.	DE000LB38077	4.4y	1.00bn	ms -4bp	- / Aaa / -	-
Eika Boligkreditt	NO	15.09.	XS2536806289	6.0y	0.50bn	ms +12bp	- / Aaa / -	X
ING Bank	NL	14.09.	XS2534912485	7.4y	1.00bn	ms +9bp	AAA/ Aaa /AAA	-
Sparebanken Vest Boligkreditt	NO	14.09.	XS2536376416	5.0y	0.75bn	ms +10bp	- / Aaa / -	-
Helaba	DE	14.09.	XS2536375368	4.0y	1.50bn	ms -3bp	- / Aaa / -	-
Coventry BS	GB	13.09.	XS2534984716	4.2y	0.50bn	ms +27bp	AAA / Aaa / -	-
DZ HYP	DE	13.09.	DE000A3MQUX3	9.2y	0.75bn	ms +7bp	- / Aaa / -	-
UniCredit Bank Austria	AT	13.09.	AT000B049929	5.0y	0.50bn	ms +10bp	- / Aaa / -	-
Erste Group Bank	AT	12.09.	AT0000A306J4	8.0y	0.75bn	ms +16bp	- / Aaa / -	-
Deutsche Bank	DE	12.09.	DE000A30VPD0	10.0y	0.50bn	ms +12bp	- / Aaa / -	-
Deutsche Bank	DE	12.09.	DE000A30VPC2	5.0y	1.00bn	ms +4bp	- / Aaa / -	-
NORD/LB	DE	12.09.	DE000NLB3Z75	5.0y	0.50bn	ms +1bp	- / Aa1 / -	X
Macquarie Bank	AU	07.09.	XS2531803828	5.0y	0.60bn	ms +30bp	AAA / Aaa / -	-
Nordea	FI	07.09.	XS2532376949	10.0y	1.00bn	ms +11bp	- / Aaa / -	-
Aareal Bank	DE	07.09.	DE000AAR0363	7.0y	0.62bn	ms +11bp	- / Aaa / -	-

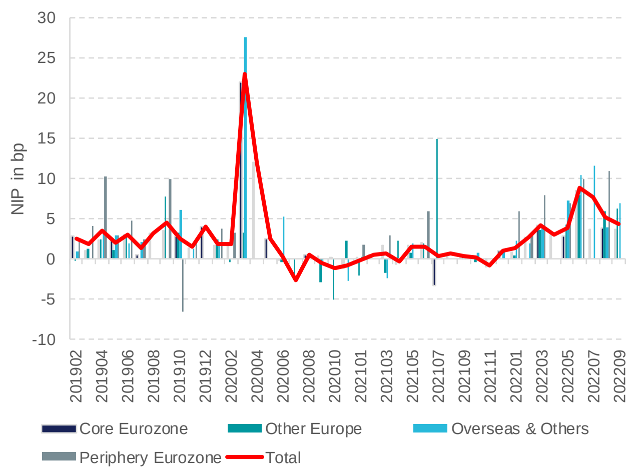
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research, (Rating: Fitch / Moody's / S&P)

EUR benchmarks still in demand, Pfandbriefe sought, secondary market unencumbered…
If we were to already take stock of 2022 as a whole at the present moment, it could be referred to as an exceptional covered bond year – and that would be no exaggeration. This conclusion is based not only on the volume of EUR benchmarks placed so far this year (currently: EUR 157.725bn), but also on the observed investor demand for this issue volume. Although there were intermittently phases on the primary market in early summer with rising new issue premiums and/or declining oversubscription ratios, we would still say that investor interest in these turbulent market phases continued to be more than robust in the segment at the moment. For the first time in a while, we have been seeing some bonds on the curve again, i.e. without a new issue premium, and the bid-to-cover ratios have clearly recovered from their low in mid-June. On average, the final issue spread is currently able to narrow considerably more from the initial guidance than had been the case in June. The latest new bonds in the trading weeks of September so far also exhibit a sound performance on average. Demand still tends to be greatest for shorter maturities, which continued to perform after issuance. It is our impression that German Pfandbriefe have also been purchased a little more progressively, although since the summer break alone a new issue volume of EUR 11.375bn has already been processed by investors. Secondary market prices have not (yet) been impacted by the currently high new issue volumes, although we do not rule out the possibility of continual repricing in the covered bond segment over the longer term. However, we consider the extent of secondary market curve widening over the year to be very restrained on average, even if more significant movements could be observed for individual jurisdictions and issuers. In particular, the positive performance when compared to the unsecured segment (senior preferred or senior non-preferred) this year demonstrates the attractive status of covered bonds. For this reason, particular attention should be paid to the development of the emerging quantitative tightening discussion, where changes are also pending with regard to the ECB's purchase behaviour for covered bonds.

EUR BMK: bid-to-cover ratio



EUR BMK: new issue premiums



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

Acquisition merry-go-round continues: OLB acquires Degussa, DNB integrates Sbanken

Although the macroeconomic environment is currently characterised by interest rate hikes, war, inflation and the threat of recession, some banks are undeterred as they push ahead with acquisitions. Last week, for example, two announcements were made on intended takeover processes by covered bond issuers in our coverage. First, Oldenburgische Landesbank AG (OLB) is acquiring Degussa Bank and second, DNB is planning the merger of its subsidiary Sbanken. This is not the first acquisition for OLB, which was acquired by the financial investor Apollo in 2017. The bank has been on a course of expansion for five years. OLB (H1 2022; total assets: EUR 24.1bn; receivables from customers: EUR 17.7bn; deposits: EUR 14.9bn; CET1 ratio: 12.2%) is acquiring Degussa Bank – which has been for sale for quite some time now – and its 340,000 customers for a price of EUR 220m (FY 2021 total assets: EUR 6.2bn; receivables from customers: EUR 4.5bn; deposits: EUR 5.0bn, CET1 ratio 11.9%). The transaction is expected to close mid-year 2023. The strategic medium-term target for the CET 1 ratio is expected to be at least 12.25%. As at 30 June 2022, OLB had issued mortgage Pfandbriefe of EUR 1,039.7m, while Degussa Bank currently has no EUR benchmark or sub-benchmark bonds outstanding. In contrast, the DNB Bank ASA is “simply” merging its wholly owned subsidiary Sbanken ASA, transferring all its business. No merger consideration will be paid.

Deutsche Hypo Real Estate Economic Index shows “severe setback” in September

The Deutsche Hypo Real Estate Economic Index has been a sentiment barometer for the German property market since 2008. The index history therefore covers a period spanning numerous phases of crisis and recovery. At present, the mood barometer cannot least be used to take stock of the situation on German property markets. Following signs of moderate recovery as recently as August 2022, the highly regarded index once again suffered a “severe setback” in September. In the last reporting month, the real estate climate dropped to 74.6 points, which corresponds to a decline of 9.4%. This is primarily attributable to a deterioration in the investment climate, which logged a decline of 16.2% to now stand at 58.0 points. This development reflects declining investor interest and is the weakest figure recorded since May 2009. However, we do not wish in this context to suggest that we are facing an emerging real estate crisis with an impact on the collateral pools of covered bonds. It should be borne in mind that the market has known only one direction for over ten years and that a certain easing should counteract the impending (or, in some cases, already prevailing) extremes on the real estate market. We currently interpret this as a healthy countermovement or flattening of the trend. Nevertheless, further developments must also be closely monitored with regard to the risk assessment of covered bonds. More on this in the following paragraphs on rating agencies.

Rating agencies I: S&P presents Covered Bond Insights Q3 2022 …

A few days ago, the rating experts at Standard & Poor's (S&P) presented the latest issue of their Covered Bond Insights. In our opinion, the assessments of the rating agencies are of great interest to market players, especially with regard to the stability of risk assessments. In a market environment characterised by rising consumer prices, upward interest rate trends and general uncertainty, it is unsurprising that the question of when the assessments of risk experts will change has arisen. The fact that S&P is focusing on the double burden for private households and borrowers in the current report and in this context also addresses the economic downside risks is not unexpected. The direct impact on the debt service capacity of (potential) borrowers should accordingly dampen the upswing in real estate prices in the relevant covered bond markets. Even if, in the opinion of S&P, the development should differentiate between the jurisdictions being considered, risk experts continue to assume a scenario of "soft landing". With regard to S&P's assessments on covered bond ratings, we would particularly highlight the availability of "unused notches". This ratio is on average 2.3 (+5.07% Y/Y) across all programmes rated by the agency, which certainly marks a significant buffer in the event of issuer downgrades. In relation to covered bond rating downgrades in the wake of the cover pool credit quality deteriorating, S&P also highlights the fact that more credit enhancements than the minimum requirement are available. In general, S&P still assigns stable ratings to the overwhelming majority of programmes. This also applies to issuer assessments. Overall, S&P's remarks and disclosures also reflect our view that the covered bond segment continues to be characterised by high credit quality in the current market environment and that the initially expected developments should not significantly change this assessment. Nevertheless, it should not be overlooked at this point that the conclusions are based on assumptions that may need to be adjusted over time or in the event that the crisis worsens.

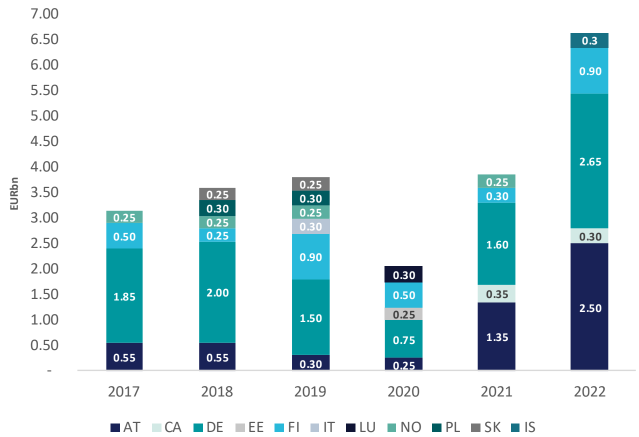
Rating agencies II: Moody's sees challenges for home financiers in New Zealand

Analysts at Moody's have recently also been focusing on the interplay between current interest rate developments and the trend in house prices, as well as the correlation here with regard to the covered bond segment. In a recent sector report for New Zealand, the risk experts note that for private households real estate is becoming less affordable. According to the authors, this situation is likely to last for a while, which in turn represents a burden for the credit quality of residential assets in the cover pools of the programmes evaluated by Moody's. However, the fact that countermovement is anticipated for housing prices should also be regarded as a dampening effect for this unfavourable development. In particular, we agree with Moody's assessment that no excessive increase in arrears of receivables is to be expected with regard to real estate financing in the cover pools. After all, the overall credit quality is more than sound and the average loan-to-value ratios are at comparatively low levels, which should keep recovery rates high if necessary. Added to this is the basic credit quality of the issuers, who are also obliged to replace outstanding receivables in the cover pools with new cover assets if necessary.

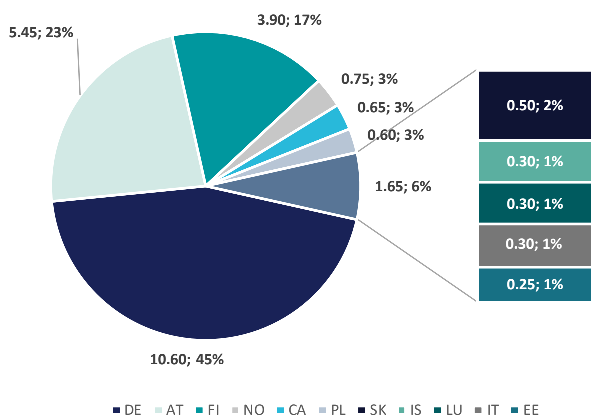
Rating agencies III: Moody's identifies positive aspects in latest ECB step for banks
Moody's risk experts recently commended the ECB's interest rate hike against the backdrop of its impact on the credit quality of commercial banks in the eurozone. According to the agency, the step supports the profitability of financial institutions. However, a dampening influence on lending must be expected, which should limit the effect on earnings. In our opinion, of far greater relevance for the covered bond market is whether there will be further distortions with regard to the issuing behaviour of banks.

EUR sub-benchmark segment is growing: issuers from Finland and Iceland extend our coverage under the NORD/LB Issuer Guide Covered Bonds
In recent trading days, two new issuers have focused their attention on the covered bond sub-market for EUR sub-benchmarks. On 12 September, Islandsbanki (IS) placed its inaugural public international transaction. The covered bond with a volume of EUR 300m (ISLBAN 3 09/20/27; 5y; S&P rating: A) was placed at ms +70bp, on a par with the guidance. A day later – on 13 September – a Finnish issuer made its inaugural appearance. POP Mortgage Bank placed a covered bond of EUR 250m on the market (POPBGR 2 5/8 09/22/25; 3y). After initial guidance in the region of ms +30bp, the reoffer spread narrowed 4bp during the marketing phase to ms +26bp. Currently, the issue volume in the EUR sub-benchmark segment this year amounts to EUR 6.65bn, which already significantly exceeds the values seen over the past five years and underlines the appeal of this segment, especially for smaller issuers. Growth in the EUR sub-benchmark segment is also taken into account in our coverage. Both issuers expand the circle of institutions and cover pools included in the annual NORD/LB Issuer Guide Covered Bonds.

EUR SBMK: issues (EUR bn)



EUR SBMK: Volume outstanding



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

vdp: minimum standards for green Pfandbriefe now include public Pfandbriefe

In the past, we have repeatedly focused on the green Pfandbrief segment as part of our weekly publication (cf. NORD/LB Covered Bond & SSA View dated 16 February 2022, among others). In a circular dated 9 September, the Association of German Pfandbrief Banks (vdp) announced that the existing minimum standards for use of the wordmark "Green Pfandbrief" have now been amended to include the requirements for public green Pfandbriefe. When placing public Pfandbrief deals, Pfandbrief banks will in future therefore have the option of using the wordmark "Green Pfandbrief" (Grüner Pfandbrief) in addition to the established name of public Pfandbrief. A licence agreement with vdp is a prerequisite. This expansion of minimum standards is also based on the ICMA Green Bond Principles, contains transparency requirements and requires impact reporting and an external review. Eligible assets include local authority and public-sector financing operations that serve an environmentally sustainable goal. These assets can fall under categories such as: renewable energy; energy efficiency; pollution prevention and control; ecologically sustainable management of living natural resources and land use; conservation of terrestrial and marine biodiversity; clean transportation/mobility; sustainable (waste) water management; adaptation to climate change; environmentally efficient products and/or products, product technologies and processes suitable for the circular economy. The minimum standards can be found on the vdp website (Minimum standards for use of the wordmark "green public Pfandbrief"). Since the vdp sustainability frameworks have already been published for green mortgage Pfandbriefe and for social Pfandbriefe, this widening of minimum standards to include public Pfandbriefe is in our view a logical further development of the sustainable Pfandbrief segment. The only public Pfandbrief in a EUR benchmark format issued with a green background so far came from Bayerische Landesbank, which approached investors with this transaction in June 2022.

Market overview
SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIIA // Jan-Phillipp Hensing

Kick-off for the first German joint promotional bank bond (ticker: LFIESG)

"Sustainability does not end at state borders" is the motto under which the German regional promotional banks IFB Hamburg (ticker: IFBHH), ISB Rheinland-Pfalz (ticker: ISBRLP) and ILB Brandenburg (ticker: ILBB) plan to issue a joint social bond. The bond will be for EUR 500m (WNG) and is to be divided as follows: ISBRLP and IFBHH will each be allocated EUR 175m and ILBB will be allocated EUR 150m. The breakdown is not immaterial, as each issuer will be liable in line with its quota. As far as a rating is concerned, Fitch is expected to award the joint bond its top rating AAA. This also corresponds to the individual ratings of the banks in question. As state promotional banks, all three issuers operate in the form of an Anstalt des öffentlichen Rechts (public law institution) and are subject to the respective Förderbankengesetz (promotional bank act) of their Bundesland. They therefore benefit from an Anstaltslast (institutional liability) and Gewährträgerhaftung (guarantor liability). Insolvency is meanwhile precluded by law. The promotional banks in question believe that the issue of a joint bond will bring various benefits: investors will benefit from improved bond liquidity resulting from its benchmark size. Investments will also be more widely diversified. From the issuers' perspective, they will benefit firstly from the learning effect of the promotional banks working together, while secondly, the placement of a joint bond will generate greater interest and consequently more opportunities to present the positive impact of the regional promotional banks' work. The issue proceeds will be used to finance the construction of social housing and the creation of affordable housing. The three issuers' respective frameworks have been examined by imug Rating and rated in a joint second party opinion. The bond is consistent with the ICMA Social Bond Principles from 2021. In particular, people in poverty or at risk thereof are expected to benefit from the proceeds. This also includes the elderly, people with disabilities, students and large families. The "construction of social housing", which is defined by the respective Wohnraumförderungsgesetze (affordable housing support acts) of the Laender, and support for new building and modernisation of affordable housing will be financed through low-interest loans and grants. Of the UN's 17 Sustainable Development Goals (SDG), SDG 1 (no poverty), SDG 10 (reduced inequalities) and SDG 11 (sustainable cities and communities) are addressed. A variety of measures ensure this is the case, such as defined income limits, or evidence of the entitlement to live in subsidised housing. Defined rent controls or occupancy restrictions for the housing created with these funds are guaranteed. Defined site conditions also apply. Double use of the funds is precluded in the frameworks. By and large, we welcome this step taken by the regional promotional banks to issue a joint bond. The German Laender (ticker: LANDER) have already done so and have established themselves as a fixture on the capital market – please refer to our focus article on this subject included later on in this present edition of our weekly publication.

KfW: German cabinet approves a draft law to cover KfW's earmarked refinancing requirement via a credit authorisation

In response to the Russian war of aggression in Ukraine and the resulting repercussions on energy markets, KfW is providing financial resources for energy companies, whose operating basis is suffering as a consequence of volatile energy and commodity prices, within the framework of Zuweisungsgeschäfte (allocations) from the German government. KfW reports that its commitments at the end of August had already come to EUR 40.4bn. To date, KfW has covered its resulting funding requirement from its activities on the capital and money markets. In view of current developments on energy and commodity markets, further demand for liquidity support from companies in the energy sector must be expected in the coming months, according to the promotional bank. On 14 September, the German cabinet approved a draft law under which the Economic Stabilisation Fund (Wirtschaftsstabilisierungsfonds – WSF) is to be authorised to cover KfW's funding requirement resulting from its allocations to energy companies with the funds not used from the credit authorisation imposed in March 2020 in response to the coronavirus pandemic. However, the final decision on the legislation is still subject to approval in parliamentary proceedings. Through the draft law, the German government can also grant KfW loans to refinance KfW's liquidity support to energy sector companies via the WSF. At present, around one third of the original amount of EUR 100bn was used to combat the consequences of the coronavirus pandemic. The WSF is managed by the Germany government's Finance Agency, which is also funded from the German government's activities on the money and capital markets operating through the Finance Agency. KfW also states that the option of utilising the WSF to fund its liquidity support for energy sector companies will have no impact on the planned funding target of EUR 90bn.

