Outlook 2021:

SSA & Covered Bonds

Tuesday, Dec 08 2020, 2:30 - 4:00 PM

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Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

25 November 2020 ♦ 45/2020

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

Agenda

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Market overview
Covered Bonds

Authors: Henning Walten, CIIA // Dr Frederik Kunze

Primary market likely to be slightly more active in 2021 at around EUR 105bn

With deals from the Netherlands and Singapore, the primary market has two new issuances from over the past week for us to discuss here. The overall primary market volume therefore now stands at EUR 92.2bn in the year to-date. With the issuance volume for 2020 coming in below expectations due above all to the market distortions triggered by the COVID-19 pandemic, we are still expecting a primary market volume in the amount of EUR 105bn for the coming year. In connection with the redemptions of EUR 134bn anticipated for calendar year 2021, this projected figure would nevertheless again result in a significant decline in the benchmark volume. Our expectations for 2021 and potential factors, which, in this context, may contribute to an increased risk forecast, will be presented in detail as part of next week's outlook edition of the NORD/LB Covered Bond & SSA View. Moreover, we will then be presenting our outlook in our conference call "Outlook 2021: SSA & Covered Bonds" on 08 December 2020. If you are interested in taking part in this event, please feel free to contact your account manager, send an email to sales@nordlb.lu or by simply clicking here.

Rabobank and United Overseas Bank successfully approach their investors

With two Dutch banks in the form of AEGON Bank and de Volksbank active on the market already in November, another bank from this Benelux country, namely Rabobank, followed suit last Thursday. At 20 years, the bank again opted for a lengthy term to maturity, bringing the number of deals with terms of at least 20 years to six in 2020 as a result. The transaction of EUR 1.0bn, which initially went into the marketing phase without any specific information regarding its volume but EUR benchmark, was ultimately priced three basis points tighter than the guidance at ms +3bp. Despite the long maturity, the yield was close to the zero line, at just +0.066%. Yesterday, Tuesday, the United Overseas Bank (UOB) then issued the first EUR benchmark from Singapore in some time (cf. article on this subject)) to end the country's prolonged period of hibernation from the primary market. The deal, which featured a term of seven years, initially went into the marketing phase only with the label "EUR benchmark", as was the case for the Rabobank bond too. Based on strong and widespread demand as well as a final order book of EUR 2.1bn, a total of EUR 1.0bn was ultimately brought to the market at ms +17bp, which signifies narrowing of five basis points against the guidance. The issuing yield stood at -0.210%. Moreover, at EUR 1.0bn, this deal represented the largest covered bond ever placed on the market for EUR benchmarks by an issuer from Singapore.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
United Overseas Bank	SG	24.11.	XS2264978623	7.0y	1.00bn	ms +17bp	- / Aaa / AAA
Rabobank	NL	19:11.	XS2264087110	20.0y	1.00bn	ms +3bp	- / Aaa / -

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

Oma Savings Bank issues second EUR sub-benchmark in 2020

Last week, Oma Savings Bank from Finland placed its second EUR sub-benchmark of the current year. The deal, which amounted to EUR 250m, featured a term to maturity of seven years and initially went into the marketing phase at ms +14bp before ultimately tightening by four basis points to finish at ms +10bp. The transaction was nearly five-times oversubscribed and went to market with an issuing yield of -0.274%. As a sub-benchmark rated AAA by S&P, in our view the deal is suitable as a Level 2A asset for LCR management purposes and additionally benefits from a preferential risk weighting of 10% in line with the CRR. The Finnish bank therefore now has four EUR sub-benchmarks with a total volume of EUR 1.05bn. With two transactions (2x EUR 250m), the bank is also responsible for roughly one quarter of the volume placed on the market for EUR sub-benchmarks this year (EUR 2.05bn). Similar to the EUR benchmark segment, however, the market as a whole is lagging well behind the volume recorded in the prior year. The volume of EUR 2.05bn equates to a decline of approximately 46% versus 2019 (EUR 3.8bn).

Adjustment of covered bond legislation in Denmark: S&P presents assessment

The risk experts from Standard & Poor's (S&P) recently presented their assessment of the implications of the EU harmonisation efforts for the Danish covered bond market. In so doing, they also discussed in particular detail the current proposals from the Danish monetary authority. The S&P analysts fundamentally indicate that the Danish covered bond framework already fulfils the majority of EU requirements, although adjustments will be required with regard to the 180-day liquidity buffer, while the changing specifications of the regulations for overcollateralisation requirements, maturity extensions and joint funding are also addressed within the framework of the proposal. Labelling implications should also be highlighted. In this way, Soerligt Doekkede (Real)kreditobligationer (SDK) or mortgage covered bonds under Danish legislation will be able to use the "Premium" label in the future, while Real Kreditobligationer and Skibskreditobligationer do not meet the labelling requirements. Overall, in the opinion of the experts from S&P, the proposals to amend Danish legislation, which would apply in full from 8 July 2022, do not require any immediate changes with regard to the rating assessments of the Danish covered bond programmes currently evaluated by the agency.

BBVA and Banco Sabadell discuss merger

We previously highlighted the issue of consolidation in the Spanish banking market in our edition from 14 October, while also discussing the potential for mergers between covered bond issuers. In addition to Bankia and CaixaBank as well as Liberbank and Unicaja Banco, BBVA and Banco Sabadell have now officially confirmed that talks regarding a potential merger have been initiated. While BBVA is represented in the November composition of the iBoxx EUR Covered with six deals comprising a total volume of EUR 7.50bn, Banco Sabadell has five deals worth EUR 5.45bn overall. A merger between the two banks would therefore produce one of the largest covered bond issuers in Spain. Based on the iBoxx data, a merger between CaixaBank and Bankia would currently result in a single bank with EUR 19.54bn in outstanding EUR benchmarks, followed by Banco Santander, which presently has 14 benchmarks outstanding with a total volume of EUR 18.75bn. In third place would then come the merged institute comprising BBVA and Banco Sabadell with an outstanding EUR benchmark volume of EUR 12.95bn. In 2021, the Spanish covered bond market is therefore likely, among other aspects, to be characterised by mergers (further deals not to be ruled out).

ECB Chief Economist Lane comments PEPP and TLTRO

In an interview with the French newspaper "Les Echos", Philip Lane, the ECB's Chief Economist, talked about the monetary policy challenges presented by the coronavirus crisis. Although he is currently of the view that the renewed lockdowns throughout Europe will have a more limited effect on economic development than those back in the spring, Lane does not believe that any significant improvement in the situation is on the cards before the end of the year. He also anticipates that it will take until autumn 2022 before GDP growth returns to the levels seen in 2019. With regard to the duration of the PEPP, Lane points out that the pandemic-related disruption to normal economic activity must first be over for there to be any justification for ending the PEPP – but an agreement has been struck that it will be ended once it is determined that the crisis is behind us. In terms of the provision of central bank liquidity via TLTRO tenders, he clarified that the modalities of such tenders are complex and should therefore be considered from a multidimensional perspective as part of any adjustment. We continue to expect that the ECB will adjust both the PEPP volume and TLTRO modalities on 10 December, as Lane also underlined that both instruments have proven to be highly effective from the point of view of the ECB. In both of the previous two weeks, the purchasing activity of the Eurosystem has increased substantially under both the APP and PEPP, with around EUR 30bn in assets acquired in net terms on a weekly basis. In this way, purchases made under the CBPP3 in the previous three weeks have led to a rise in the programme volume in each instance, a situation last seen back in mid-August.