KfW-ifo SME barometer: business climate deteriorates for the third time in succession

The SME business climate has deteriorated for the third time in succession in light of a mixture of exploding energy costs, dwindling purchasing power and growing uncertainty regarding the supply of gas due to the ongoing war in Ukraine (-1.4 points to -16.4 balance points), according to the results of the KfW-ifo SME barometer. The assessments of the business situation fell by 0.9 points to 6.8 balance points and business expectations are at the second lowest level since the time series began in January 2005, having fallen by 1.9 points to -36.2 balance points. Sentiment is worse overall than the long-term average in all main economic sectors. However, there were differences in the level of the business climate and its change compared with the previous month. The construction trade is still faring best: having fallen sharply in July, it is the only sector that is currently recovering (+1.6 points to -8.7 balance points). Second place in the ranking is taken by the services sector, where, having trended up – due to the removal of the coronavirus restrictions – sentiment is now falling (-2.2 points to -11.7 balance points). Sentiment is currently worst in the two trade sectors (wholesale and retail), where the sentiment has collapsed by -5.6 points to -26.3 balance points and -2.8 points to -31.3 balance points respectively.

Primary market

There has been some activity on the primary market since our last issue: we had already announced the deal from Wallonia (ticker: WALLOO) and it was completed shortly afterwards with EUR 1.0bn changing hands for a maturity in excess of 15 years at OLO +39bp. This corresponded to around ms +45bp at the relevant time. It was priced at one basis point tighter than the guidance figure and the order book amounted to EUR 1.39bn. The African Development Bank (ticker: AFDB) opted for a seven-year social bond. With a volume of EUR 1.25bn and pricing of ms -3bp (guidance: ms -2bp area), the order book amounted to EUR 2.3bn. Italy's Cassa Depositi e Prestiti (ticker: CDEP) approached the primary market: a sustainability bond with a five-year maturity and a volume of EUR 750m was successfully placed on the market at BTPS +45bp (guidance: BTPS +50bp area), which corresponded to around ms +120bp. The European Union (ticker: EU) issued a dual tranche, raising a further EUR 12bn on the capital market under the NGEU programme. Firstly, through a five-year bond in the amount of EUR 7.0bn at ms -28bp (guidance: ms -26bp area) and secondly through a bond with a 30-year maturity in the amount of EUR 5bn at ms +45bp (guidance: ms +47bp area). As usual, the order books were more than lavishly filled, the bid-to-cover ratios amounted to 8.6x and 10.9x, respectively. This was followed by a tap deal from the French Agence Française de Développement in the amount of EUR 400m for its AGFRNC 1.125% 03/02/37 at OAT +36bp. The EIB – which is also its ticker – provided additional impetus in the area of sustainability bonds: its climate awareness bond with a seven-year maturity and a volume of EUR 4.0bn came in at ms -17bp (guidance: ms -15bp area; order book: 33bn). A German State also came to the market during this period: the State of Schleswig-Holstein (ticker: SCHHOL) issued a ten-year bond worth EUR 750m at ms -13bp. The order book amounted to EUR 1.9bn and tightening of one basis point compared with guidance proved to be possible. The European Stability Mechanism (ticker: ESM) sent RfPs in advance of a deal that was subsequently revealed this week: the ESM 1% 09/23/25 was increased by EUR 2.0bn at ms -33bp (guidance: ms -30bp area; order book: EUR 26bn). KfW also ventured onto the primary market with a tap: KFW 1.125% 09/15/32 was tapped by EUR 1.0bn at ms -21bp (guidance: ms -19bp area; order book: EUR 4.5bn). Naturally, the French issuer CADES – which is also its ticker – was also involved with a social bond: a total of EUR 5.0bn changed hands at OAT +35bp (equivalent to around ms +3bp). Now we come to a bond, which admittedly is not in benchmark format, but is nevertheless worth mentioning: Ville de Paris issued a sustainability bond with a 20-year maturity and a volume of EUR 300m at OAT +36bp. Mandates were also issued: we have already discussed the joint bond by German promotional banks above, while the French agencies Action Logement Services (ticker: ALSFR) and Caisse Centrale du Crédit Immobilier de France (ticker: CCCI) will be approaching investors in the near future as well.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
CADES	FR	19.09.	FR001400CVE3	10.2y	5.00bn	ms +3bp	- / Aa2 / AA	X
SCHHOL	DE	14.09.	DE000SHFM857	10.0y	0.75bn	ms -13bp	AAA / - / -	-
EIB	SNAT	13.09.	XS2535352962	7.5y	4.00bn	ms -17bp	AAA / Aaa / AAA	X
EU	SNAT	12.09.	EU000A3K4DT4	30.0y	5.00bn	ms +45bp	AAA / Aaa / AA+	-
EU	SNAT	12.09.	EU000A3K4DS6	5.0y	7.00bn	ms -28bp	AAA / Aaa / AA+	-
CDEP	Other	12.09.	IT0005508954	5.0y	0.75bn	ms +120bp	BBB / - / BBB	X
AFDB	SNAT	06.09.	XS2532472235	7.0y	1.25bn	ms -3bp	AAA / Aaa / AAA	X
WALLOO	BE	06.09.	BE0002877588	15.3y	1.00bn	ms +45bp	- / A3 / -	-

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

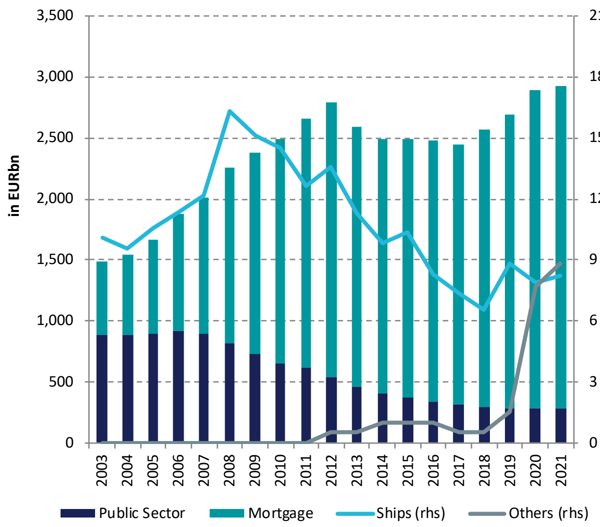
Covered Bonds
ECBC publishes annual statistics for 2021

Author: Dr Frederik Kunze

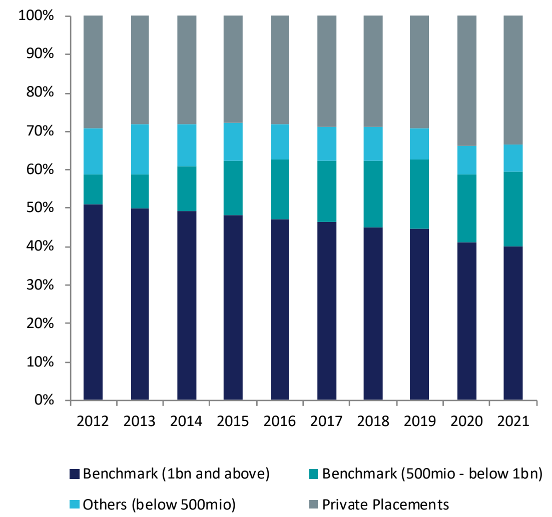
Outstanding covered bond volume totals EUR 2,939.6bn

The European Covered Bond Council (ECBC) recently presented its annual statistics for the global covered bond market. The reporting date for the database, which comprises a total of 454 programmes from 334 issuers in 35 countries in its latest edition, is 31 December 2021. The ECBC's annual statistics, which comprise a unique database in terms of coverage of the global market for covered bonds, shows that the outstanding volume has increased, having risen by EUR 31bn (+1.1% Y/Y). At EUR 2,939.6bn, the covered bond market has therefore reached its highest level since the database was first compiled in 2003. However, growth in new issues was slightly less dynamic in 2021, at EUR 514.6bn, than in 2020 when new issues totalled EUR 612.5bn. As in previous years, we now intend to look at the figures published by the ECBC this year in greater detail in our weekly publication.

Covered bond volume by asset class



Covered bond volume by issue size



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

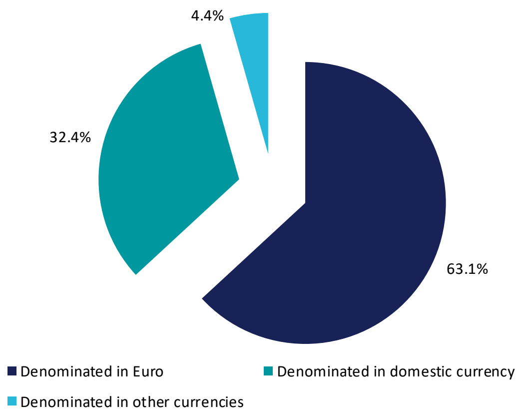
Increase largely sustained by the "mortgage" category

The outstanding volume for all four sub-categories increased in 2021. Not surprisingly, the largest increase, in terms of amount, was attributable to "mortgages" (EUR +28.6bn; +1.1%). The "public sector" grew by EUR 662m (+0.2%), while "ships" rose by EUR 306m (+3.9%) and "others" by EUR 1.1bn (+14.6%). Momentum in the latter category was again largely sustained by the covered bond asset class "export finance" in Spain in 2021. The "mortgage" category now accounts for EUR 2,636.6bn in the current statistics, making it by far the largest asset class in the international covered bond market with a share of the total volume of 89.7%.

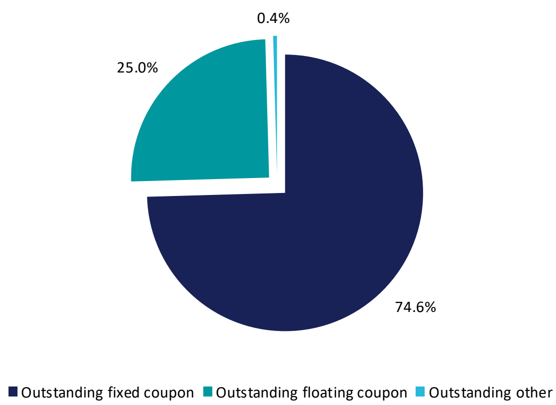
The end of the coronavirus-induced boom in retained covered bonds?

With regard to the placement type, details of which have also been published since 2012, some notable changes also took place in 2021 compared with the previous year. This is not surprising in and of itself, since measures implemented by central banks – especially the ECB and the Bank of Canada – have resulted in a boom in retained covered bonds, which are reported in the "private placements" category. The ending of or gradual discontinuation of the use of rather unconventional monetary policy instruments will also end the additional incentives for "retained covered bonds". This first becomes clear when looking at the Canadian market. Here, the "private placements" category recorded a massive fall of 54.7% from EUR 72.8bn to EUR 33.0bn. Public placements increased by EUR 10.0bn. In our view, the boom also seen in Canadian issues in the EUR benchmark segment this year is quite clearly associated with the issuance potential triggered by releasing retained covered bonds in conjunction with a sustained need for funding. Our expectation is that effects of this kind are likely to materialise increasingly for commercial banks in the eurozone in 2023 and will therefore only be reflected in subsequent data produced by the ECBC. In the current database, the proportion of publicly placed benchmark bonds in the outstanding volume has increased to 59.5% (previous year: 58.7%). In total, the proportion of publicly placed covered bonds was 66.6% (previous year: 66.2%). The private placements category now accounts for 33.4% (previous year: 33.8%).

Covered bond volume by currency



Covered bond volume by coupon type

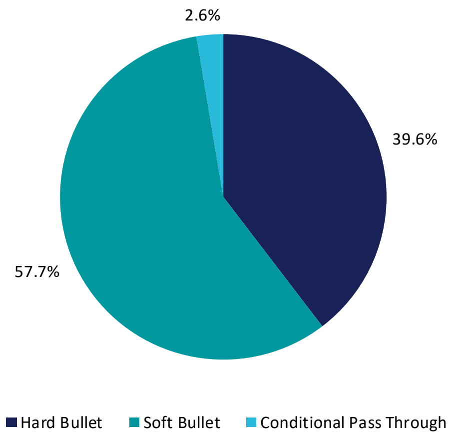


Source: ECBC, NORD/LB Markets Strategy & Floor Research

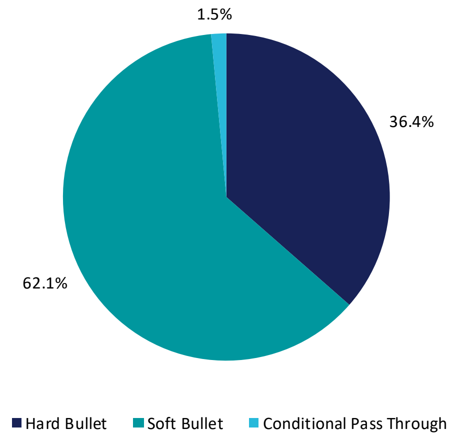
Issues with a fixed coupon account for the largest share and EUR issues dominate

The breakdown of outstanding volume by coupon type is basically stable, meaning that there have been no drastic changes. At 74.6% (2020: 75.6%), covered bonds with a fixed coupon accordingly still comprise the largest category. Among the newly issued bonds, the proportion of fixed coupons was 69.8% (previous year: 62.0%). With regard to the currency breakdown, the proportion of EUR-denominated covered bonds also predominates, at 63.1% of total market volume, in 2021 (previous year: 63.3%). Among the newly placed bonds, the EUR share comes in at 49.6%. The proportion of "domestic currency" outside the eurozone is also comparatively high, at 46.0%. Once again, the largest covered bond market, Denmark, is significant here. In 2021, it accounted for the equivalent of EUR 116.6bn of the EUR 218.7bn worth of covered bonds placed in a domestic currency.

Covered bond volume – repayment structure



New covered bond issues – repayment structure

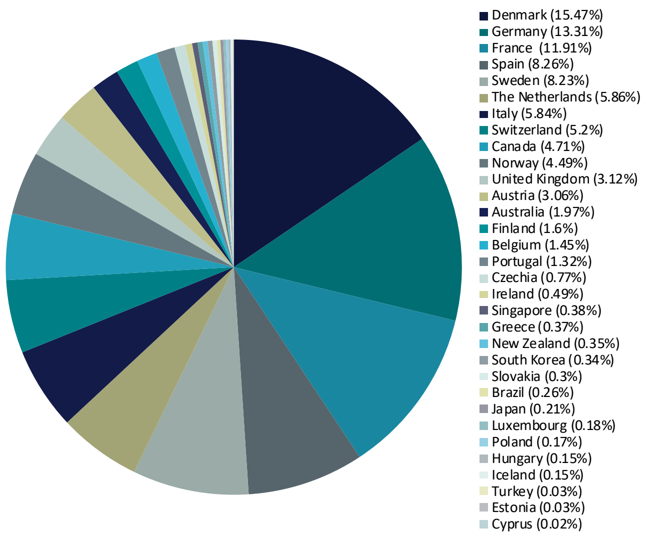


Source: ECBC, NORD/LB Markets Strategy & Floor Research

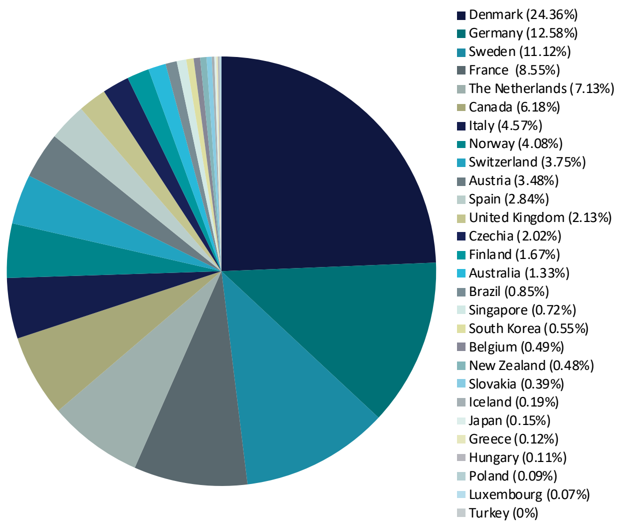
Repayment structures: soft bullets account for the largest share of issues in 2021

Once again, the current ECBC data point to a growing preponderance of soft bullet structures. It is therefore clear that, at 39.6% (2020: 53.5%), hard bullet structures no longer account for the largest share of the volume of outstanding bonds. Adjustments in the context of the EU's harmonisation of the covered bond market must be taken into account here as a one-time effect. For instance, all German Pfandbriefe (amounting to EUR 391.4bn in 2021) were converted into the soft bullet category in 2021. Not surprisingly, soft bullets also account for the largest proportion, at 62.1%, of newly issued bonds in 2021. Looking forward, we also expect the dominance of soft bullet covered bonds to increase. In addition to switching from hard to soft bullet, issuers (in the Netherlands, for example) are also shifting their focus from CPT issues to soft bullets.

Covered bond volume – distribution by country



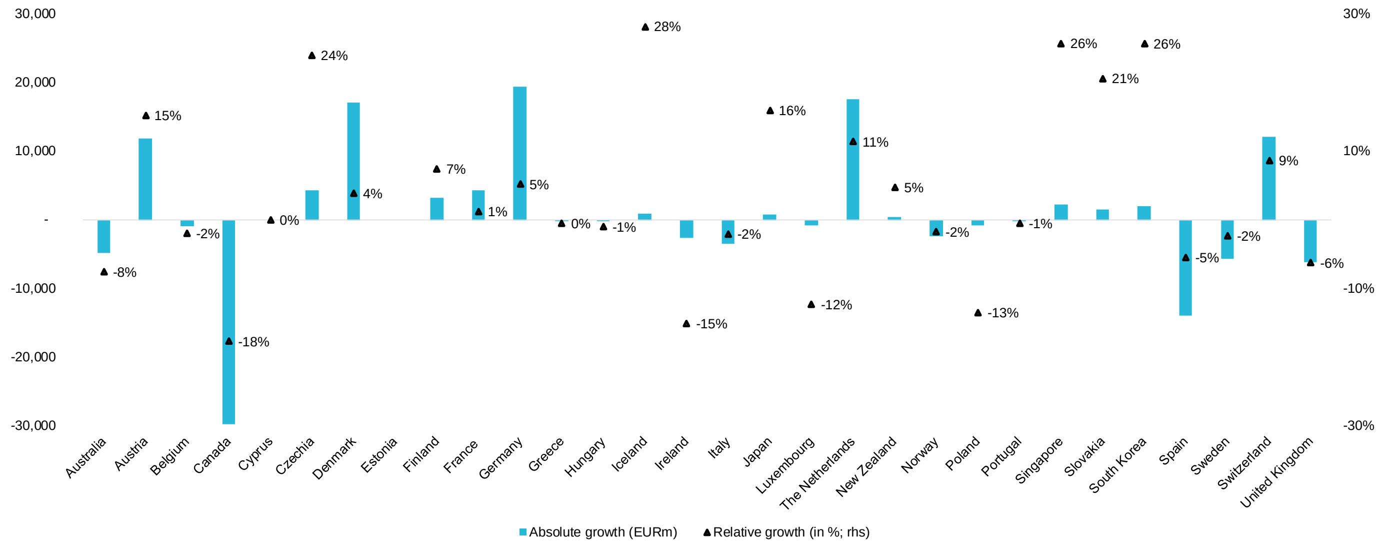
New covered bond issues – distribution by country



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

Danish issuers rank top in terms of outstanding volume and new issues
Denmark again accounts for the largest outstanding volume at the end of 2021 (EUR 454.7bn). Its share has even increased slightly from 15.0% to 15.5%. Germany's share stands at 13.3% (EUR 391.4bn) and has therefore also increased slightly (previously: 12.8%). As in previous years, France follows in third place (EUR 350.1bn or 11.9% (unchanged)). With regard to new issues in 2021, Denmark again takes the top spot. Its issuance volume was EUR 125.4bn, accounting for 24.4%. Germany follows in second place with EUR 64.7bn or 12.6%. Third place goes to Sweden (EUR 57.2bn or 11.1%), which is a noteworthy development. The country's issuance volume is attributable, in particular, to placements in domestic currency (equivalent of EUR 45.1bn). In terms of outstanding volume, Sweden accounts for a share of 8.2% (5th place).

Outstanding covered bond volume – changes year on year



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

Changes in outstanding volume: marked increases, for example, in Germany, Denmark and the Netherlands in addition to familiar one-time effects in Canada
Considered on a country-by-country basis, there have definitely been tangible changes in the total amount of outstanding covered bonds. In nominal terms, Germany recorded the greatest increase – of EUR 19.4bn or 5.2%. The Danish market, which is dominated by the domestic currency, also grew considerably (EUR +17.1bn or +3.9%). The same is true of Switzerland, which reported growth of EUR 12.2bn (+8.7%). Switzerland is also a special case in that the local currency dominates and in the fact that the market for statutory covered bonds is also provided for solely by the two authorised institutions "Pfandbriefzentrale der schweizerischen Kantonalbanken AG" and "Pfandbriefbank schweizerischer Hypothekarinstitute AG". The issuance volume in 2021 (EUR 19.3bn) was largely supplied by these "statutory issuers" (EUR 18.0bn). The Netherlands (EUR +17.7bn) and Austria (EUR +11.9bn) also ranked among the growth markets in 2021. The decline in Canada is attributable to the one-time effects discussed previously and, at EUR -29.8bn (-17.7%), is very sharp.

ECBC focuses on data related to sustainable issuers

As is frequently the case when developing new elements of a database, a certain amount of time is required for the information that has been compiled to become reliable and meaningful. Here, the ECBC's 2021 annual statistics make a meaningful contribution as far as the details on "sustainable covered bonds" are concerned. For 2021, a figure of EUR 53.4bn (previous year: EUR 32.6bn) is reported for the amount of these bonds outstanding, which represents a share of 1.8% of the total volume (previous year: 1.1%). With respect to newly placed bonds, the proportion of ESG covered bonds can be estimated at 3.9% (2020: 2.0%) on the basis of the ECBC data. This equates to a volume of EUR 19.9bn. Of the 334 covered bond issuers included in the ECBC's statistics at present, 54 institutions are currently classified as "sustainable issuers". This means that the figure has increased by 17 issuers compared with the previous year.

Conclusion

We have again seized the opportunity in this turbulent year for covered bonds to draw conclusions on structural changes in the covered bond market with the help of the ECBC's annual statistics. For several years now, the evaluation of the annual database has also already helped us to regularly evaluate observations from the course of the previous year. This year, we have again focused on the special factors linked to monetary policy and the associated structural changes by type of issue. In contrast, the substantial proportion of Danish covered bonds remains virtually unchanged. These are still dominated by the domestic currency. For the 2022 reporting year, we again expect a stronger upward movement in public sector issues from Canada in our forecast. For the German Pfandbrief market and some other eurozone countries, we also expect a switch from retained issues to public placements – at least provided that the ECB does not intervene in the market again over the course of the remaining fourth quarter.

SSA/Public Issuers
Update: Gemeinschaft deutscher Laender (Ticker: LANDER)

Authors: Dr Norman Rudschuck, CIIA // Jan-Phillipp Hensing

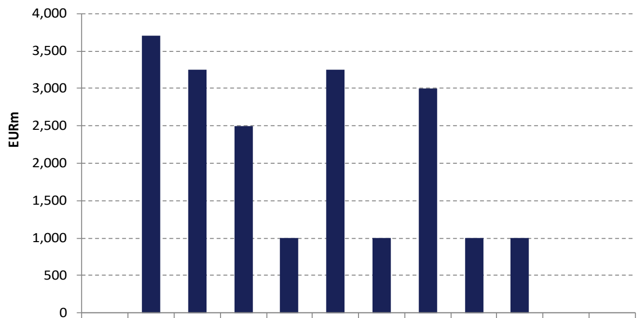
Introduction

An idiosyncrasy of the bond market in general, and one specific to the German sub-sovereign market, is the Gemeinschaft deutscher Laender issuance vehicle. Within this framework, several Laender issue joint bonds (known as “Laender jumbos;”; volumes starting from EUR 1bn), whereby each Bundesland is liable for its own share. As a result, joint and several liability structures do not exist for such deals. The first time that several Bundeslaender grouped together to issue such a joint bond was in 1996. Since then, the Gemeinschaft deutscher Laender has become an established issuer on the bond market, with several Bundeslaender placing joint bonds on a semi-regular basis (at most twice per year). The large-volume Laender jumbos enable these Bundeslaender, which – prior to the pandemic – otherwise had or continue to have comparatively low refinancing requirements, to generate economies of scale that are reflected in lower interest expenses.

Participants, structure and rating

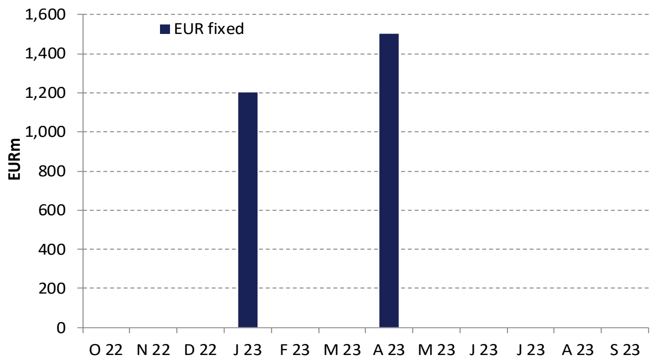
An unchanged total of eight Laender has participated in the bond issuances currently in circulation. While Saxony-Anhalt, Hesse and North Rhine-Westphalia (NRW) ceased to use Laender jumbos as a funding instrument after the first issuance in 1996, with Berlin subsequently opting not to participate in the joint issuing body since 2002, the following Bundeslaender have at times made use of Laender jumbos as key funding instruments (prior to the coronavirus pandemic): Brandenburg, Bremen, Hamburg, Mecklenburg-Western Pomerania, Rhineland-Palatinate, Saarland, Schleswig-Holstein and Thuringia. In fact, these Laender have raised substantial amounts of their funding volume via bonds from the joint issuing body currently in circulation. As a result of the particular structure of the Gemeinschaft deutscher Laender, there is no issuer rating. Instead, the rating agency Fitch rates each individual issuance in order to take account of the differing participation structures. However, this does not lead to any differences: since series No. 11, Fitch has awarded a rating of AAA to all Laender jumbos. As justification for the rating, Fitch cites the system comprising the principle of federal loyalty and the reorganised system of federal financial equalisation payments (VAT distribution calculated on a per capita basis in full), in which it generally sees an exceptionally low default risk (AAA).

Overall maturity profile



	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	>2032
EUR fixed	0	3,700	3,250	2,500	1,000	3,250	1,000	3,000	1,000	1,000	0	0

Bond amounts maturing in the next 12 months

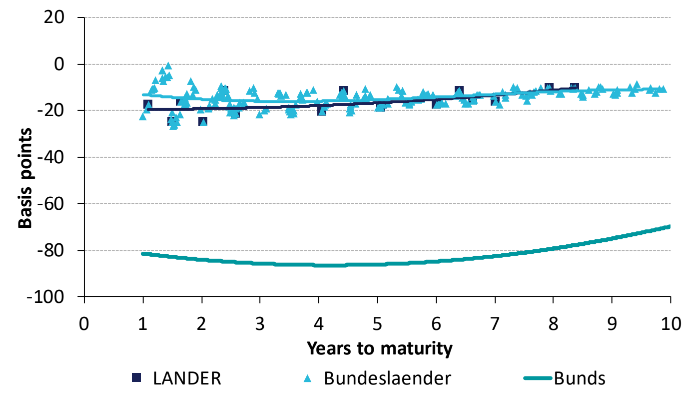


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

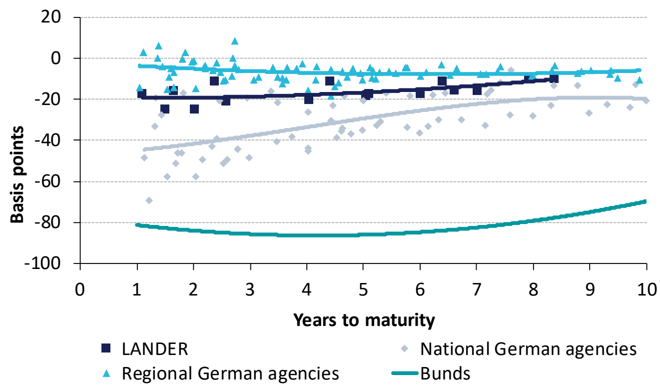
Outstanding volumes

In total, the Gemeinschaft deutscher Laender issuance vehicle (ticker: LANDER) accounts for an outstanding volume of EUR 19.7bn split across 18 bonds, making it an important player within the German Bundeslaender bond market. The outstanding volume is EUR-denominated in full and features a fixed coupon. Other instruments such as Schuldschein-darlehen (SSD) are not jointly issued. Having issued a Laender jumbo in the form of a floating rate note (FRN; floater) in 2008, the Gemeinschaft has subsequently refrained from using this instrument for joint refinancing. Here, too, the coupon has long since been in the region of between 0.0% and 0.01%. The first year in which a zero preceded the decimal point was 2015. There have now been 62 separate bond deals issued by the Gemeinschaft deutscher Laender. At present, the longest outstanding bond is set to fall due in February 2031 (No. 60), while the largest bonds (No. 47 and No. 50) comprise a volume of EUR 1.5bn. In 2022, there are no further bonds set to fall due under this ticker (LANDER). Looking at the calendar and based on both historical context and our gut feeling, you would have to think that a new bond deal could be issued in the not-too-distant future. However, with the Laender currently examining their finances with a fine-tooth comb, it is likely that credit authorisations will not be exhausted. As a result, funding activities may well be thin on the ground until the end of the year. In this context, there would appear, at best, to be a 50:50 chance of the LANDER ticker appearing on screens again before 2023.

ASW spreads vs. individual Bundeslaender & Bunds

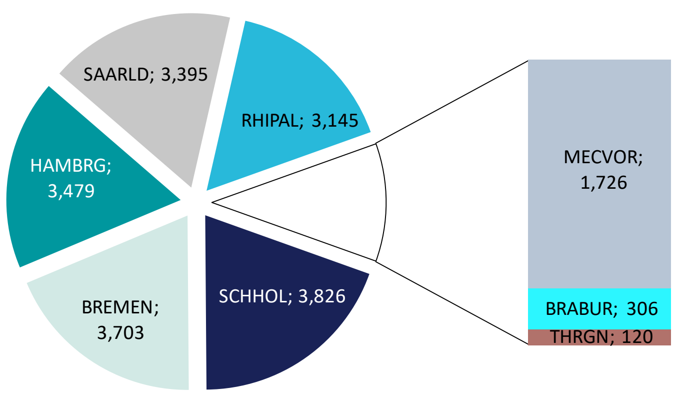


ASW spreads vs. German promotional banks & Bunds

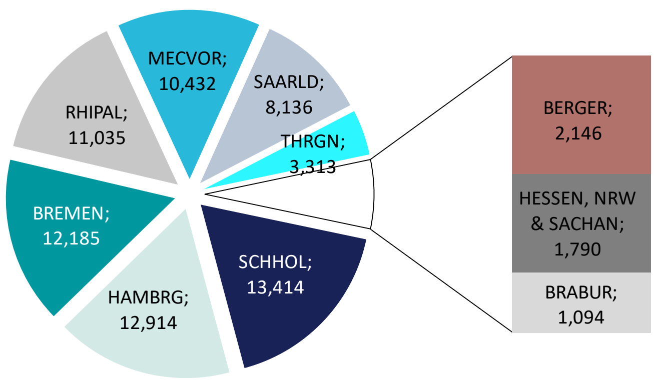


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Share of current outstanding volume attributable to the Laender (EURbn)



Cumulative share of total volume issued since 1996 (EURbn)



Source: Federal Ministry of Finance, Federal Statistical Office, national accounts produced by the Laender, NORD/LB Markets Strategy & Floor Research

Strengths

+ Includes smaller issuers
+ More liquid bond volumes

Weaknesses

– Participants are primarily Bundeslaender with budgetary problems, high-level dependency on the federal financial equalisation system and/or below-average economic output
– Complex structure
– Each participant is liable for its own share

Conclusion

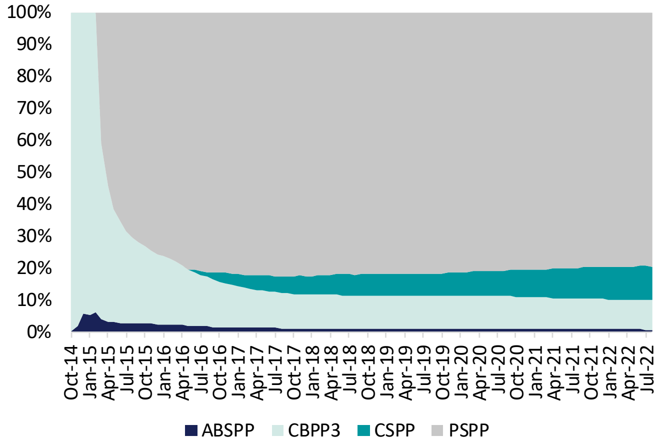
After the sole BULABO bond matured on 15 July 2020, the Gemeinschaft deutscher Laender issuance vehicle represents the most complex remaining construct on the German sub-sovereign market. With an outstanding volume of EUR 19.7bn split across 18 bonds, the LANDER ticker ranks among the most liquid addresses on the market. Deals designated as “Laender jumbos” are not issued on the basis of joint and several liability, which is why this method requires some explanation. However, this does not lead to any differences: Fitch has awarded a rating of AAA to all Laender jumbos. As justification for the rating, Fitch cites the system comprising the principle of federal loyalty and the reorganised system of federal financial equalisation payments, in which the rating agency generally sees an exceptionally low default risk (AAA). Looking at the calendar and based on both historical context and our gut feeling, we believe that a new bond deal could be issued in the not-too-distant future. However, increasing tax revenues, which look set to rise further due to inflationary pressures, could impede this up to the end of this year.

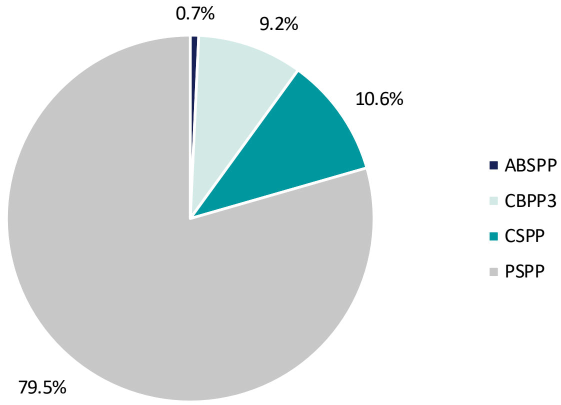
ECB tracker

Asset Purchase Programme (APP)

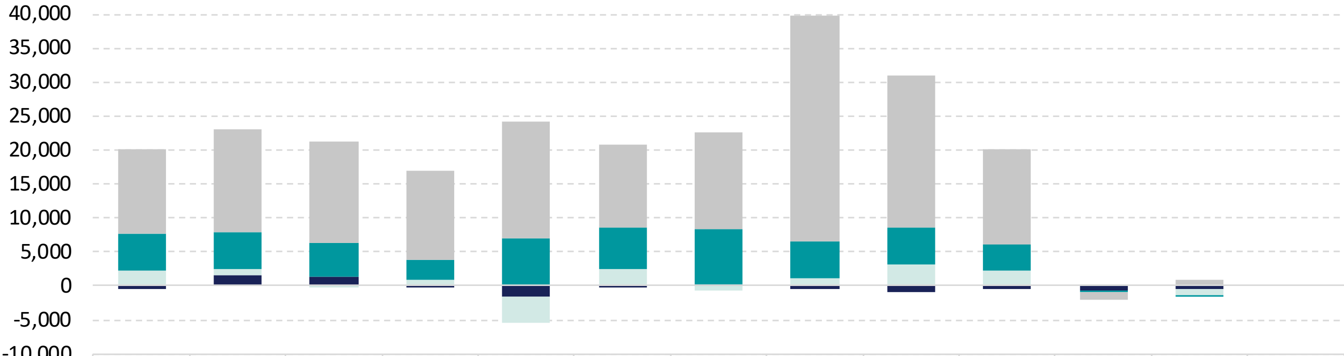
	ABSPP	CBPP3	CSPP	PSPP	APP
Jul-22	24,616	302,427	344,811	2,591,531	3,263,385
Aug-22	24,132	301,640	344,558	2,592,400	3,262,730
Δ	-484	-787	-253	+869	-655

Portfolio structure





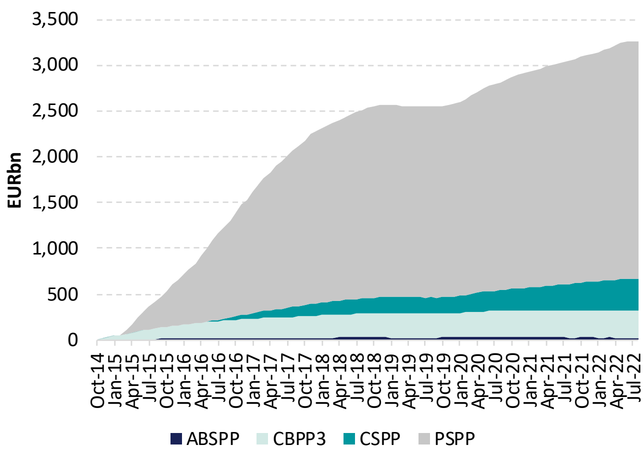
Monthly net purchases (in EURm)