Market overview SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

Outlook for 2021

Our outlook for 2021 will be published next week. It will also include possible adjustments to monetary policy decided at the meeting of the ECB on 10 December 2020, as we naturally expect these to have a significant impact on the coming year. We shall also be presenting our outlook for institutional investors on 8 December 2020 during our exclusive conference call “Outlook 2021”. Should you be interested in taking part in this event, please contact your Account Manager directly or send an email to sales@nordlb.lu or by clicking here for a personal invitation.

Blockade mentality paralysing the EU and blocking coronavirus aid

The debate by Heads of State and Government about the Hungarian and Polish blockade of the coronavirus package worth EUR 1,800bn from the EU budget and reconstruction funds on Thursday evening lasted a mere 16 minutes. The FAZ reported subsequently that a video summit was simply not the right format to resolve the conflict, which is why it had been agreed among the other “Heads” that there would be no reaction. Accordingly, Merkel, Michel, Orbán, Morawiecki and the new ally Janša from Slovenia got a chance to speak. By way of reminder, Hungary and Poland recently vetoed the package. They oppose the fact that the EU will be able to reduce EU aid in future in response to breaches of the rule of law. Laws, which restrict the freedom of the judiciary or the independence of judges would then no longer be possible there. There is now tangible and increasing anxiety in Southern Europe especially that urgently needed funding will now no longer be received anything like on schedule. A new idea as to how other EU States could increase pressure on the two countries is being floated there. The MEP for the Greens, Sven Giegold, is urging that the coronavirus fund could simply be adopted within the scope of the increased collaboration envisaged in the EU Treaties. “This will take some of the heat out of the situation and the governments in Warsaw and Budapest will have to explain to their citizens and their companies why they are not receiving any funds at early stage”, says Giegold. However, the EU is known for its desire to balance the interests of all its members and achieve unanimity. The pragmatic approach will therefore have to wait until the fronts harden further. The FAZ cited other examples here: in 2010, 14 States adopted common rules on divorce law. The following year, the path was cleared for the introduction of the EU patent in 25 Member States. A group of Member States, currently numbering nine and including Germany, have been negotiating for years on the introduction of a financial transaction tax as part of increased collaboration. The proposal from the European Parliament would change nothing as far as the blockade of the 2021-2027 EU budget was concerned either, as Hungary and Poland could continue to block it. In the worst case, an emergency budget would have to be enacted at the beginning of next year. This would allow the EU to access a twelfth of the funds from the 2020 budget on a monthly basis. It would therefore not be completely unable to act. However, it could only really dispense part of the funds because there will be no legal basis for many programmes without the 2021-2027 budget.

MuniFin: No SREP decision made by ECB due to coronavirus

Due to the ongoing pandemic, the ECB will not make a decision on the annual Supervisory Review and Evaluation Process (SREP Decision) this year. Instead, the ECB has sent MuniFin an Operational Letter, in which it confirms that the capital buffer requirement (P2R) imposed on MuniFin last year will remain in force at an unchanged level of 2.25%. Taking this capital buffer requirement into account, the total SREP capital requirement ratio (TSCR) currently stands at 10.25%. The minimum level of the total capital ratio including P2R and other capital buffer requirements amounts to 13.38%. MuniFin's capital adequacy ratio exceeds the requirement many times over. At the end of June 2020, the Group's total capital ratio was 113.8%. MuniFin is supervised by the ECB and the continuous SREP process is part of the banking supervision activities carried out by the ECB. The aim of banking supervision is to ensure that credit institutions have appropriate risk management methods in place as well as sufficient capital and liquidity.

"Finance in Common" – 450 promotional banks throughout the world join forces

According to a press release by KfW, representatives from 450 public sector development banks have convened for a summit for the first time and established a global coalition. Faced with major challenges, such as the coronavirus pandemic, climate change, a precipitous loss of biodiversity and rising inequality, the public sector banks vowed to join forces increasingly and achieve more by acting together. The two-day virtual meeting was held under the motto "Finance in Common" with the aim of signalling that the world's leading development banks will work together in future and "provide finance in common" based on similar criteria. Dr Günther Bräunig participated in the summit in his role as CEO of KfW. The 450 development banks include major organisations such as the Asian Development Bank, African Development Bank, KfW and Agence Française de Développement, on whose initiative the summit took place. However, regional and smaller institutions from all areas of the world were additionally represented. For example, the development banks of Namibia, Puerto Rico and Saint Lucia also participated, while development bank associations, such as the International Development Finance Club (IDFC), also joined the party. The IDFC was established in 2011 on the initiative of KfW; to a certain extent, it and its 26 well-capitalised members constitute the core of the new comprehensive but loose banking coalition. Together, these 450 development banks accounted for 10% of global annual investments. They confirmed that their financing will be guided by the sustainable development goals (SDGs) of the UN and the Paris Climate Protection Accord. Finally, the 450 banks adopted a "joint declaration" in which they established their new coalition and declared their willingness to work together more frequently. They also agreed to coordinate their strategies, investment patterns and activities more effectively, to focus on climate protection and the SDGs and to redirect private funds towards low-carbon economic activity. All the banks involved also want to implement specific plans for withdrawing from financing the coal industry (KfW took this step in July 2019 with its exclusion list for new financing). All banks attending the conference should have focused their portfolios on the SDGs by the next climate conference in Glasgow in November 2021. At least, this was the call issued by UN General Secretary António Guterres. Emmanuel Macron called the banking coalition "bold" and described it as key element in strengthening multilateralism.

Primary market

While ESM (2020 target: EUR 11bn) and EFSF (EUR 19.5bn) have already achieved their targets for 2020, the EU, as we predicted in our last publication, mandated for a 15-year SURE bond on Monday. The deal was completed on Tuesday (yesterday). Interestingly, the EU kind of tested this maturity last week with a tap (EUR 395m) for its Macro-Financial Assistance (MFA). The guidance for this tap was ms -3bp and the deal was eventually priced at ms -5bp. However, the guidance for yesterday's deal was ms -2bp, although the transaction was ultimately priced at exactly the same level as the previous week's tap, namely ms -5bp. In this case, however, the volume raised was far higher, at EUR 8.5bn. Around noon, the order books reached more than EUR 90bn. For 2021, incidentally, the ESM is planning to raise EUR 8bn (excluding ECCL and additional pandemic aid), while the target for the EFSF stands at EUR 16.5bn. As a result, the EFSF in particular is likely to be one of the biggest players on the market with negative net supply, as its funding target is offset by maturities of EUR 22.3bn. This means that approximately EUR 6bn worth of liquid bonds will be withdrawn from the market, as the figures here have been finalised in contrast to the EIB, EU, KfW and other major players on the market. Details of this will be provided next week in our outlook for 2021. Previously, we already had NIESA, BERGER, LCFB and HESSEN on our radar, which we will now look at in more detail and chronological order. Lower Saxony (NIESA) chose a 7y maturity in benchmark format and achieved a spread of ms -4bp when this deal was priced. The order book amounted to more than EUR 685m. It even tightened one basis point compared with the guidance figure. In contrast, Berlin (BERGER) displayed no tightening, nor did it provide any other information for its 25y benchmark transaction, which was priced at ms +11bp. However, the bond has already performed a bit on the secondary market, tightening by a single basis point to ms +10bp. This maturity is a comparative rarity on the market. It is not Berlin's longest maturity in benchmark format though, as the 30-year segment had already been accessed this year. Generally, the deal was considered expensive. Last week, we described the upcoming deal by Belgium's LCFB in detail, while this week we have opted to place the spotlight on all Belgian regions in our SSA article. Appropriately, the deal enjoyed a certain popularity, being twice oversubscribed and tightening by four basis points compared with guidance. Pricing of +26bp above the reference bond (BGB 0.9% 06/22/29) produces a spread of around ms +11bp. In contrast, Hesse chose four years for its benchmark. No information was provided about the deal apart from its guidance and price (both at ms -8bp). The order book remained closed to outsiders. Yesterday, the Belgian region of Wallonia (30y), Baden-Wuerttemberg (tap, 2040 maturity and EUR 400m WNG) as well as CADES (5y, social bond) were mandating for deals in the near future.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
EU	SNAT	24.11.	EU000A285VM2	14.6y	8.50bn	ms -5bp	AAA / Aaa / AA
HESSEN	DE	23.11.	DE000A1RQD19	3.8y	0.50bn	ms -8bp	- / - / AA+
LCFB	BE	19.11.	BE0002750314	8.6y	0.60bn	ms +11bp	- / Aa3 / -
BERGER	DE	19.11.	DE000A289LF5	25.0y	0.50bn	ms +11bp	AAA / Aa1 / -
NIESA	DE	18.11.	DE000A3H20D1	7.0y	0.50bn	ms -4bp	AAA / - / -