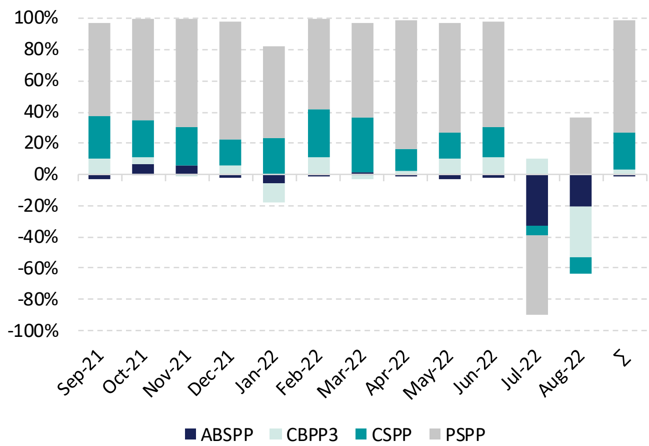
	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	∑
APP	19,659	23,017	21,200	16,596	18,838	20,698	21,929	39,397	30,232	19,722	-1,759	-655	228,874
PSPP	12,423	15,038	14,815	12,989	17,292	12,095	14,172	33,238	22,443	13,924	-1,114	869	168,184
CSPP	5,590	5,481	5,142	3,007	6,970	6,272	8,042	5,461	5,366	3,858	-141	-253	54,795
CBPP3	2,184	1,008	-12	942	-3,761	2,376	-606	1,074	3,247	2,339	217	-787	8,221
ABSPP	-538	1,490	1,255	-342	-1,663	-45	321	-376	-824	-399	-721	-484	-2,326

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

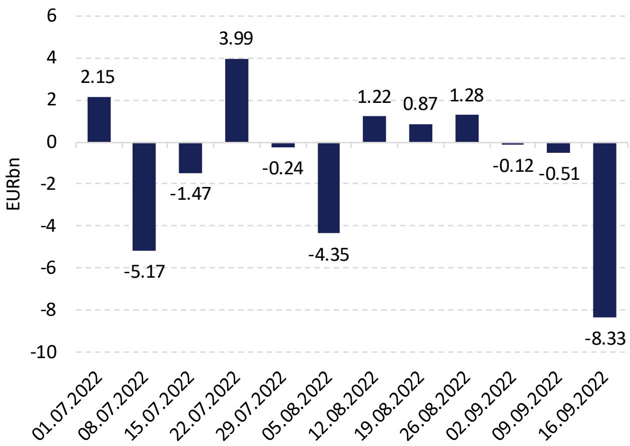
Portfolio development



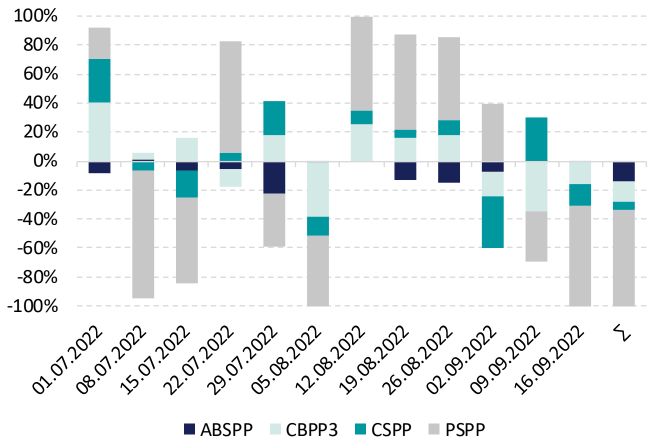
Distribution of monthly purchases



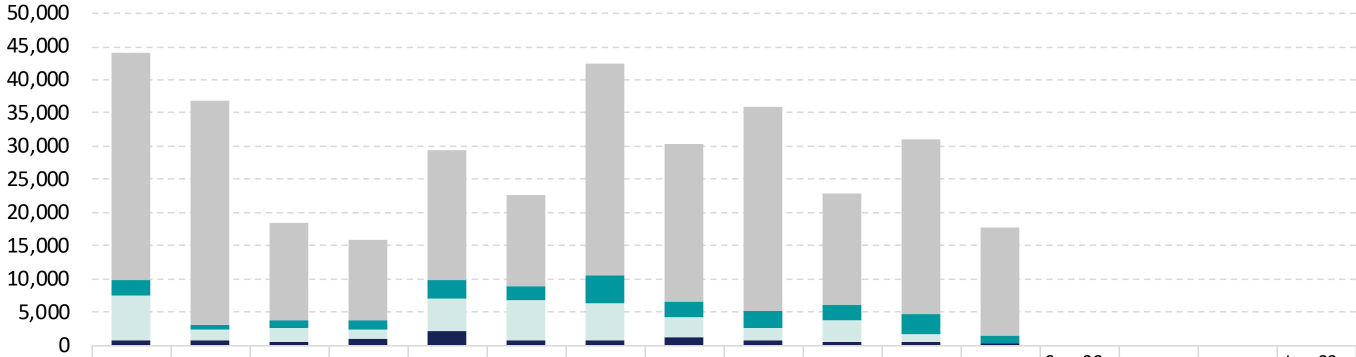
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)



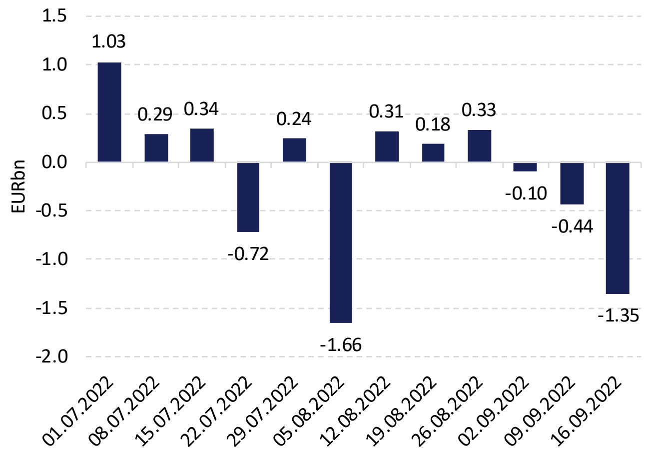
	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-22 - Aug-23	2021	2022	Jan-23 - Aug-23
APP	44,114	36,965	18,361	15,844	29,368	22,586	42,567	30,235	35,827	22,809	31,094	17,816	347,586	247,069	298,879	232,302
PSPP	34,354	33,927	14,669	12,016	19,469	13,657	32,033	23,663	30,552	16,619	26,378	16,445	273,782	188,494	228,585	178,816
CSPP	2,221	674	1,031	1,416	2,947	2,182	4,219	2,388	2,579	2,521	3,023	979	26,180	17,134	17,428	20,838
CBPP3	6,873	1,651	2,167	1,487	4,786	6,013	5,631	2,937	1,874	3,108	1,170	0	37,697	30,143	41,244	25,519
ABSPP	666	713	494	925	2,166	734	684	1,247	822	561	523	392	9,927	11,298	11,622	7,129

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

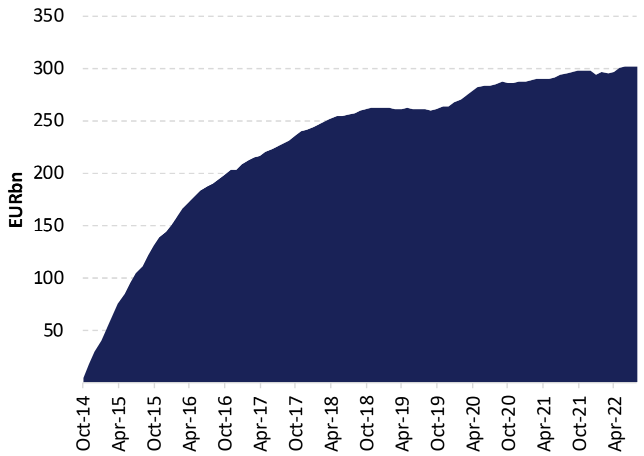
NORD/LB

Covered Bond Purchase Programme 3 (CBPP3)

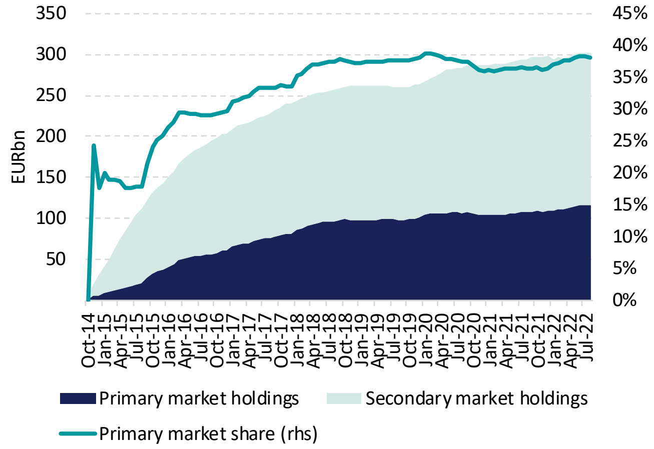
Weekly purchases



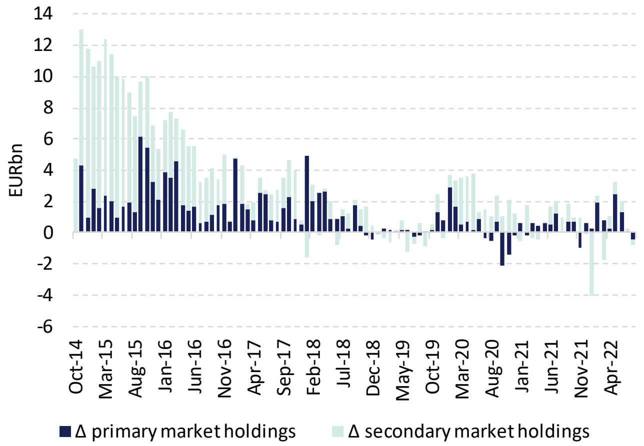
Development of CBPP3 volume



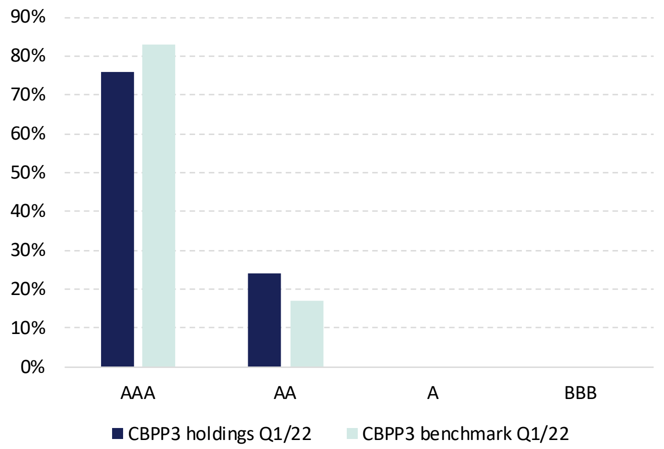
Primary and secondary market holdings



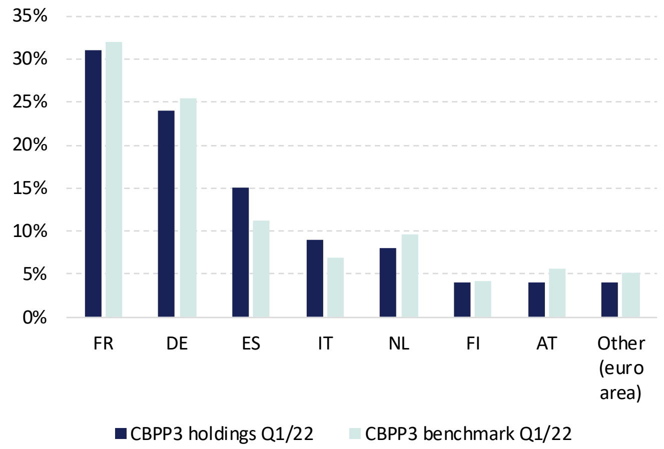
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



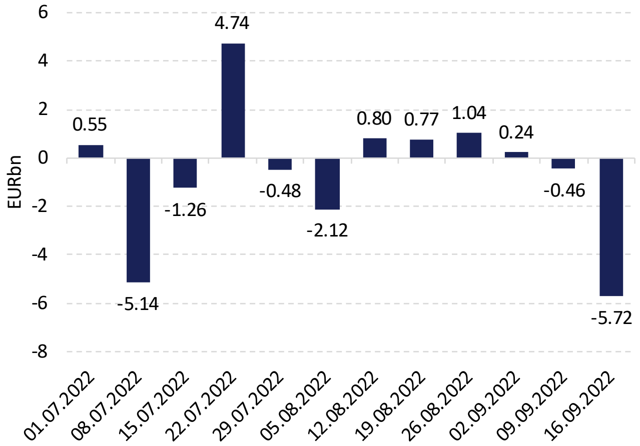
Distribution of CBPP3 by country of risk



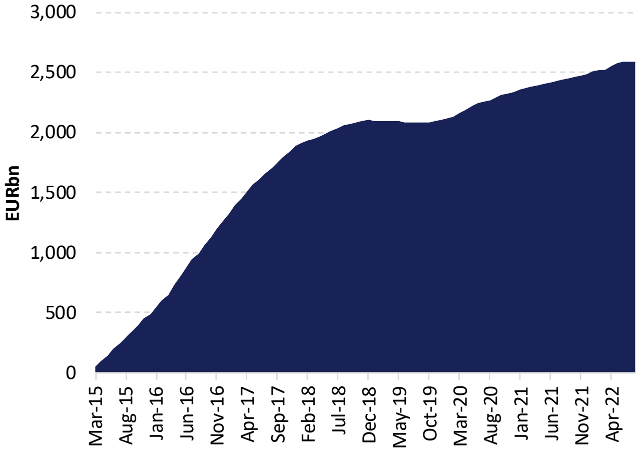
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



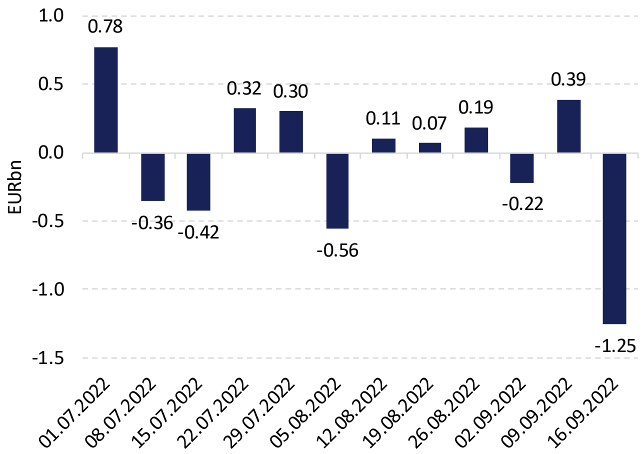
Overall distribution of PSPP buying at month-end

Jurisdiction	Adjusted distribution key[1]	Holdings (EURm)	Expected holdings (EURm)[2]	Difference (EURm)	Current WAM of portfolio[3] (in years)	WAM of eligible universe[4] (in years)	Difference (in years)
AT	2.7%	78,139	74,117	4,022	7.2	8.4	-1.2
BE	3.4%	95,598	92,256	3,342	7.2	10.3	-3.1
CY	0.2%	4,328	5,449	-1,121	8.8	9.2	-0.4
DE	24.3%	664,195	667,541	-3,346	6.6	8.0	-1.4
EE	0.3%	444	7,133	-6,689	7.8	7.8	0.0
ES	11.0%	316,826	301,962	14,864	7.8	8.2	-0.5
FI	1.7%	44,340	46,514	-2,174	8.0	9.4	-1.5
FR	18.8%	531,745	517,196	14,549	6.8	8.8	-2.0
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	42,964	42,881	83	8.2	8.6	-0.4
IT	15.7%	447,491	430,193	17,298	7.1	10.5	-3.4
LT	0.5%	5,967	14,656	-8,689	10.3	7.9	2.4
LU	0.3%	3,864	8,341	-4,477	5.7	10.3	-4.6
LV	0.4%	3,812	9,867	-6,055	9.1	7.8	1.2
MT	0.1%	1,411	2,656	-1,245	11.3	9.1	2.2
NL	5.4%	129,560	148,401	-18,841	7.8	9.7	-1.9
PT	2.2%	55,468	59,268	-3,800	7.3	9.7	-2.4
SI	0.4%	10,944	12,193	-1,249	9.5	7.6	1.9
SK	1.1%	18,332	29,000	-10,668	7.9	9.6	-1.7
SNAT	10.0%	288,595	274,403	14,192	7.9	8.5	-0.6
Total / Avg.	**100.0%**	**2,744,026**	**2,744,026**	**0**	**7.2**	**8.5**	**-1.3**

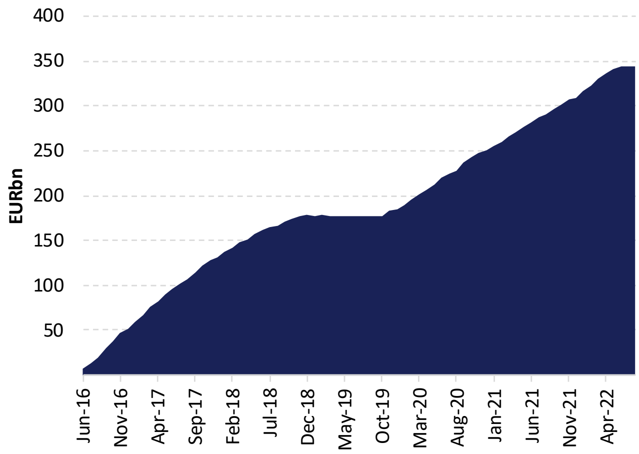
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of PSPP portfolio holdings
[4] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: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