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

Covered Bonds
UOB ends the state of hibernation on Singapore’s primary market

Author: Dr Frederik Kunze

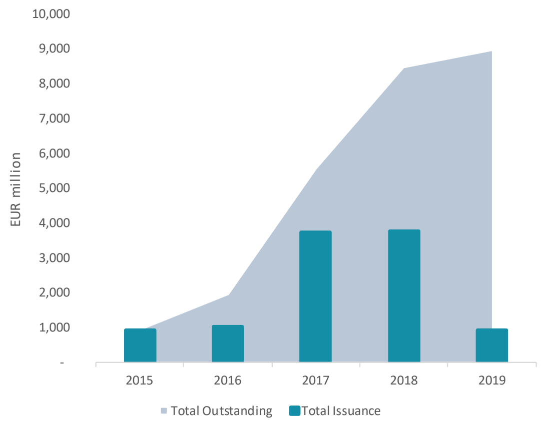
Singapore’s covered bond market: an end to the state of hibernation

The covered bond market in Singapore, especially the EUR benchmark segment, grew rapidly between 2016 and 2018. However, until the current trading week, the last deal in this sub-market dated back to September 2018 when United Overseas Bank (UOB) successfully placed a benchmark worth EUR 500m (UOBSP 0 1/4 09/11/23) on the market. In the 2020 issuance year, which is now drawing to a close, it is UOB that has ended the state of hibernation in Singapore’s EUR benchmark segment by approaching its investors with a bond worth EUR 1.0bn (UOBSP 0 12/01/27) (cf. Market Overview section). We are delighted by this sign of life, although we would not make any direct or immediate link to the latest MAS adjustment in relation to the issue limit applicable to covered bond issuers. However, we would expect the increase in the ceiling for outstanding covered bonds from 4% to 10% (of total assets) announced by the regulators in October 2020 to stimulate growth in the country’s EUR benchmark segment over the long-term. We would like to take the most recent developments in Singapore as an opportunity to look at the sub-market briefly and provide an outlook for 2021.

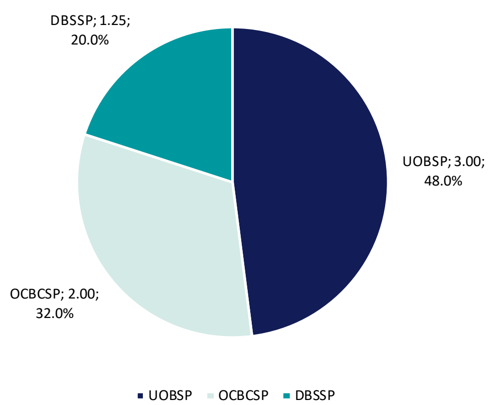
Covered bond market of Singapore: outstanding volume of EUR 8.99bn

As at 31 December 2019, the outstanding volume of the three issuers active on the market – besides UOB, these are DBS Bank and Oversea-Chinese Banking Corporation (OCBC) – was EUR 8.99bn based on ECBC data, whereby the majority was attributable to EUR issues (EUR 5.25bn or 58%). In 2019, however, solely non-EUR bonds were issued, which total EUR 914m spread across two bonds in AUD (DBSSP Float 10/25/22; AUD 750m) and USD (UOBSP 1 5/8 09/05/22; USD 500m) respectively. In the current year, the EUR deal by UOB marks the first public covered bond placement from Singapore at all.

SG: outstanding volume of covered bonds (EUR bn)



SG: BMK volume outstanding by issuer (EUR bn)



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

Singapore: legislation overview

Designation	Singapore Covered Bonds
Special covered bond law	Yes
Cover assets (incl. substitute cover)	Mortgage loans
Owner of assets / Specialist bank principle	Issuer / No
Geographical scope	-
Loan to value - Mortgage loans	80%
Preferential claim by law	Yes
Cover register	Yes
Substitute assets / Limit of substitute assets	Yes / 15%
Minimum OC	3% nominal value
Asset encumbrance	10% issue limit ***(new)***
UCITS compliant / CRD compliant / ECB eligible	No / No / No

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

Ground to make up in the EUR benchmark segment?

Between 2016 and 2018, a total of ten EUR benchmark issues were brought to the market by the three active issuers (UOB and OCBC: four bonds each; EUR 2bn – and DBS Bank: two bonds; EUR 1.25bn), meaning that, in our opinion, there is a certain amount of ground to make up for the coming year solely on the basis of this issuance pattern, which is admittedly based on a comparatively short period. The expectation that issuance activity in the EUR primary market will pick up is supported by the basic assumption that the internationally orientated banks in Singapore might wish to demonstrate their access to funding in the European single currency via covered bonds. Following this reasoning, we would not rule out other institutions from Singapore also choosing to issue their first covered bonds in 2021 either. We would not view a development of this kind as an immediate consequence of the adjustment to the limit, however, we would definitely make some kind of link. After all, the adjusted requirement also has the potential, according to the assessment by Moody's risk experts, to contribute to improving market liquidity and reducing refinancing risks. A larger covered bond market could also generally increase the systemic relevance of covered bonds in Singapore. Assuming benefits of scale, in conjunction with the general increase in the issuance potential per issuer, the relative administrative costs of a covered bond programme would also fall subsequently.

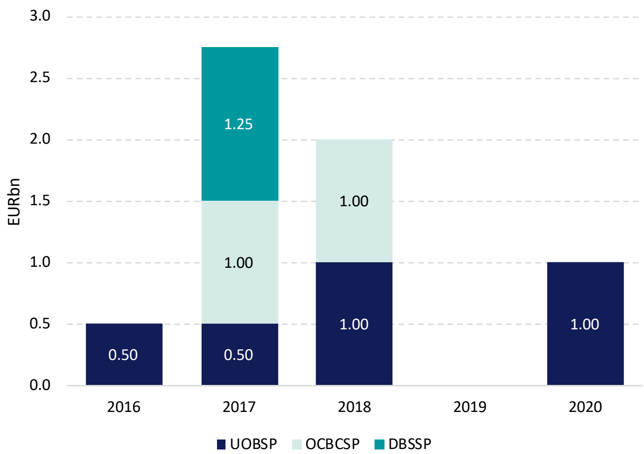
Issuance expectations for 2021

Overall, we consider an issuance volume of EUR 1.0bn to a maximum of EUR 1.5bn realistic for 2021, which assuming issues of EUR 500m would suggest two to a maximum of three issues. At the same time, we are also expecting a first-time issue and view Standard Chartered Singapore, in particular, as a promising candidate for this. However, our expectations regarding issuance is subject to increased risk not just because of the uncertainties triggered by the COVID-19 crisis. While phases of increased volatility on international financial markets could trigger a certain caution among issuers from overseas jurisdictions, such as Singapore, it is primarily movements in relation to EUR/USD cross currency basis swap spread, which could result in reduced or increased activity in the EUR segment.

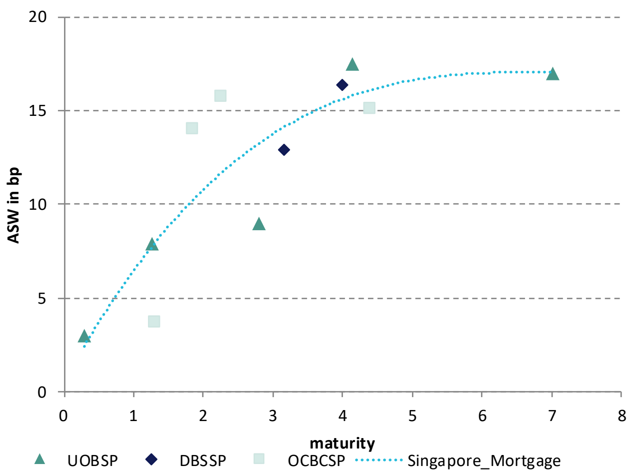
Spread trends in Singapore

With the new UOBSP 0 12/01/27 (7y; EUR 1.0bn; reoffer spread ms +17bp), the spread landscape will be determined by 11 EUR benchmarks in total, although UOBSP 0 1/4 03/09/21 with a residual maturity of 0.3 years no longer features in the iBoxx EUR Covered. At ms +17bp, the reoffer spread for the latest UOB deal was within the curve according to our calculations, which, on the assumption of subsequent secondary market prices at least for the outstanding UOB deal with a remaining maturity of 4.2 years (UOBSP 0 1/2 01/16/25) implied a modest tightening of spreads, which subsequently proved to be the case. In actual fact, the difference in the reoffer spread of the new Singapore deal to the arithmetic mean of German Pfandbriefe in the 7y maturity bucket of 15 basis points virtually corresponds to the historic mean for the difference between Pfandbriefe and Singapore covered bonds in the 5y maturity bucket (arithmetic mean since November 2018: 16 basis points), which indicates that the relative pricing of the latest transaction is fair from our perspective. Based on our expectation that Pfandbrief spreads will tighten modestly up to the middle of 2021, we also expect spreads on Singaporean covered bonds across all maturities to tighten slightly by four basis points or so.

Singapore: BMK deals by year (EUR bn)



Singapore: spread landscape (EUR benchmarks)



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

Conclusion

UOB has ended the state of hibernation in Singapore's EUR benchmark segment. Following this emphatic sign of life in the form of the largest-ever transaction from Singapore, we definitely believe there is potential for subsequent issues in 2021. The regulatory adjustments to MAS, which increases both the issuance potential at institution level and creates incentives for potential issuers to venture onto the market for the first time, are definitely likely to provide support. At the same time, we view this activity from Singapore as a sign that the Asia-Pacific region as a whole is likely to gain momentum on the primary market. Subsequently, we should be alert to similar announcements from New Zealand and Australia.

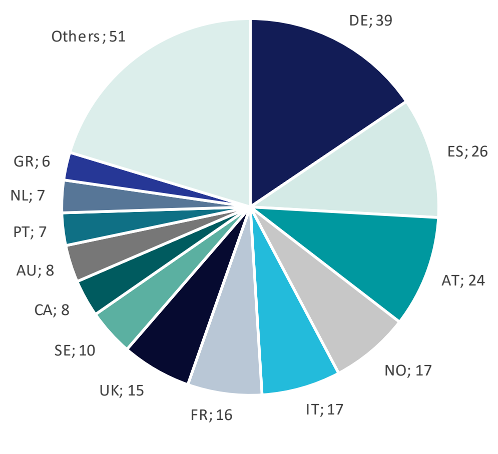
Covered Bonds
The covered bond universe of Moody's: an overview

Author: Henning Walten, CIIA

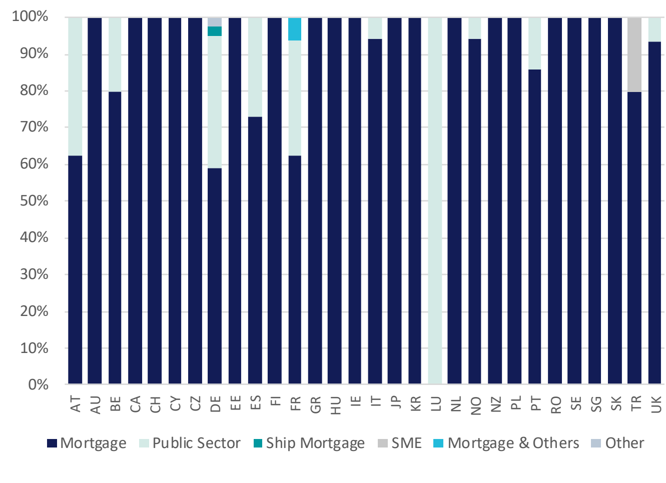
Covered bond programmes rated: 251

The rating agency Moody's has published its quarterly report on its rating activities in the covered bond segment. For this, Moody's mainly draws on rating reports from the second quarter of 2020. The report shows that Moody's provided rating assessments for a total of 251 covered bond programmes (previous quarter: 247). Moody's covered bond universe covers 205 mortgage-backed programmes, making up the majority share of 81.7%. In addition, Moody's rates 42 public sector programmes (16.7%). These are predominantly concentrated in Germany (14 programmes; 33.3%), Austria (9; 21.4%), Spain (7; 16.6%) and France (5; 11.9%). Breaking the data down by jurisdiction, it can be established that almost 80% of programmes are in those 13 countries in which at least six programmes were rated. The remaining 51 programmes are spread across 17 jurisdictions overall, although of these, the EUR benchmark jurisdiction of Japan only has one programme.

Number of programmes rated by Moody's



Breakdown of programme type by country



Source: Moody's, NORD/LB Markets Strategy & Floor Research

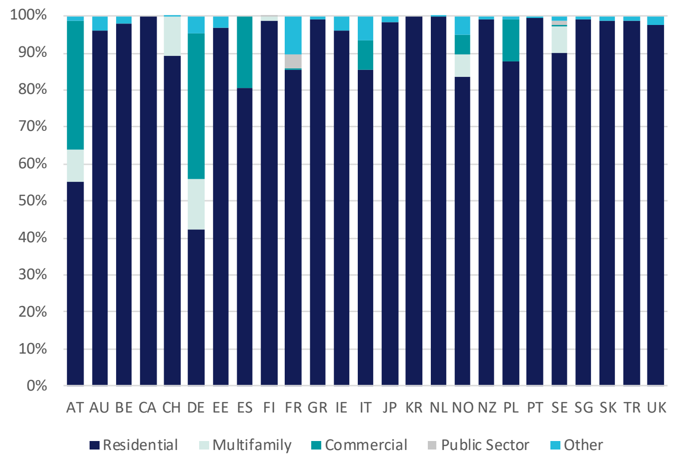
Focus on mortgage programmes from EUR benchmark jurisdictions

Looking at covered bonds in the Moody's ratings universe, there is unequivocally a focus on mortgage programmes, and these are almost all based in EUR benchmark jurisdictions. Only the Czech Republic (2 programmes), Hungary (2), Cyprus (1) and Romania (1) do not currently have any outstanding covered bond issuances in the EUR benchmark segment. For this reason, we will be focusing on those mortgage-backed programmes that were established in EUR benchmark jurisdictions in our following analysis. In this context, it should be taken into account that EUR benchmarks were not necessarily issued through these programmes. Rather, placing this limitation on our assessment of the Moody's covered bond universe as a whole will allow for a better comparison between the data from an investor's perspective.