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

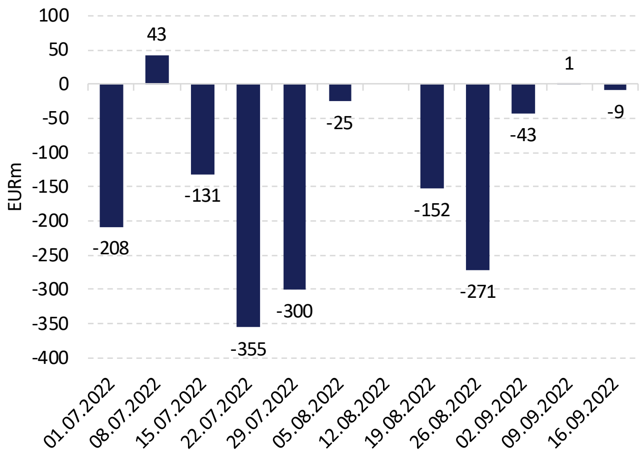


Development of CSPP volume

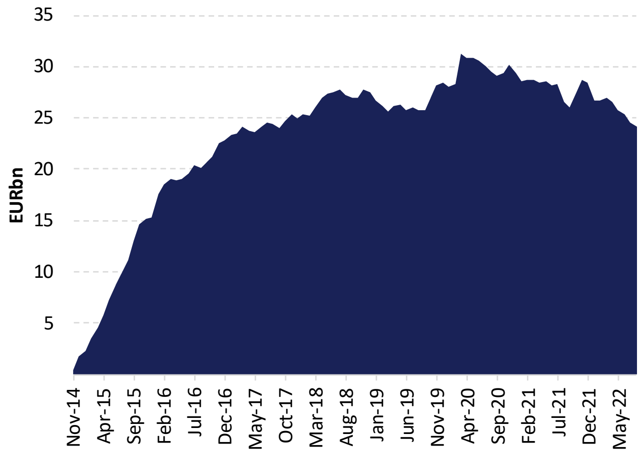


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



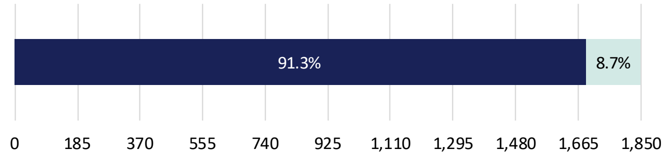
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

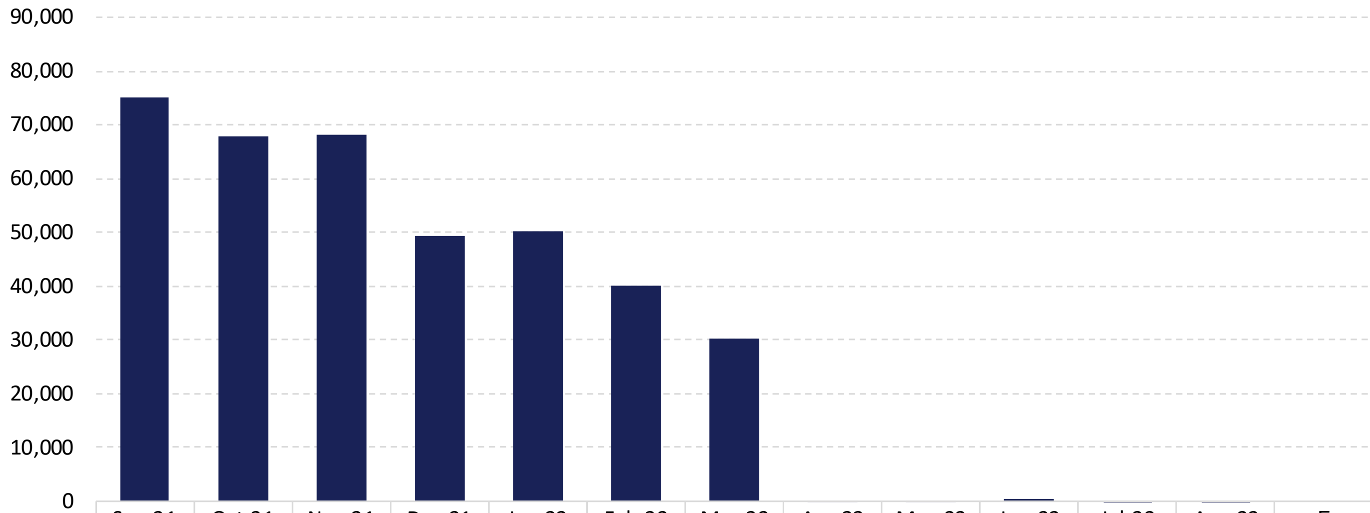
Holdings (in EURm)

	PEPP
Jul-22	1,717,352
Aug-22	1,714,539
Δ (net purchases)	-2,813

Invested share of PEPP envelope (in EURbn)

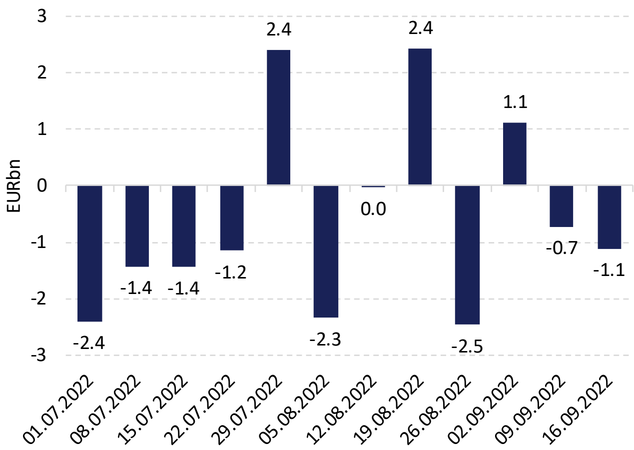


Monthly net purchases (in EURm)

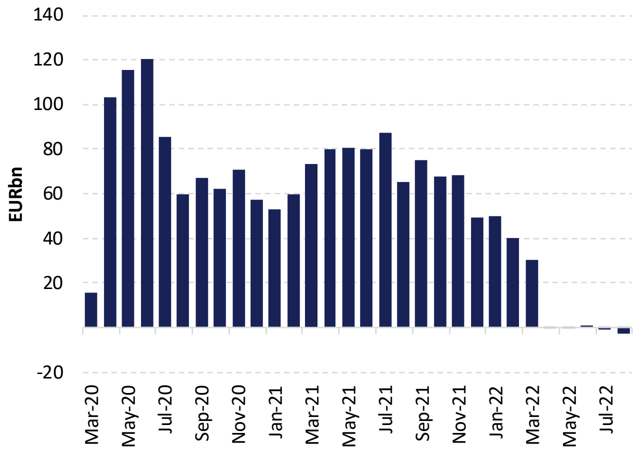


	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	∑
PEPP	75,051	67,855	68,045	49,375	50,113	40,184	30,214	-4	-10	12	-722	-2,813	377,300

Weekly purchases



Development of PEPP volume

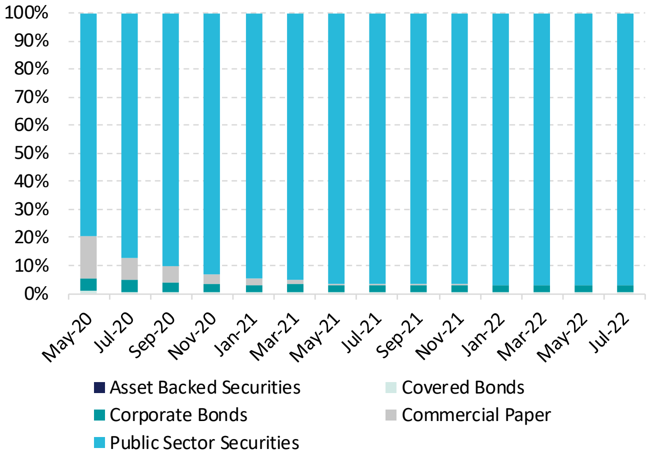


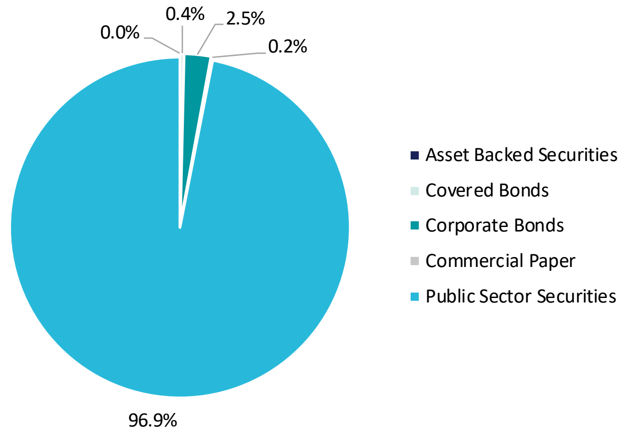
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

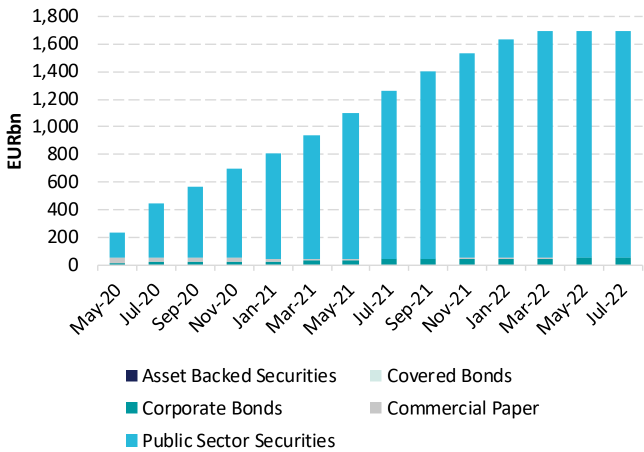
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
May-22	0	6,067	41,825	4,352	1,644,230	1,696,474
Jul-22	0	6,062	42,814	3,322	1,639,774	1,691,971
Δ (net purchases)	0	0	+1,025	-1,029	-705	-709

Portfolio structure

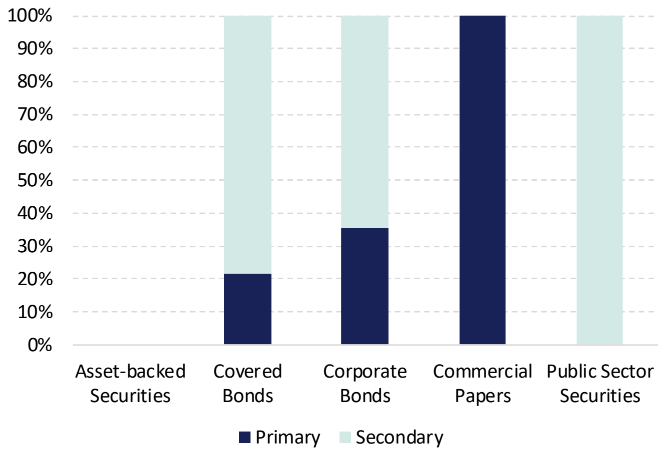




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

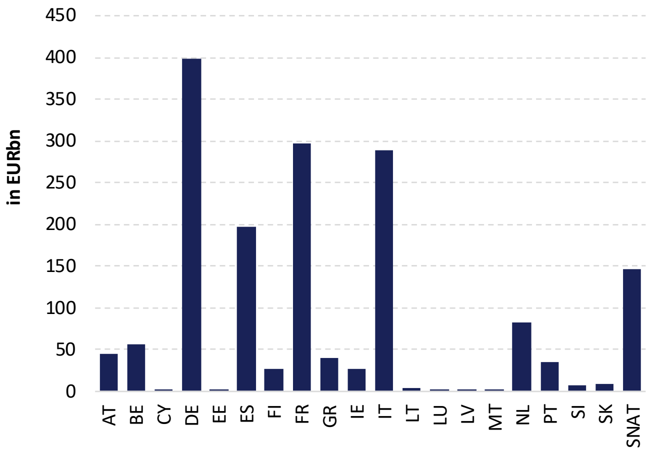
Jul-22	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Holdings in EURm	0	0	1,298	4,764	15,262	27,552	3,322	0
Share	0.0%	0.0%	21.4%	78.6%	35.7%	64.4%	100.0%	0.0%

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

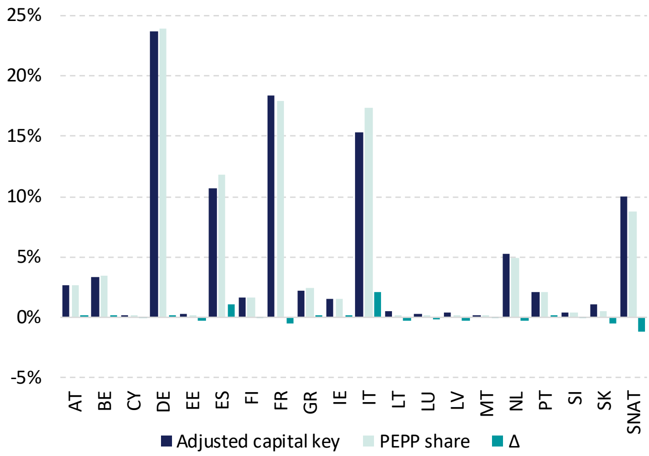
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	Current WAM[3] (in years)	WAM of eligible universe[4] (in years)	Difference (in years)
AT	44,424	2.6%	2.7%	0.0%	7.7	7.3	0.3
BE	57,057	3.3%	3.4%	0.1%	6.4	9.6	-3.2
CY	2,464	0.2%	0.1%	0.0%	8.9	8.2	0.7
DE	398,212	23.7%	23.9%	0.2%	6.6	7.0	-0.3
EE	256	0.3%	0.0%	-0.2%	7.9	6.5	1.4
ES	196,377	10.7%	11.8%	1.1%	7.5	7.4	0.1
FI	27,454	1.7%	1.6%	0.0%	7.1	8.2	-1.2
FR	297,766	18.4%	17.9%	-0.5%	8.0	7.8	0.2
GR	39,765	2.2%	2.4%	0.2%	8.4	9.4	-1.0
IE	26,004	1.5%	1.6%	0.0%	8.8	9.7	-0.8
IT	289,065	15.3%	17.4%	2.1%	7.1	7.0	0.1
LT	3,235	0.5%	0.2%	-0.3%	9.9	9.6	0.4
LU	1,865	0.3%	0.1%	-0.2%	6.2	7.0	-0.8
LV	1,890	0.4%	0.1%	-0.2%	8.4	8.3	0.1
MT	603	0.1%	0.0%	-0.1%	10.9	9.0	2.0
NL	82,741	5.3%	5.0%	-0.3%	7.9	8.7	-0.7
PT	35,315	2.1%	2.1%	0.0%	6.6	7.0	-0.4
SI	6,542	0.4%	0.4%	0.0%	9.0	9.2	-0.2
SK	7,966	1.0%	0.5%	-0.6%	8.6	8.1	0.5
SNAT	145,953	10.0%	8.8%	-1.2%	10.5	8.7	1.8
Total / Avg.	**1,664,955**	**100.0%**	**100.0%**	**0.0%**	**7.6**	**7.6**	**0.0**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



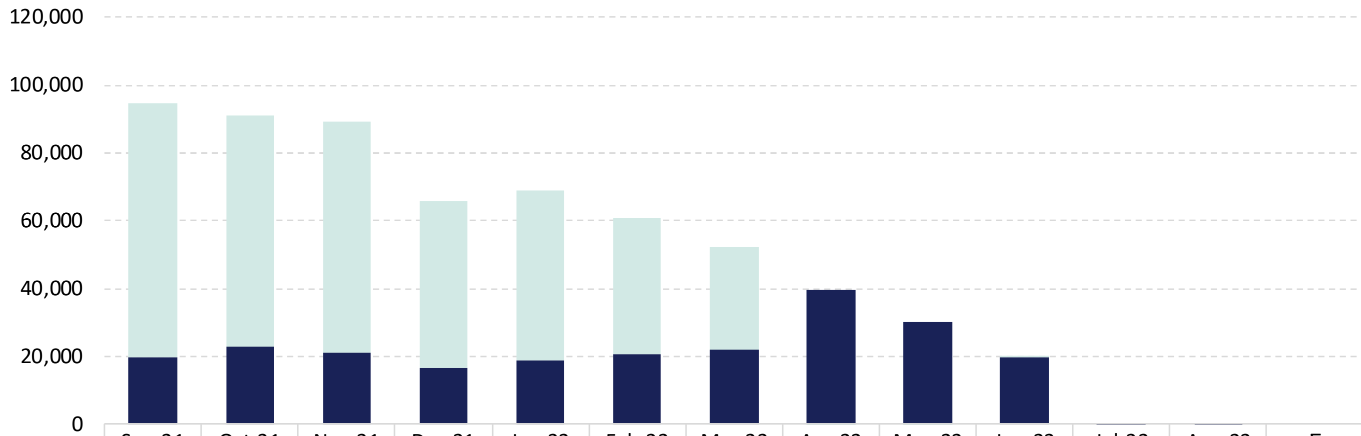
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Current WAM of public sector securities holdings under the PEPP [4] WAM of eligible universe of public sector securities holdings under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

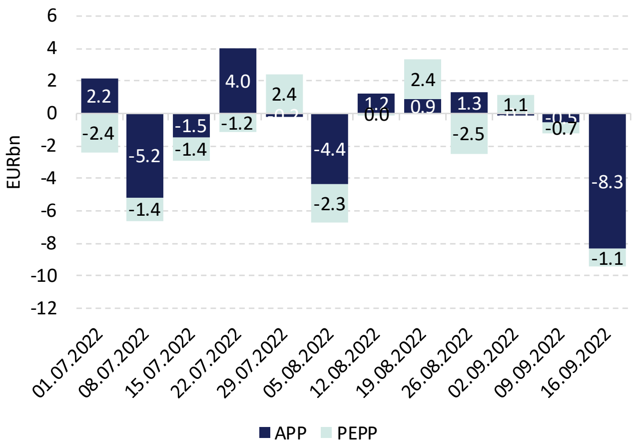
	APP	PEPP	APP & PEPP
Jul-22	3,263,385	1,717,352	4,980,737
Aug-22	3,262,730	1,714,539	4,977,269
Δ	-655	-2,813	-3,468

Monthly net purchases (in EURm)

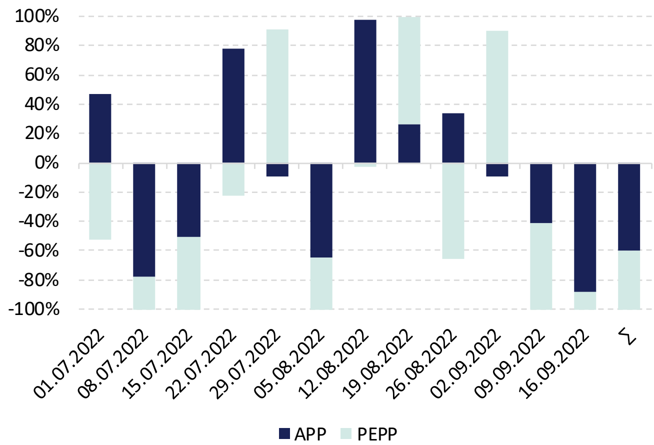


	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	∑
∑	94,710	90,872	89,245	65,971	68,951	60,882	52,143	39,393	30,222	19,734	-2,481	-3,468	606,174
PEPP	75,051	67,855	68,045	49,375	50,113	40,184	30,214	-4	-10	12	-722	-2,813	377,300
APP	19,659	23,017	21,200	16,596	18,838	20,698	21,929	39,397	30,232	19,722	-1,759	-655	228,874