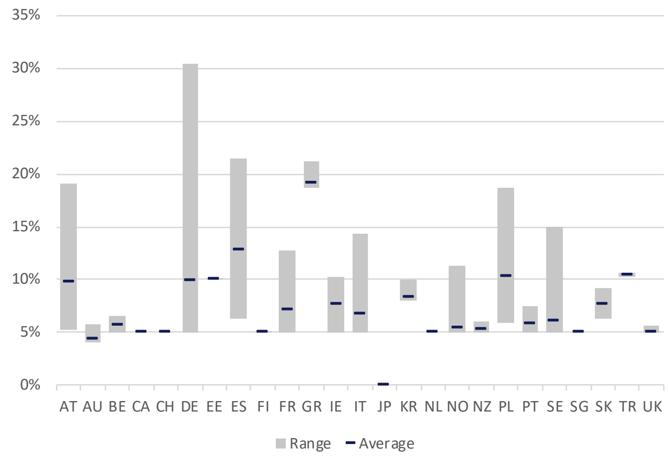
Mortgage programmes are predominantly residential

With regard to the classification of cover assets in the individual programmes carried out by Moody's, it can be ascertained that, on average, 83.4% of bond cover consists of residential assets. Proportions averaging less than 75% are only registered for Germany (42.2%) and Austria (55.4%). Notable percentages of multi-family assets can be seen for Germany (13.6%), but also Switzerland (10.8%) and Austria (8.3%), while the share of commercial assets is especially high in Germany (39.3%), Austria (35.2%), Spain (19.6%) and Poland (11.2%). By contrast, a noteworthy percentage of public sector cover assets can be seen in France (3.8%) and Sweden (1.2%), although in both cases, it still only makes up a tiny proportion of the cover pool volume.

Structure of cover pools (mortgage programmes)



Collateral score by country (mortgage programmes)



Source: Moody's, NORD/LB Markets Strategy & Floor Research

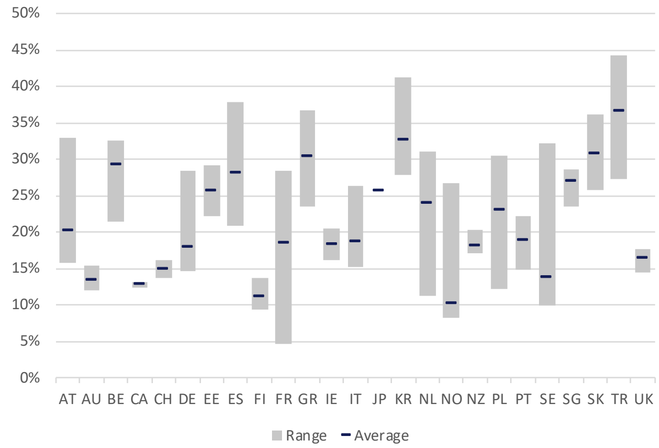
Collateral score as an indicator of cover pool quality

The collateral score is an important metric in the Moody's covered bond universe. This is used by the ratings agency to assess the quality of cover assets, with a low value indicating that the quality of assets in the cover pool is high. The above chart not only shows the average collateral score at national level in each case, but also the possible range of scores. Four jurisdictions have a maximum score of 5%, namely Canada, Switzerland, the Netherlands, and Singapore. The chart also shows that the range of collateral scores in these jurisdictions is comparatively low. For Austria, Germany, Spain, Italy, Poland and Sweden, a significantly more heterogeneous picture emerges at national level with regard to the quality of the rated covered bond programmes. The average quality of assets in the cover pool is lowest in Greece, Spain, Poland and Turkey. It is no surprise that a differentiated picture emerges at global level. While this heterogeneity does also manifest itself nationally in some jurisdictions, the cover pool quality is to a great extent equivalent between programmes rated by Moody's in many countries. Japan is a special case, as the SMBC programme uses residential mortgage-backed securities (RMBS) with a Aaa rating to cover the outstanding covered bonds.

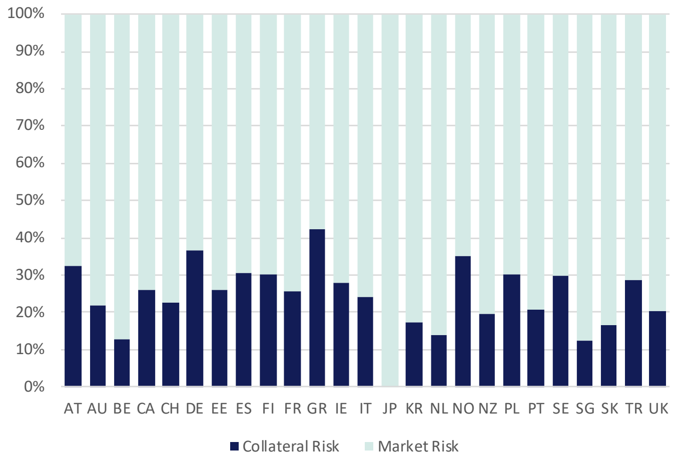
Cover pool losses an indicator comprising two components

Moody's rating experts use the cover pool losses (CPL) to reflect the losses expected in the cover pool in the event of issuer default. This risk is composed of two components: market risk (refinancing, interest and currency risks) and collateral risk (asset quality and credit risk). Similarly to the collateral score, a high degree of heterogeneity can be identified in a global comparison of CPL. This is reflected not only in the average CPL, but also with regard to the range of national variation. Specifically, the CPL in Canada, Finland and Norway are particularly low, while those in Slovakia, Turkey and South Korea are especially high. However, the range is low for programmes from Canada, Switzerland and the UK, although this is partly attributable to the small number of programmes in these countries. In the established EUR benchmark jurisdictions, the CPL range is greatest in France, Sweden and the Netherlands.

Cover pool losses by country (mortgage programmes)



CPL risk component by country (mortgage programmes)



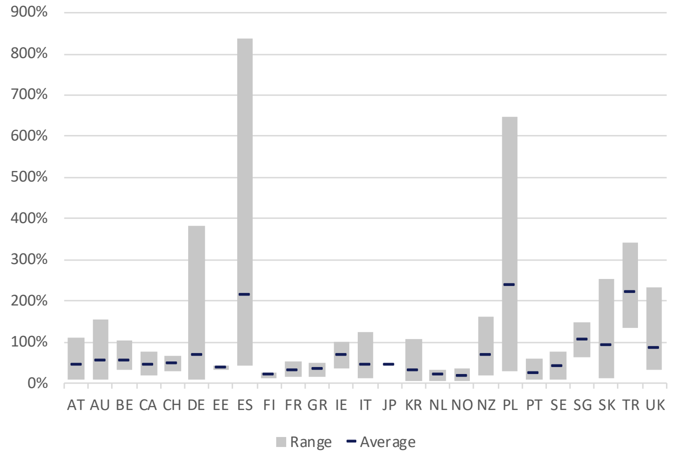
Source: Moody's, NORD/LB Markets Strategy & Floor Research

Refinancing, interest and currency risks determine the expected losses

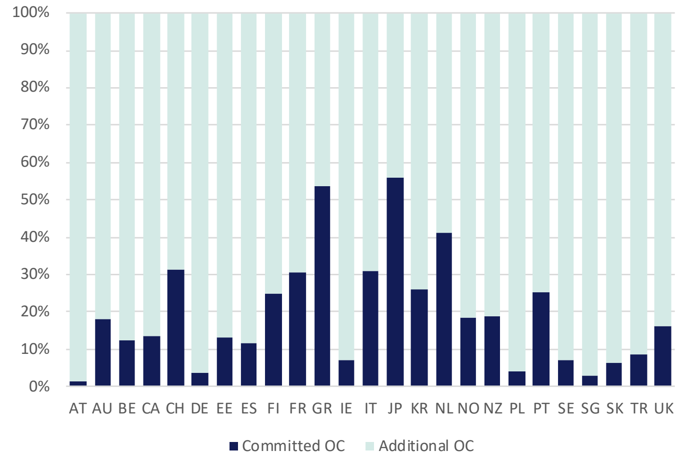
The top right chart shows that there is considerable variation at national level between the two components (collateral risk and market risk). The share of collateral risk in the CPL is relatively high in Greece, Norway and Germany. On account of a declining quality in the cover pool in the event of issuer insolvency, the degree of CPL is comparably low in Belgium, the Netherlands and Singapore. The programme from Japan once again adopts a special position, with no collateral risk on account of its cover pool structure (cover assets are RMBS transactions alone). On the whole, it can be ascertained that CPL are largely impacted by market risk, so that losses in the event of issuer insolvency are ascribed to the categories of refinancing, interest and currency risks and not due to the quality of cover assets.

Spanish programmes with heterogeneous high overcollateralisation
Looking at the overcollateralisation ratio for programmes rated by Moody's, there are no real surprises with respect to differences internationally. The greatest national heterogeneity can be seen in Spain, Germany and Poland (only three programmes). Please note that we have exempted the programme of Bausparkasse Schwäbisch Hall in our assessment of overcollateralisation, as the figure is 6,891.6% and would have distorted the data to a disproportionate extent. While the lowest overcollateralisation among the Spanish programmes was 43.1%, overcollateralisation of Kutxabank's programme was 838.7% in the second quarter of 2020. There is also a high degree of variation in the overcollateralisation ratios for Slovakia and Turkey. Conversely, Estonia, Finland and the Netherlands are all jurisdictions in which the overcollateralisation levels of individual programmes are comparable. However, low overcollateralisation variance, as seen in Estonia, for example, is to some extent due to the number of programmes being rated.

Overcollateralisation by country (mortgage programmes)



Composition of overcollateralisation (mortgage programmes)



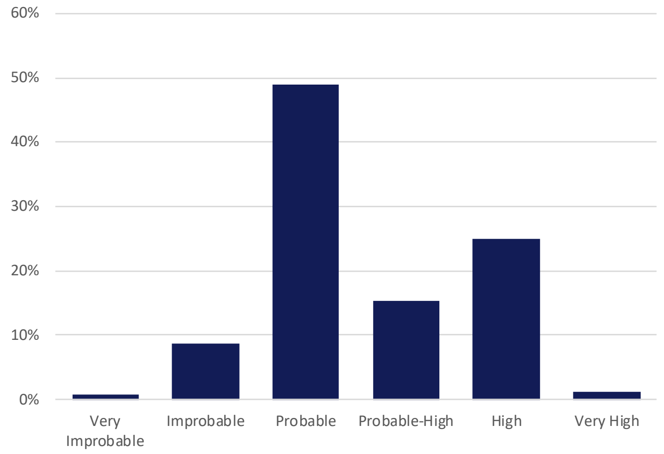
Source: Moody's, NORD/LB Markets Strategy & Floor Research

Committed OC as starting point for voluntary overcollateralisation
Overcollateralisation can also be divided into subcomponents. It might have been committed to the rating agency to ensure a certain rating or as a legal requirement. Committed OC can therefore be seen as a kind of lower threshold, meaning that overcollateralisation should not readily or even must under no circumstances fall below this level. In contrast, actual overcollateralisation might just be a temporary status, which is potentially subject to certain volatilities through new issuances or maturities. With regard to the proportion of OC levels made up of committed OC, it becomes apparent that overcollateralisation in Austria, Germany, Poland and Singapore is to a large degree offered on a voluntary basis and therefore can be reduced relatively easily. Conversely, around half of overcollateralisation in Greece and Japan is attributable to committed overcollateralisation and half voluntary. Overall, it can be established that the largest share of overcollateralisation for the issuer is on a voluntary and non-committed basis. Moreover, a high proportion of committed OC by no means signifies that overcollateralisation is also high (cf. Greece, for example).

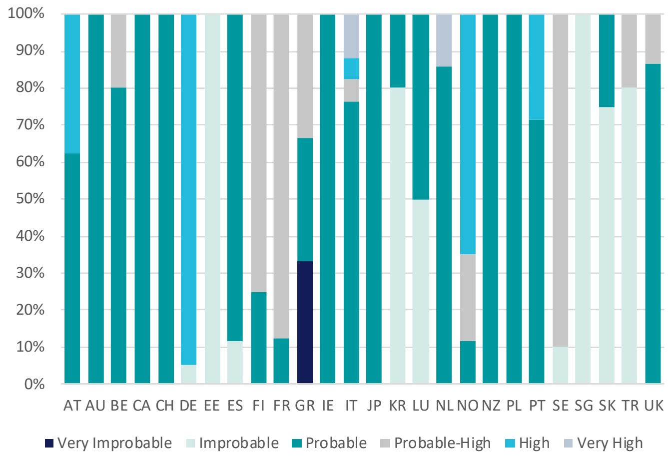
TPI links covered bond rating with issuer rating

One other ratio provided by Moody's is the timely payment indicator (TPI), which indicates the likelihood that timely payment will be made to covered bondholders in the event of issuer default. This ranges on a six-notch scale from "Very High" to "Very Improbable" (cf. table below). The TPI level also determines the potential covered bond rating to a certain number of notches above the issuer's rating. The TPI Leeway denotes the number of notches by which Moody's might lower the covered bond anchor before the rating agency downgrades the covered bond programme because of TPI framework constraints. The table below shows that around half of all mortgage programmes rated by Moody's have been assigned a TPI of "Probable". However, with shares of 0.8% and 1.2%, the lowest and highest assessment levels are less strongly represented at present.

Timely Payment Indicator (TPI) (mortgage programmes)



TPIs by country (mortgage programmes)



Source: Moody's, NORD/LB Markets Strategy & Floor Research

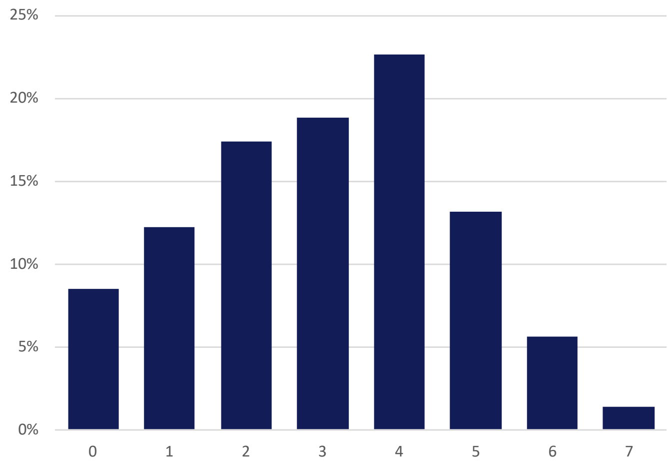
National estimates largely the same

In nine EUR benchmark jurisdictions, the programmes within a jurisdiction have all been assigned the same TPI level. While this is "Probable" in seven cases, the programmes in Estonia and Singapore only have a TPI of "Improbable". Only three programmes (2x IT and 1x NL) have been assigned the highest possible TPI of "Very High". Just two Greek programmes fall at the other end of the spectrum ("Very Improbable"). Three different levels for the likelihood that timely payment will be made can be found only in Greece, Italy and Norway. In Germany, a high probability that payment obligations will be met on a timely basis in the event of issuer default is assumed for 37 of the 39 programmes. In addition, a high probability is also ascribed to programmes in Norway (11 of 17 programmes) and Austria (9 of 24 programmes).