Weekly purchases



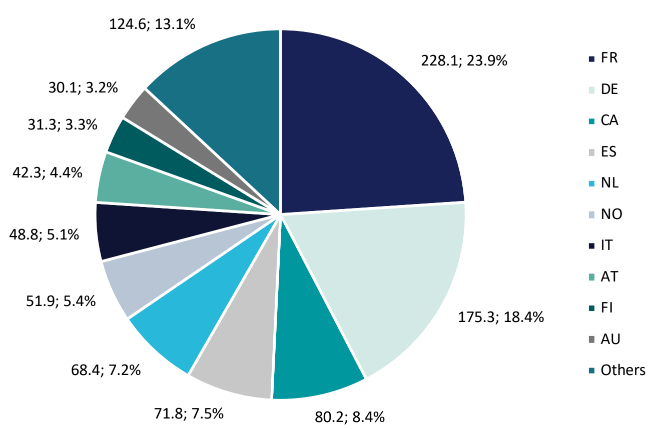
Distribution of weekly purchases



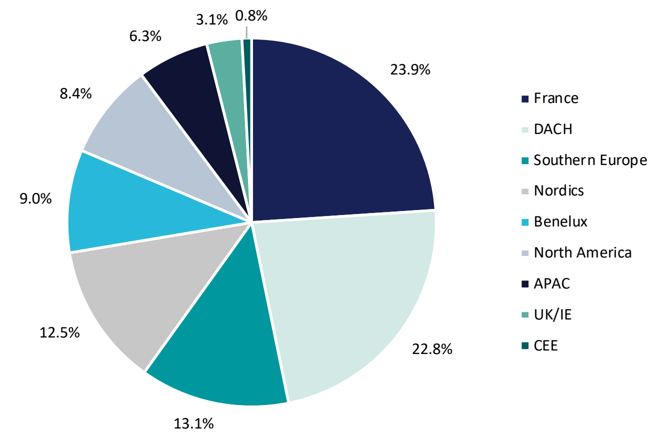
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



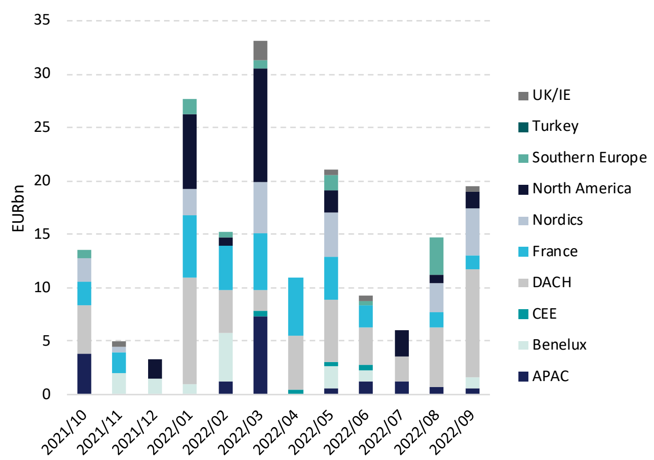
EUR benchmark volume by region (in EURbn)



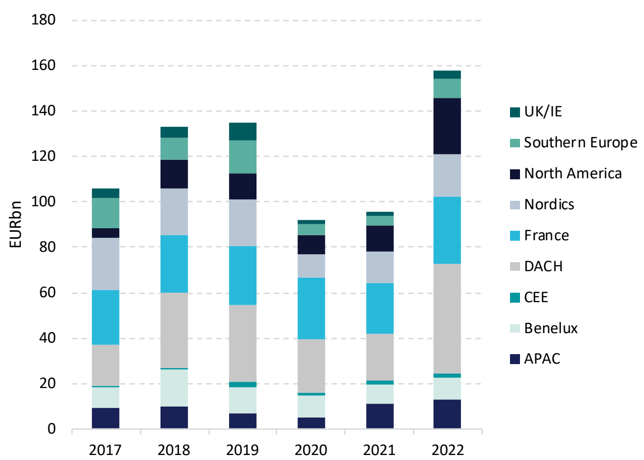
Top-10 jurisdictions

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	228.1	220	14	0.94	10.0	5.4	0.86
2	DE	175.3	251	25	0.64	8.4	4.6	0.58
3	CA	80.2	62	0	1.25	5.8	3.0	0.37
4	ES	71.8	57	5	1.15	11.7	3.8	1.74
5	NL	68.4	70	1	0.92	11.4	7.2	0.82
6	NO	51.9	61	10	0.85	7.3	3.9	0.51
7	IT	48.8	59	2	0.79	9.2	4.0	1.28
8	AT	42.3	75	3	0.56	9.2	6.0	0.77
9	FI	31.3	33	2	0.95	7.6	3.8	0.51
10	AU	30.1	31	0	0.97	8.1	4.0	0.91

EUR benchmark issue volume by month

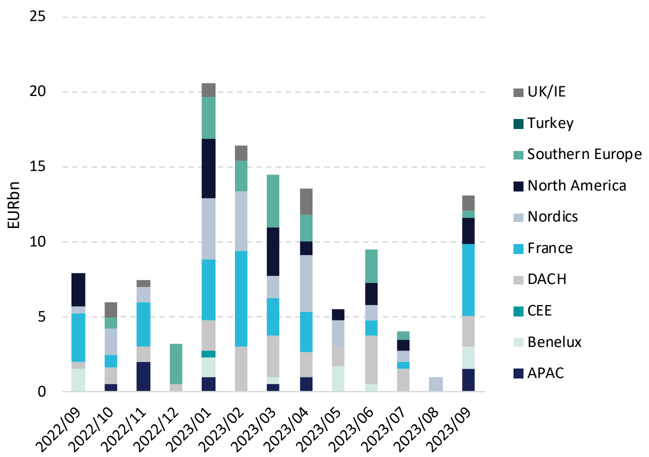


EUR benchmark issue volume by year

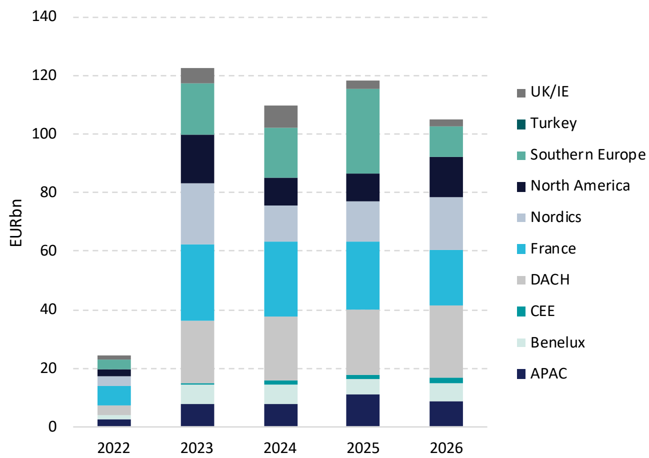


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

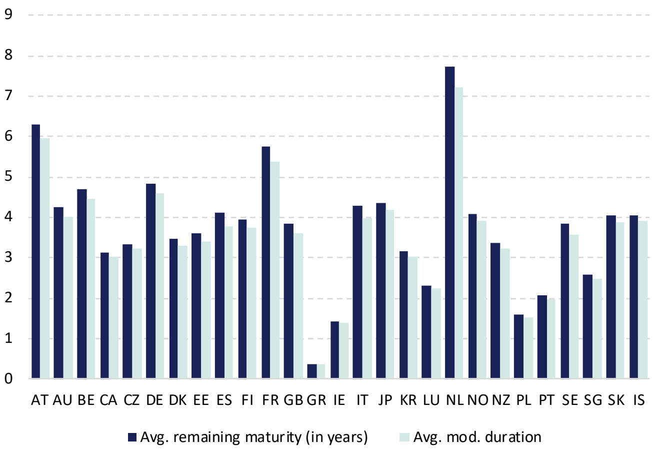
EUR benchmark maturities by month



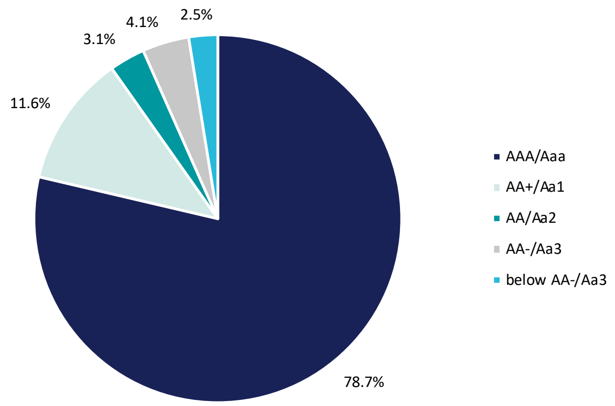
EUR benchmark maturities by year



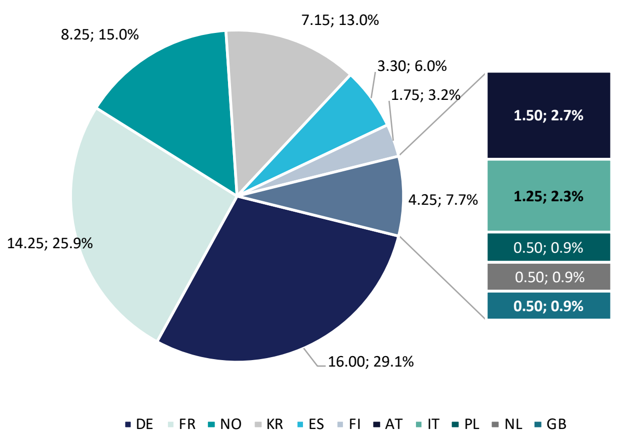
Modified duration and time to maturity by country



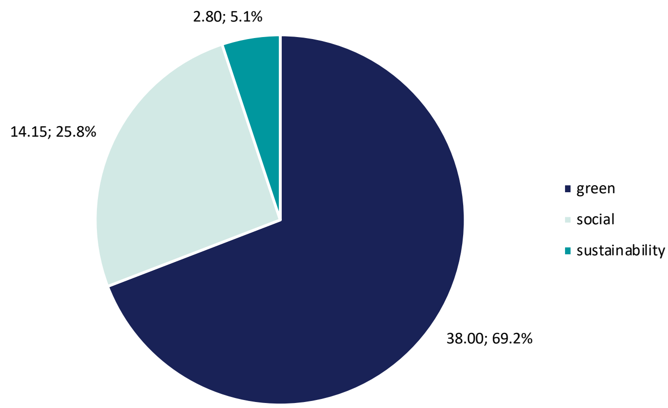
Rating distribution (volume weighted)



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

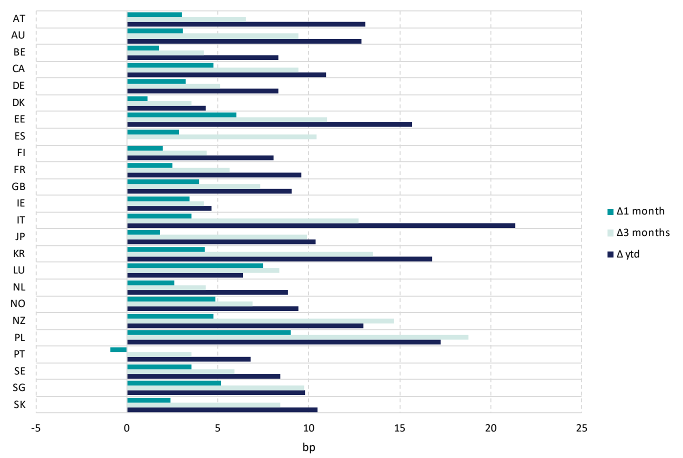


EUR benchmark volume (ESG) by type (in EURbn)

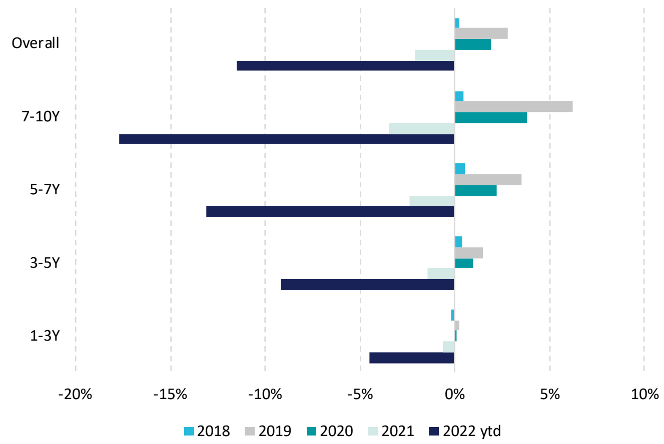


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

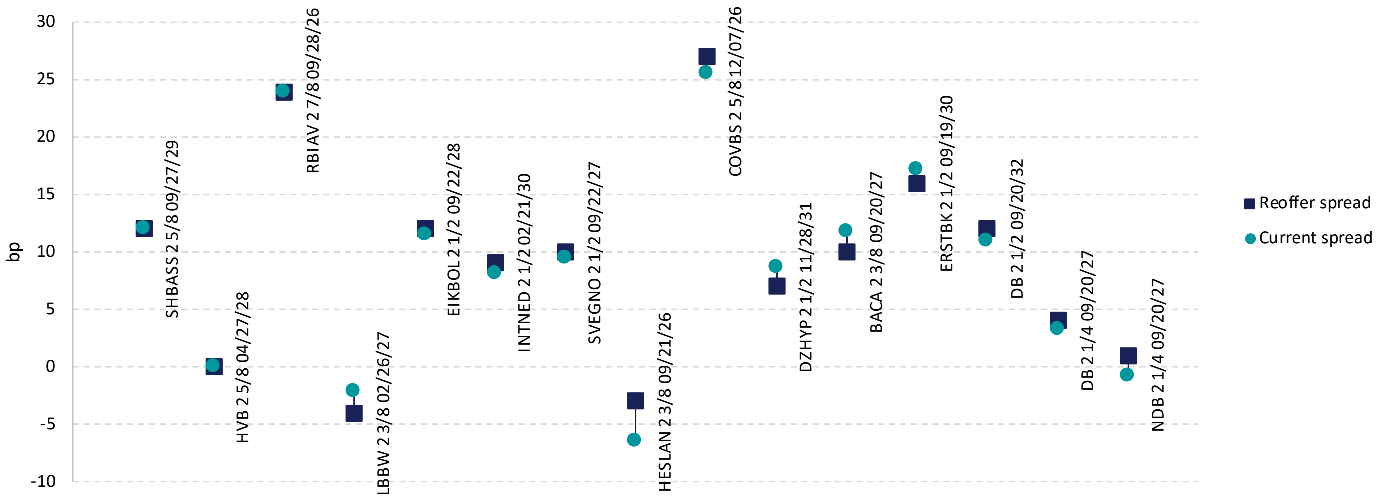
Spread development by country



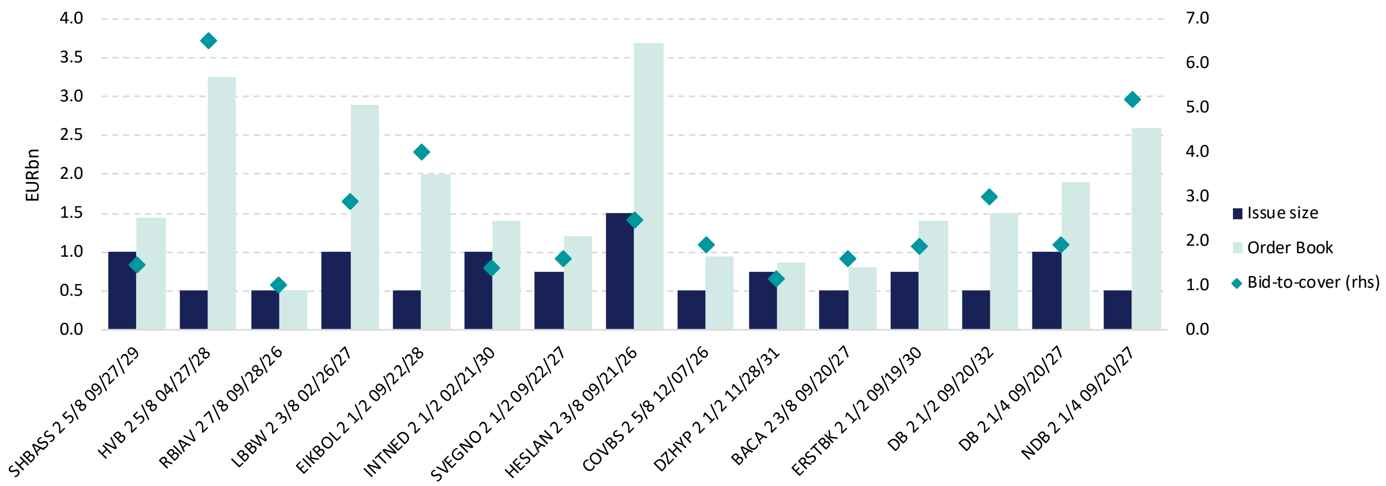
Covered bond performance (Total return)



Spread development (last 15 issues)



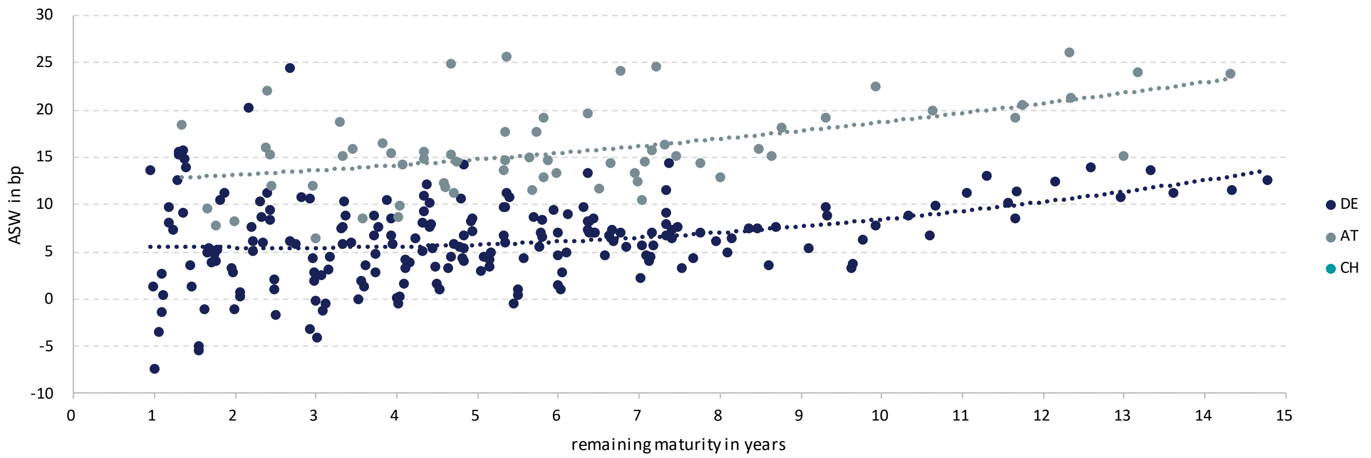
Order books (last 15 issues)



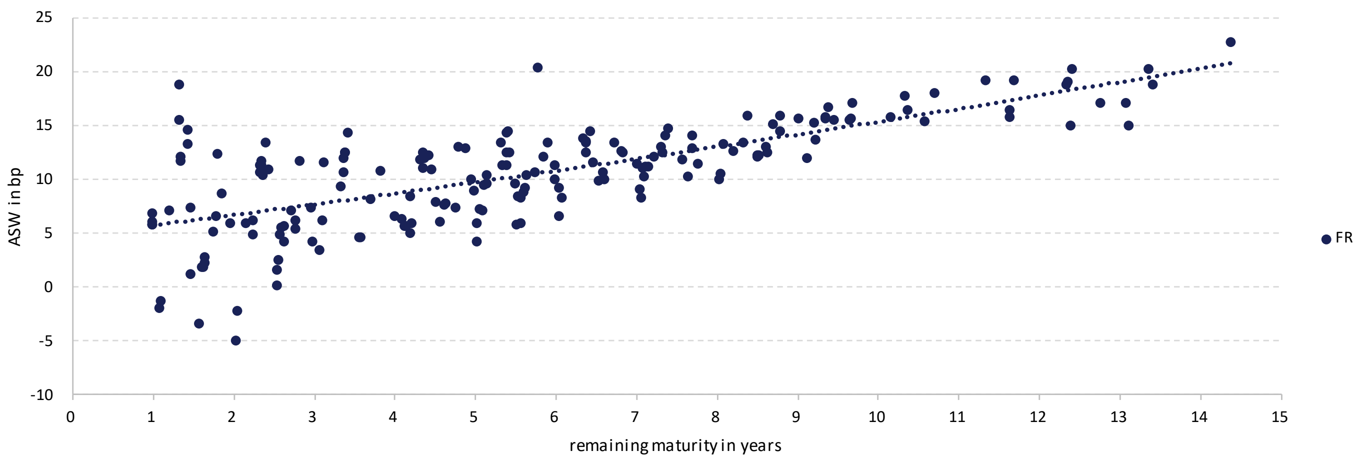
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

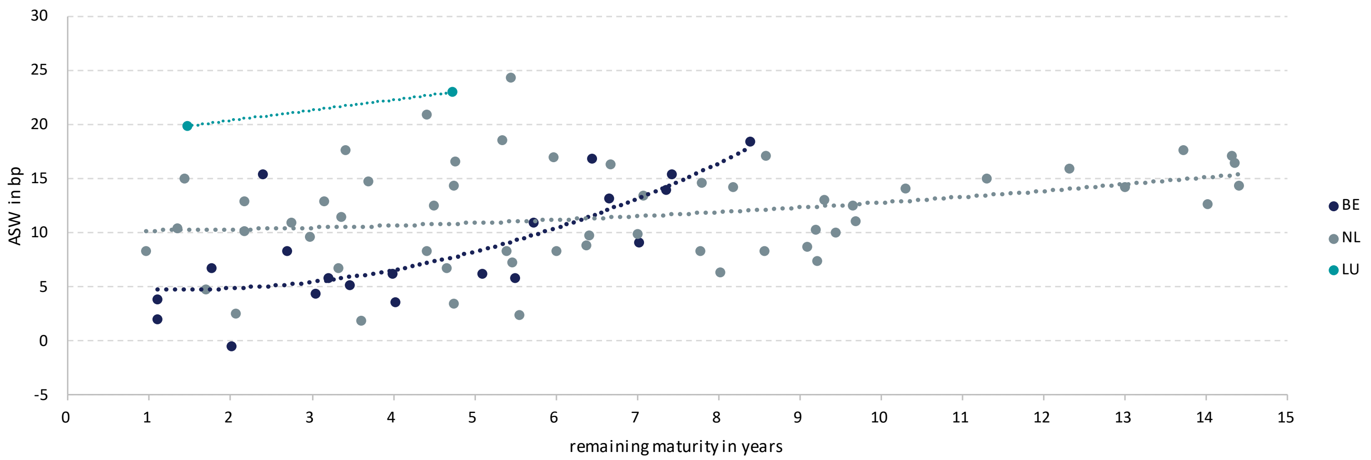
DACH



France

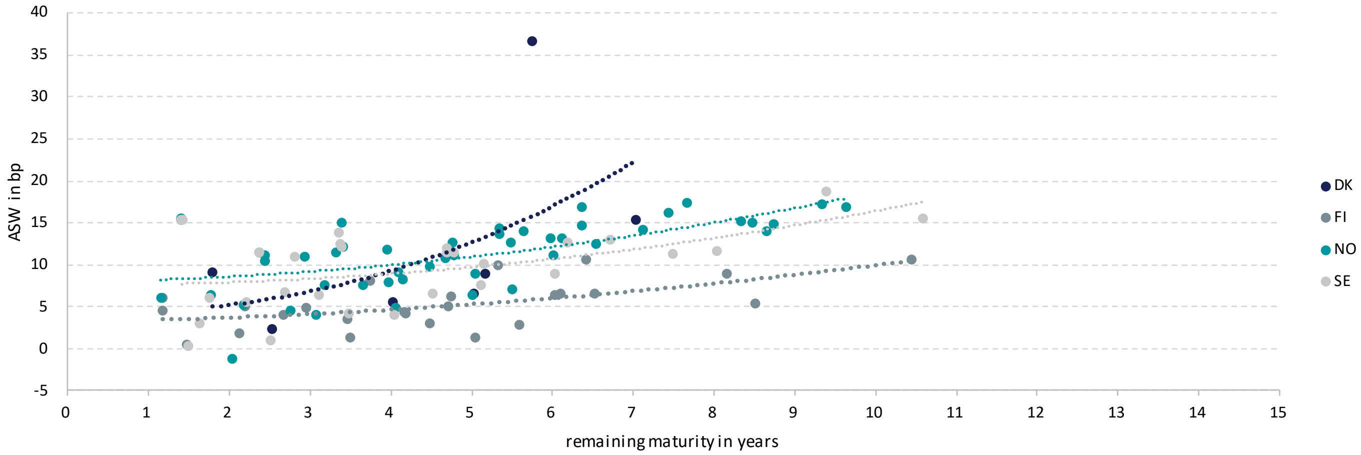


Benelux

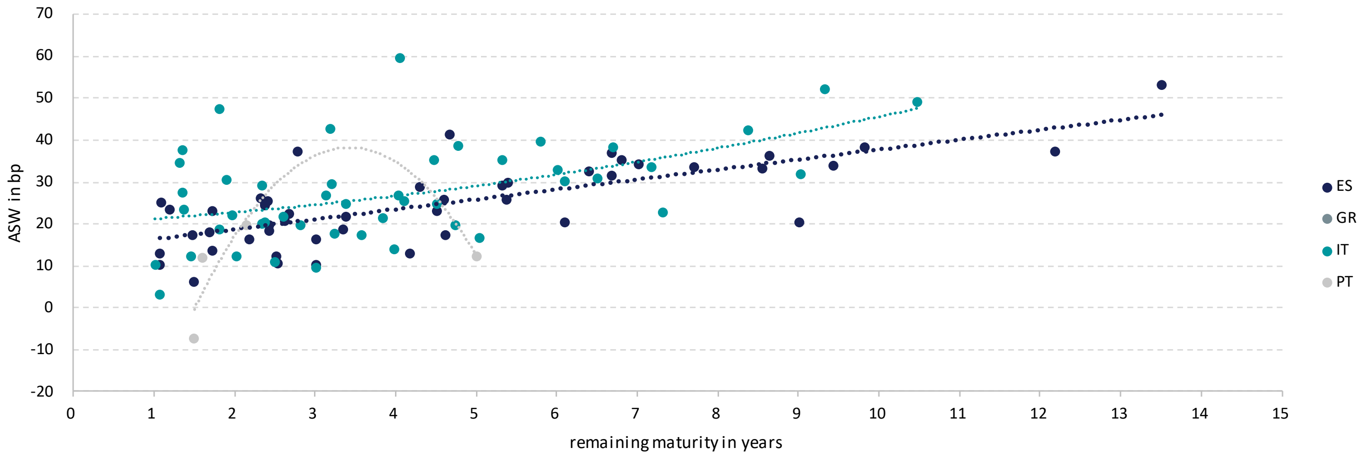


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

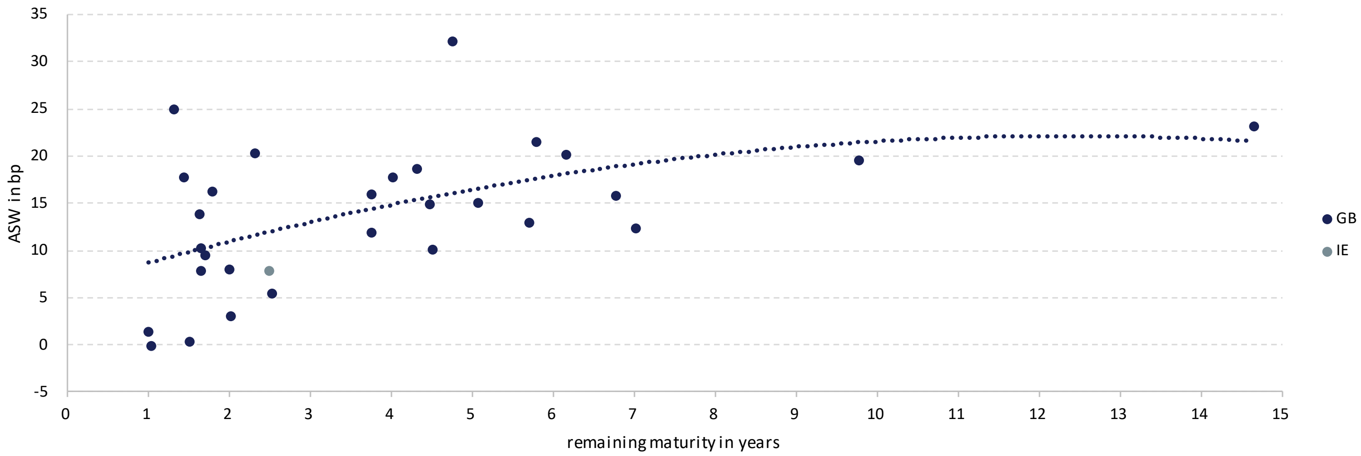
Nordics



Southern Europe

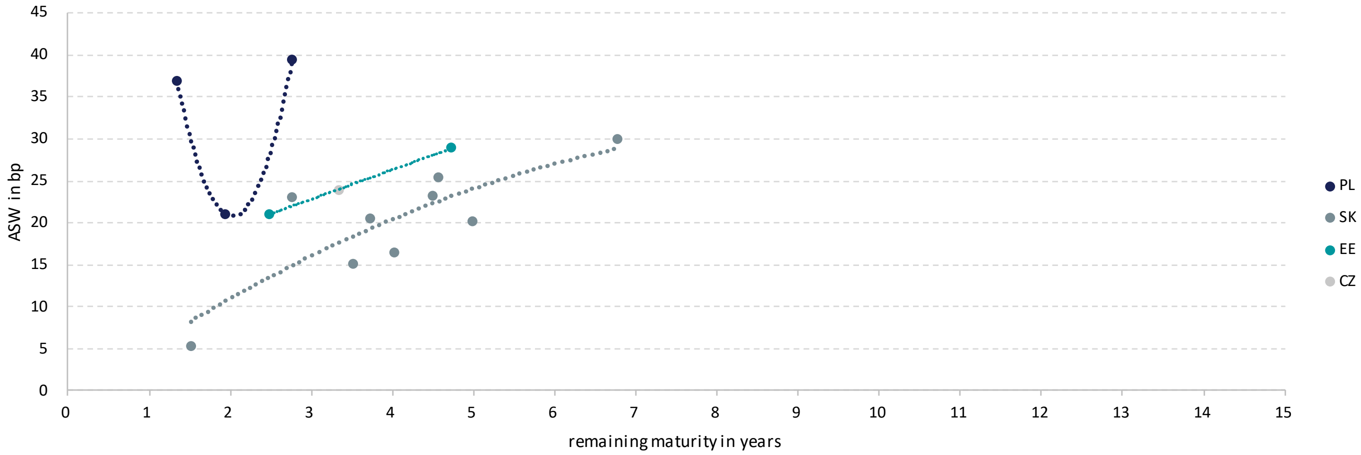


UK/IE

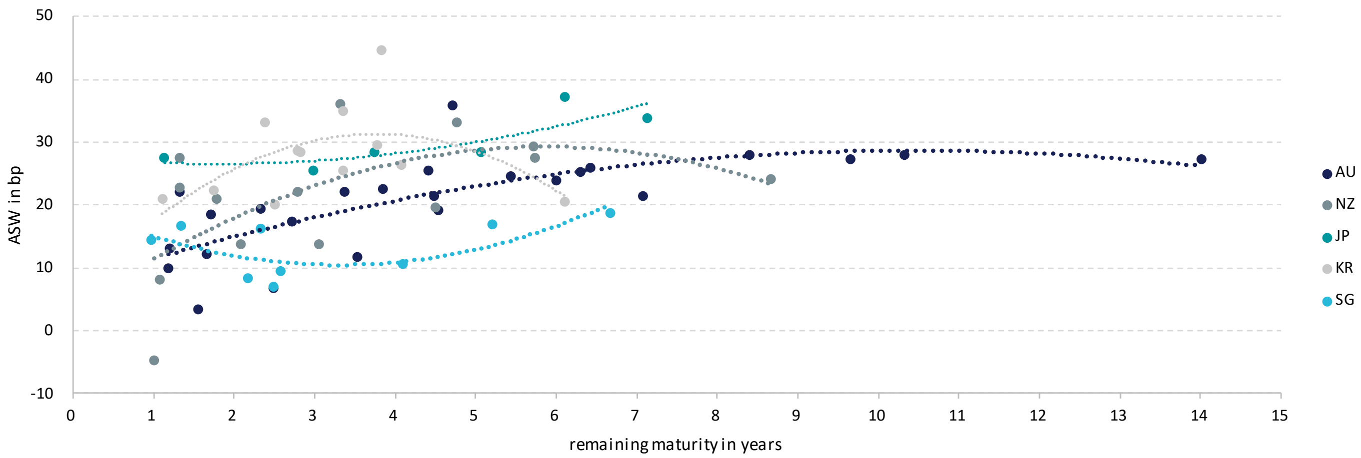


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

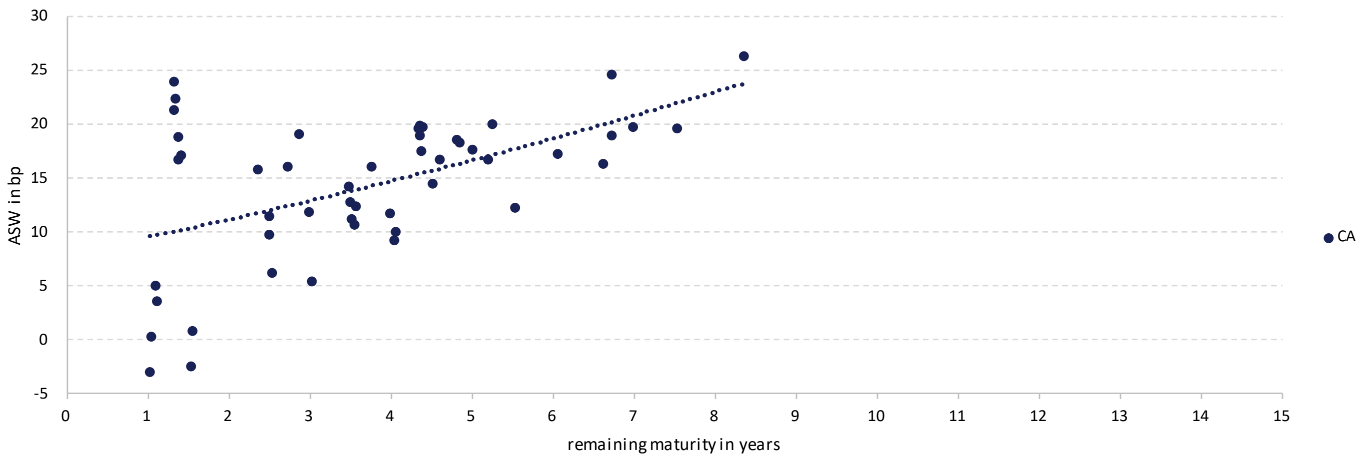
CEE



APAC



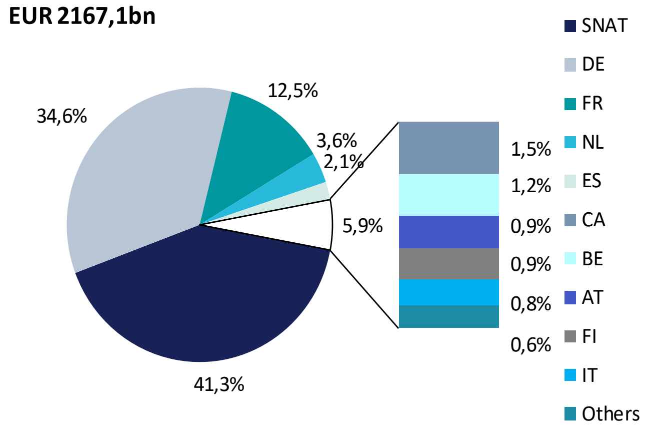
North America



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

Charts & Figures
SSA/Public Issuers

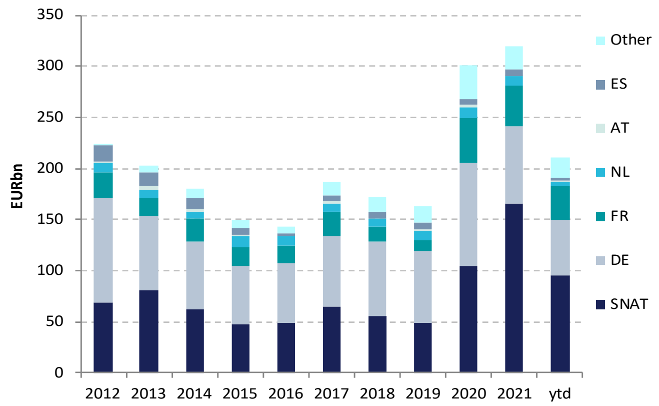
Outstanding volume (bmk)