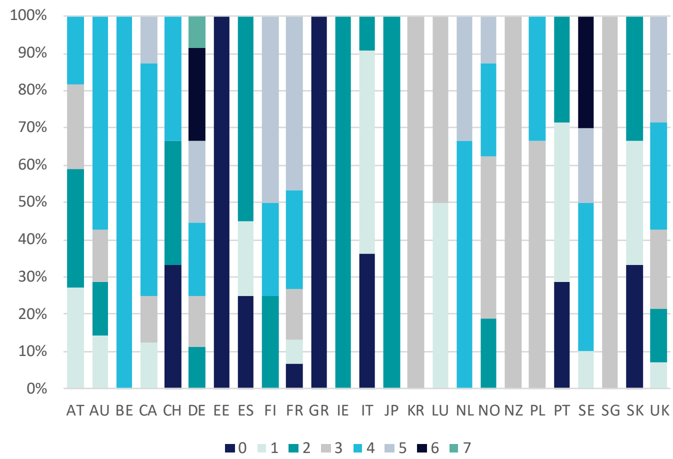
Adequate buffer with regard to downgrades

As previously mentioned, the TPI Leeway is another key metric, denoting the number of notches that the covered bond anchor can be lowered before the rating agency downgrades the covered bond programme because of TPI framework constraints. Of the covered bond programmes rated by Moody's, 20 do not have a corresponding buffer. This means that in the event that the covered bond anchor is downgraded, the programme would be downgraded as a direct consequence. More than half the programmes are allocated to the categories of 2, 3 and 4, which means that the majority of programmes have an adequate buffer.

TPI Leeways in notches (mortgage programmes)



TPI Leeways in notches by country (mortgage programmes)



Source: Moody's, NORD/LB Markets Strategy & Floor Research

Germany, France, Sweden and the UK have high buffers in some cases

Looking at national covered bond markets, it can be established once again that these feature a high degree of heterogeneity. The rated programmes in Germany, France and the UK have at least five different notch assessments on the TPI Leeway scale. TPI Leeways – and therefore rating buffers – are particularly high in Germany, France, Sweden and the UK, as at least four programmes have been assigned a TPI Leeway of at least five notches. However, at least four programmes each in Greece, Italy and Spain have no buffer, so in the case of Greece, it is true of all programmes rated by Moody's.

Conclusion

The latest report from the rating agency Moody's once again shows the importance of Moody's ratings for the rating landscape in the EUR benchmark segment. It is not surprising that the data reveals a highly heterogeneous picture with regard to the individual rating assessments. By means of this article, we want to enable an improved and quicker allocation of key metrics for both national and international comparisons, which means the quality and characteristics of covered bond programmes can be analysed as required.

SSA/Public Issuers
Update: Belgium regions as investment alternatives

Author: Dr Norman Rudschuck, CIIA

Introduction and structure of Belgium

Almost as if we had ordered it ourselves, the LCFB (Communauté Francaise de Belgique – French Community of Belgium; cf. Market Overview section here) recently issued a benchmark bond on the primary market, laying the foundations for the following introduction to this article in the process. As we have done several times over recent years, we will be taking another look at the regional governments and local authorities of Belgium in this publication. Due to the variety of issuers and significant pick-ups in comparison with Belgian government bonds and German Bundeslaender, these represent interesting investment alternatives. The focus here will once again be on the levels below the federal state and the communities, namely the regions and provinces. There are three regional institutions which take the name of their respective territory. From North to South, they are as follows: the Flemish Region (Flanders), the Brussels-Capital Region and the Walloon Region (Wallonia). Aside from these three regions, Belgium also comprises three communities defined by their language: these are the Flemish, French and German-speaking communities. Whereas the Flemish-speaking community exercises its competencies in the Flemish Province and Brussels, the French community is located in the Walloon Provinces and, likewise, in the Brussels-Capital Region. The German-speaking territory is by far the smallest. It covers nine municipalities in the extreme east of the Walloon province of Liège. The communities were introduced following the first state reform (1970). Their areas of responsibility have been extended over the course of various reforms. Following the second state reform (1980), the Flemish and Walloon Regions were each given a parliament and government of their own. In contrast, the region around the capital, Brussels, did not obtain its institutions until the third state reform in 1988/89. The members of the regional parliaments are directly elected every five years by the Belgian people. In addition to the regional parliament and regional government, in Wallonia there are also parliaments and governments dedicated to the French-speaking and German-speaking communities. There are therefore three separate parliaments and governments in the region of Wallonia. In turn in Flanders, the Flemish community and regional institutions are merged, which is why there is just a single parliament and one government here. Both regions and communities can exercise constitutional powers in certain areas. Federal elections took place in Belgium on 26 May 2019 simultaneously with European elections. Elections to the Flemish parliament in addition to the parliaments of Wallonia and the Brussels-Capital Region also took place on the same day. Due to the strong regional associations and strengths of the majority of the political parties in Belgium, forming governments at regional level tends to be somewhat easier than is the case at national level. In this regard, the respective regional parliaments are dominated by lobbyists associated with the local communities in each case.

Organisation of the Provinces

Since the fourth state reform, Belgium has been split into a total of ten provinces. In the wake of this reform, the province of Brabant was abolished and replaced by two new provinces: Flemish Brabant and Walloon Brabant. After the provincial split took effect in 1995, the territory of the Brussels-Capital Region was kept separate from the classification of provinces. The provinces are autonomous institutions, but remain under the supervision of the Federal State, the communities and above all, the regions. Provincial Councils have been established, whereby the members are directly elected for terms of six years. The Council takes decisions of a general nature, votes on provincial regulations and draws up the budget for the province. The Provincial Council appoints six members of the Standing Deputation, which implements the resolutions of the Provincial Council and ensures day-to-day management. It is chaired by a Governor; this is not an elected position, rather the Governor is appointed or dismissed by the King under the responsibility of the Minister for Foreign Affairs.

Belgian provinces

The five Flemish provinces are: Antwerp, Limburg, East Flanders, Flemish Brabant and West Flanders. There are also five Walloon provinces: Walloon Brabant, Hainaut, Liège, Luxembourg and Namur. The arrondissements represent the next administrative sub-division under the provinces (arrondissement in French and arrondissementen in Flemish). The term “Arrondissement” is also occasionally used in German, although the administrative term is “Bezirk”. A closer analysis at this point would involve too much minor detail for the present publication.

Inter-community tensions place a strain on Belgian politics

The political and societal landscape of Belgium has been shaped by near-permanent conflict between the regions of Flanders and Wallonia ever since the country gained independence from the Netherlands in 1830. Starting with a dispute centred on the official language, contemporary tensions are mainly related to economic issues, with the fundamental conditions having been reversed since the end of the Second World War. While Wallonia assumed the mantle for a flourishing coal and steel industry at the beginning of the 20th century, its northern counterpart, Flanders, was regarded as structurally weak. Following the demise of industry in the 1950s and sluggishly implemented structural reforms in the French-speaking regions of Belgium, the economic strength ratio was reversed to the benefit of Flanders. The driver of growth and prosperity in this context was above all the tertiary sector. This discrepancy is, among other aspects, today reflected in the unemployment rate, which in Wallonia stood at 13.1% as at the end of 2019 (and therefore prior to the outbreak of the coronavirus pandemic), more than twice as high as in Flanders (5.9%). At this time, unemployment on a national level in Belgium amounted to 9.2%. As a result, the independence movement within the Flemish Community not only focuses on aspects of culture and language, but also on the welfare state, which benefits the Walloon population in particular. Over recent years, these separatist tendencies have intensified further, despite the fact that the regions are, to a large extent, already administered by the respective local governments on an autonomous basis. This is also the result of a complex distribution of powers between the individual administrative levels. With no real prospect of breaking the deadlock in the debate about the future structure of Belgium and potential Flemish independence in sight, it is to be expected that nationalist tendencies will rise further and the two regions in question will continue to drift further apart.