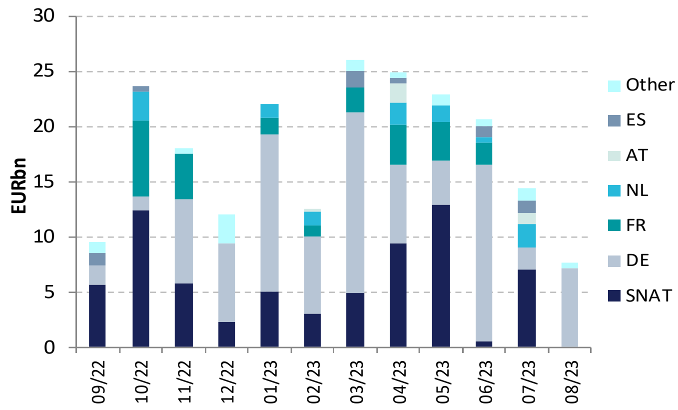
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	896,0	219	4,1	8,2
DE	749,7	561	1,3	6,5
FR	270,8	181	1,5	6,1
NL	77,0	67	1,1	6,6
ES	45,8	59	0,8	4,7
CA	32,6	23	1,4	4,9
BE	25,5	29	0,9	12,2
AT	19,8	23	0,9	4,7
FI	19,2	23	0,8	5,4
IT	16,8	20	0,8	5,0

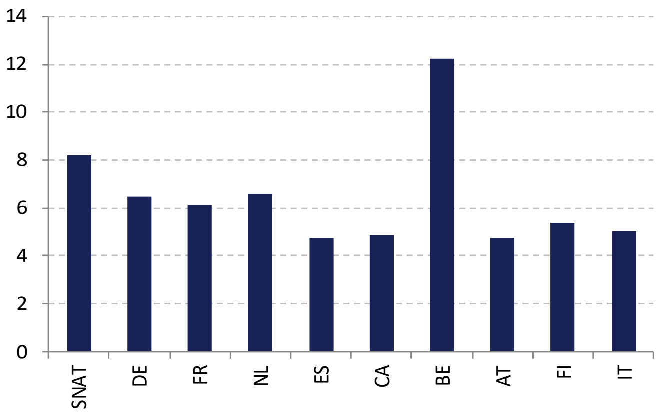
Issue volume by year (bmk)



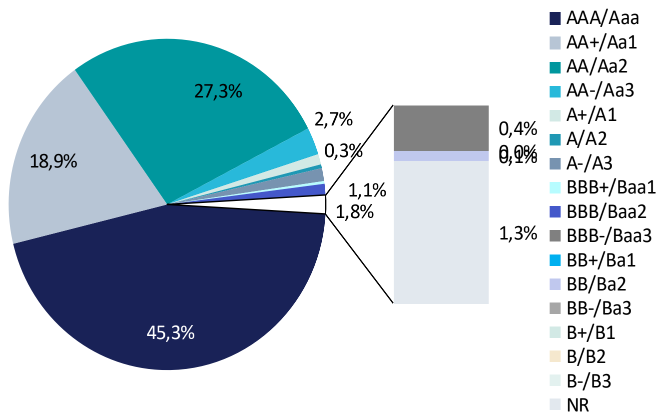
Maturities next 12 months (bmk)



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

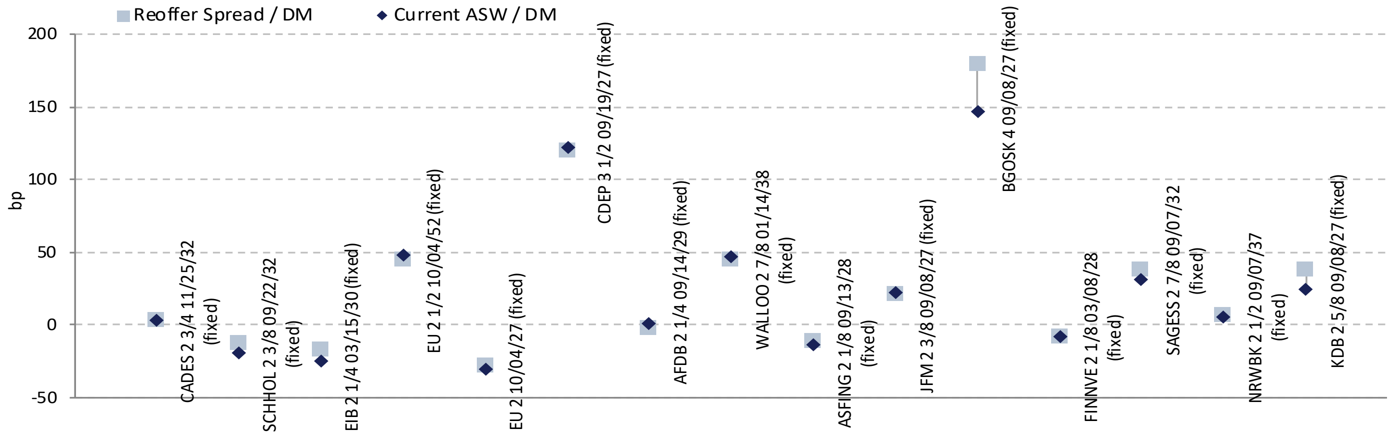


Rating distribution (vol. weighted)

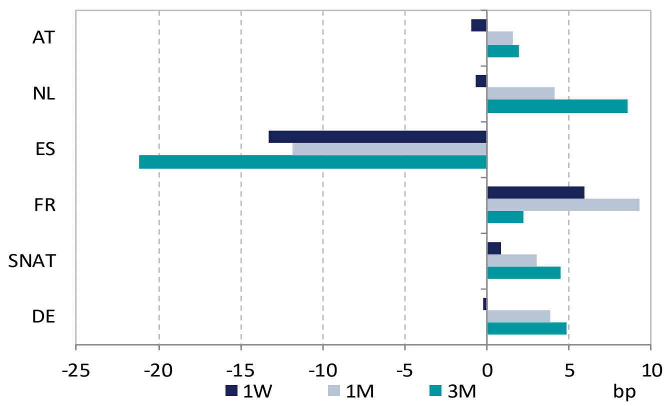


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

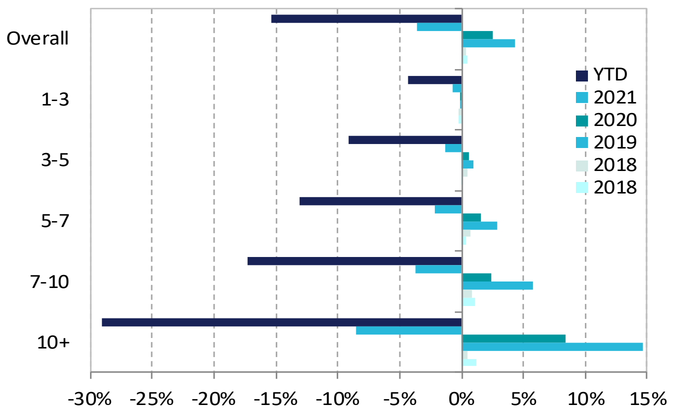
Spread development (last 15 issues)



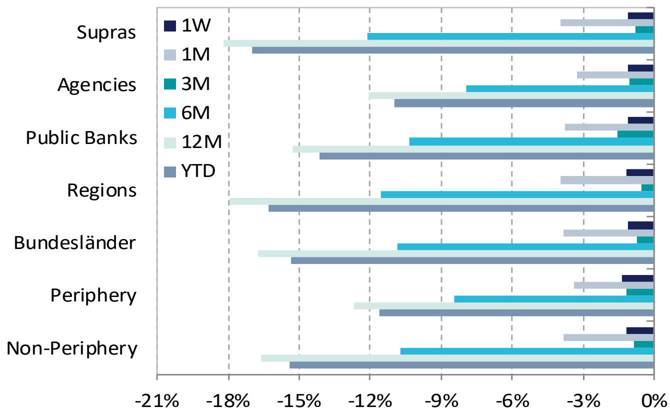
Spread development by country



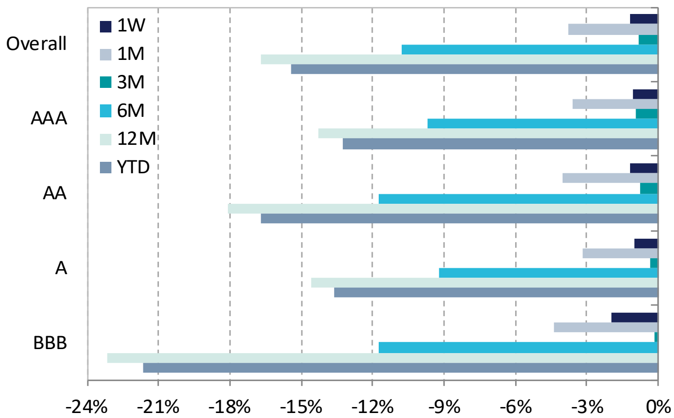
Performance (total return)



Performance (total return) by segments

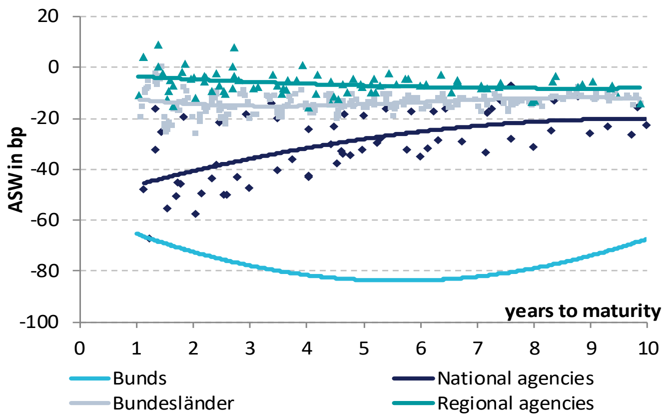


Performance (total return) by rating

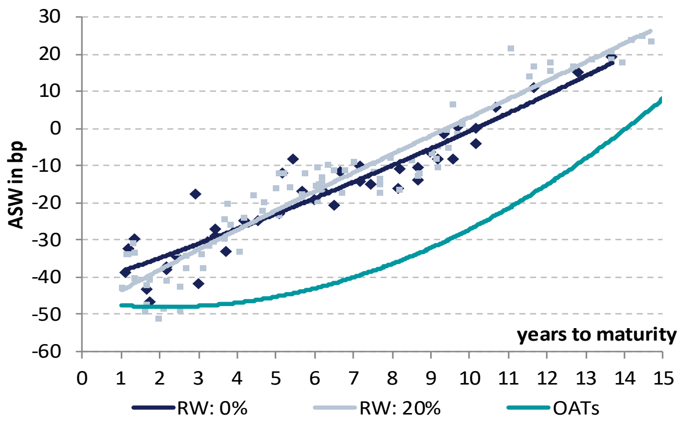


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

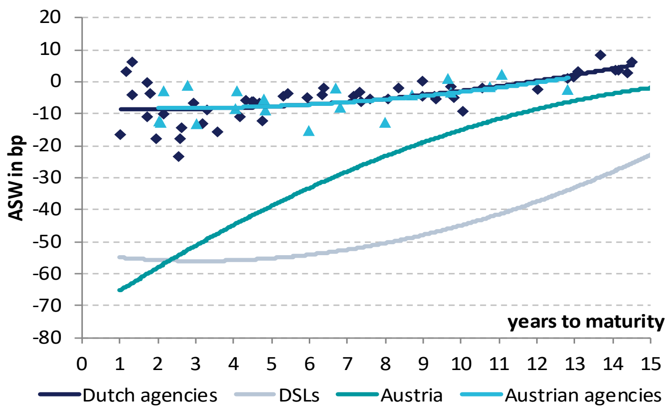
Germany (by segments)



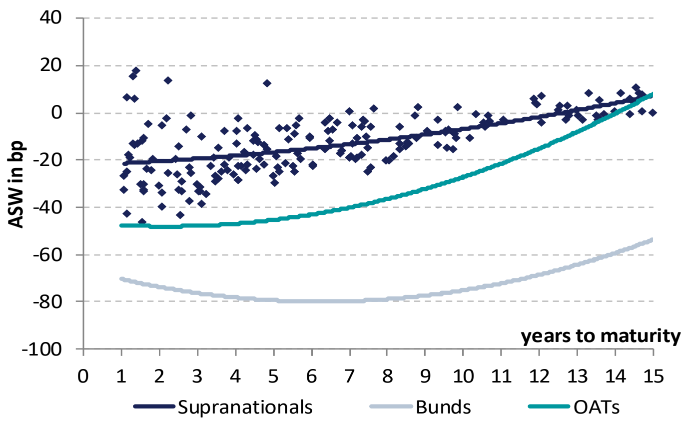
France (by risk weight)



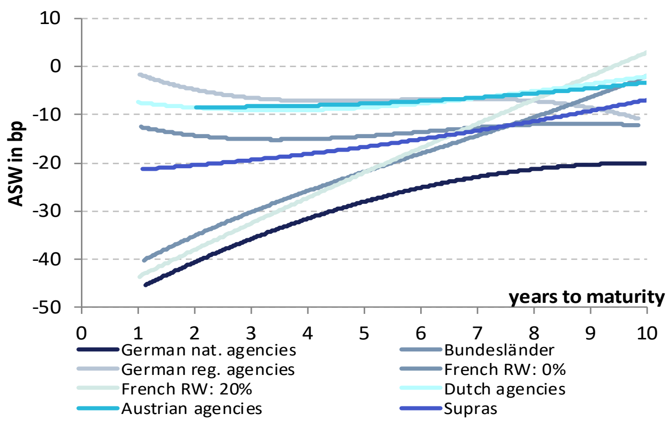
Netherlands & Austria



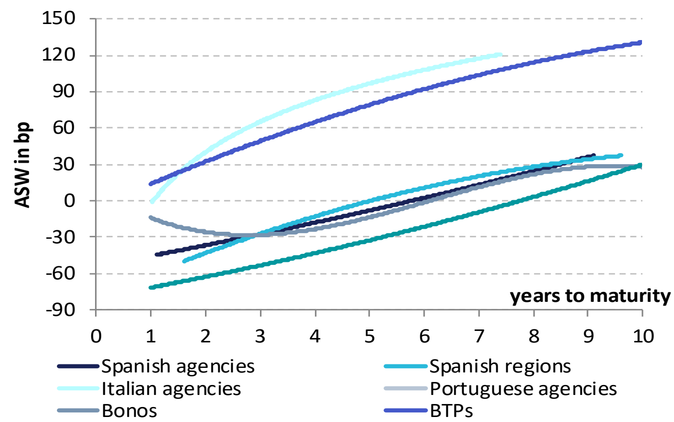
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
28/2022 ♦ 07 September	▪ Primary market: A little more to come! ▪ ECB: PEPP visibly active as first line of defence
27/2022 ♦ 31 August	▪ ECB rate hikes: minimum of +100bp still to come by year-end ▪ Australia: Macquarie returns to the EUR benchmark segment
26/2022 ♦ 24 August	▪ Development of the German property market ▪ Transparency requirements §28 PfandBG Q2/2022
25/2022 ♦ 27 July	▪ ECB likes abbreviations: After OMT and SMP, we now have TPI ▪ Covereds vs. Senior Unsecured Bonds
24/2022 ♦ 20 July	▪ A brief spotlight on the EUR sub-benchmark segment ▪ Deutsche Hypo real estate climate: index falls again
23/2022 ♦ 13 July	▪ ECB preview: might the ECB go slightly further? ▪ EBA Report on Asset Encumbrance: levels increasing
22/2022 ♦ 06 July	▪ H1 review and outlook for H2 2022 ▪ Half time in the 2022 SSA year – taking stock
21/2022 ♦ 22 June	▪ Focus on ESG covered bonds: BayernLB's "green rail" public sector Pfandbrief ▪ Stability Council convenes for 25th meeting
20/2022 ♦ 15 June	▪ Covered bond jurisdictions in focus: a look at Australia and New Zealand ▪ NGEU: Green Bond Dashboard
19/2022 ♦ 01 June	▪ ECB: 3, 2, 1 – lift-off! Decisive June, active summer ahead ▪ The covered bond universe of Moody's: an overview ▪ ECB Financial Stability Review identifies increasing risks in the eurozone: a brief overview of covered bonds
18/2022 ♦ 25 May	▪ Transparency requirements §28 PfandBG Q1 2022 ▪ ESG: EUR-benchmarks 2022 in the SSA segment (ytd)
17/2022 ♦ 18 May	▪ Development of the German property market ▪ The SSA market in 2022 a review of the first four months
16/2022 ♦ 11 May	▪ Focus on covered bond jurisdictions: a look at Austria ▪ Update on DEUSTD – Joint German cities (bond No. 1)
15/2022 ♦ 04 May	▪ Focus on covered bond jurisdictions: Spotlight on Sweden ▪ ESG covered bonds from Germany: DKB issues social Pfandbrief in the form of a "Berlin Social Housing Bond" ▪ Issuer Guide SSA 2022: The Spanish agency market
14/2022 ♦ 13 April	▪ First ECB meeting after the end of the PEPP: (Not) a non-event!? ▪ PEPP reporting: (Not) an obituary
13/2022 ♦ 06 April	▪ ECB adjusts order behaviour in time for the new quarter ▪ United Kingdom: spotlight on the EUR benchmark segment ▪ Issuer Guide SSA 2022: the Nordic agency market

Appendix
Publication overview

Covered Bonds:

Covered Bond Directive: Impact on risk weights and LCR levels

Issuer Guide Covered Bonds 2021

Risk weights and LCR levels of covered bonds (updated semi-annually)

Transparency requirements §28 PfandBG (quarterly update)

Covered bonds as eligible collateral for central banks

SSA/Public Issuers:

Issuer Guide – German Laender 2021 (updated annually)

Issuer Guide – German Agencies 2022

Issuer Guide – Dutch Agencies 2022

Beyond Bundeslaender: Greater Paris (IDF/VDP)

Spotlight on Belgian regions

Spotlight on Spanish regions

Fixed Income Specials:

ESG-Update 2022

ECB frontloads rate hike by +50bp and breaches pre-commitment

ECB ready for lift-off: Every journey starts with a first step

Face-saving ECB decision: Hawks have won – for now

ECB decision: PEPP benched for now, APP comes in as Point Guard

Appendix
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