Current political situation

Ultimately, the political extremes have increasingly benefited from the simmering conflict. This was particularly noticeable in the last election, with Flanders voting for the far right and Wallonia electing political representatives from the extreme left. While the Workers' Party of Belgium (PTB) secured 13.8% of the vote in Wallonia, the far-right Flemish nationalist party Vlaams Belang scored a vote share of 18.7% in Flanders. It is significant that two separatist Flemish parties were able to unite the highest percentage of votes nationwide. Due to the fractured nature of the party-political landscape in Belgium, no government could be formed after the election, despite tough rounds of negotiations. Following the outbreak of the coronavirus pandemic in March 2020, a transitional government headed up by acting Prime Minister Sophie Wilmès was formed, which remained in office for six months. However, this government was severely restricted in its competencies. In this context, only legislation to combat the economic and financial impacts of the pandemic was allowed to be passed. Given the rifts between the political factions, it was unclear for several months just how the political standstill could be circumvented and the power vacuum filled. On 30 September 2020, seven parties (!) agreed to work together and govern in what was dubbed the "Vivaldi coalition", with Alexander De Croo (Open VLD) nominated as Prime Minister. On 01 October 2020, a mere 494 days following the previous general election, Belgium therefore had a government with a parliamentary majority for the first time since December 2018. The coalition is composed of Christian & Social Democrats, Libs and Greens, and unifies 53% of the seats. Key issues of this coalition include, for example, the nuclear phaseout by 2025, the promotion of sustainable mobility solutions and – in the context of Covid-19 – an expansion of healthcare. In view of the different positions within the government and the strengthening of the forces on the left and right in parliament, large parts of the Belgian population are sceptical about the upcoming legislative period. For example, Flemish separatists have already accused the government of being "anti-Flemish" and the first protests against the Vivaldi coalition have been launched. Over the next few months, it will become clear whether the situation will calm down moving forwards following the protracted period required to form a government or whether societal splits will become even more apparent. One important factor in this is certainly whether Belgium will be able to get a grip on the second wave of coronavirus infections. In any case, difficulties in forming governments in Belgium are nothing new: following the 2010 election, it took more than 18 months before a coalition government could be formed.

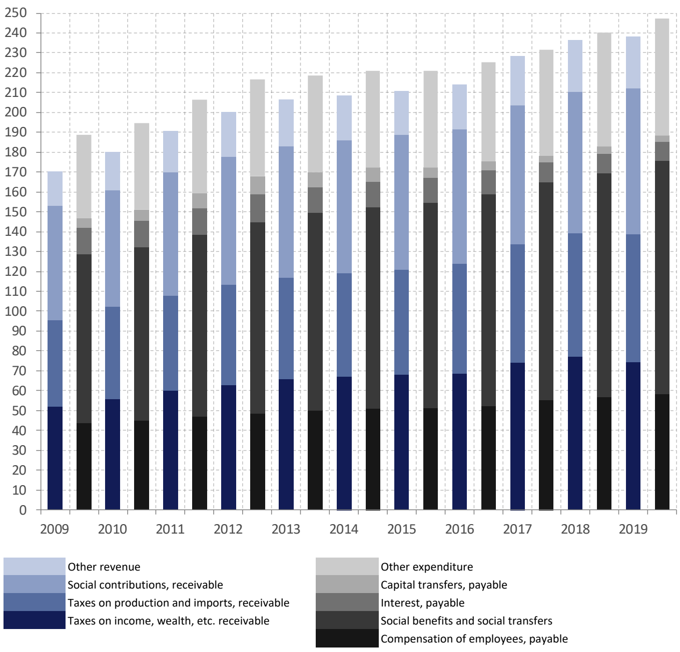
Certain "loss of control" in the second wave of coronavirus infections

The first wave of the coronavirus pandemic hit Belgium comparatively hard, although the country did eventually escape relatively lightly after the implementation of effective measures. However, the second wave of infections currently spreading around Europe is likely to hit Belgium much harder. With a seven-day incidence rate in excess of 1,000, by the beginning of November, Belgium was in fact one of the most severely impacted countries anywhere in the world. Despite the value having since receded to below 300, this remains marginally above the European average. In the meantime, approximately 20% of doctors and nursing staff have been infected and hospitals across the country are on the verge of collapse, with hospitalised patient numbers also continuing to rise daily. Over recent weeks, decision-makers claim to have been forced to use staff who have already tested positive in hospitals provided that they are not displaying any symptoms. The Minister of Health has even recently talked of a "loss of control" in terms of the dynamic of infection rates. In order to regain control of the situation, the Belgian government has once again acted to implement extremely strict measures throughout the country.

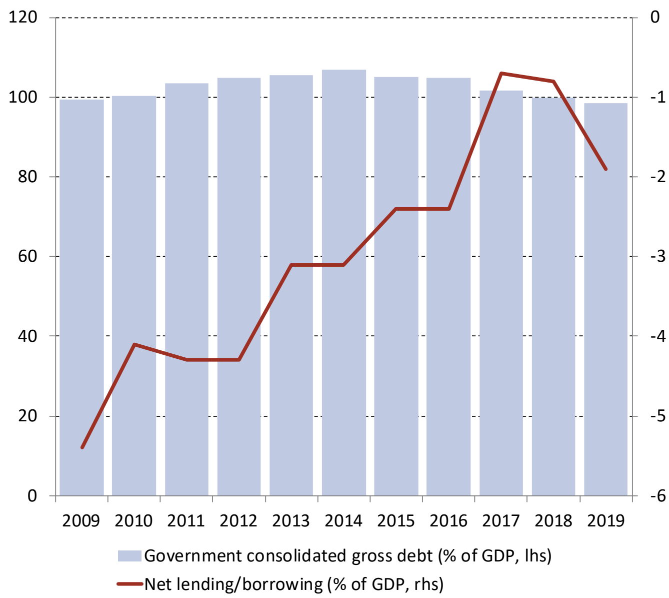
Belgian economy – an overview

With real GDP per capita of EUR 35,950 in 2019 (2018: EUR 35,510), Belgium is above average in comparison with the European Union (EU) as a whole (EUR 28,610). The regional disparities discussed in greater detail above are, however, again apparent here: with per capita GDP of EUR 25,700 (last available data), Wallonia lags well behind Flanders (EUR 36,600) and the Brussels-Capital region (EUR 61,300). With a share of 78.2% in gross value added, the service sector is by far the most important economic pillar of Belgium. Industry accounts for 21.3% of gross value added, with agriculture contributing 0.5%. Belgium is highly dependent on exports, which at EUR 444.6bn put it among the top five exporters in the EU. The export and import ratios are very high at around 82% of GDP in each case. At 51.4%, consumer spending on the part of private households accounts for more than half of Belgium's GDP. While national debt in relation to GDP has been reduced marginally over recent years, at 98.7% of GDP, in 2019, Belgium was still the fourth-most heavily indebted EU member state behind Greece, Italy and Portugal. The necessary measures implemented by the government to combat the economic crisis triggered by the coronavirus pandemic will have a substantial negative impact on public finances: as Belgium's export-orientated economy is being hit particularly hard by the coronavirus crisis, sovereign debt looks set to jump sharply in 2020, potentially rising to up to 122% of GDP. In terms of GDP, a decline of 8% is expected, while the budgetary deficit is likely to increase to 9% of GDP in 2020 (1.9% in 2019). Despite the forecast of strong growth of 6.5% in 2021, the GDP of Belgium will remain below the level recorded in 2019 even beyond 2021.

State revenues vs. government spending (EUR bn)



National debt vs. budget balance



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

Capital market activities

The following administrative units below the Belgian Federal State (officially: the Kingdom of Belgium; Bloomberg ticker: BGB; commonly referred to as OLOs) are currently active in the capital market:

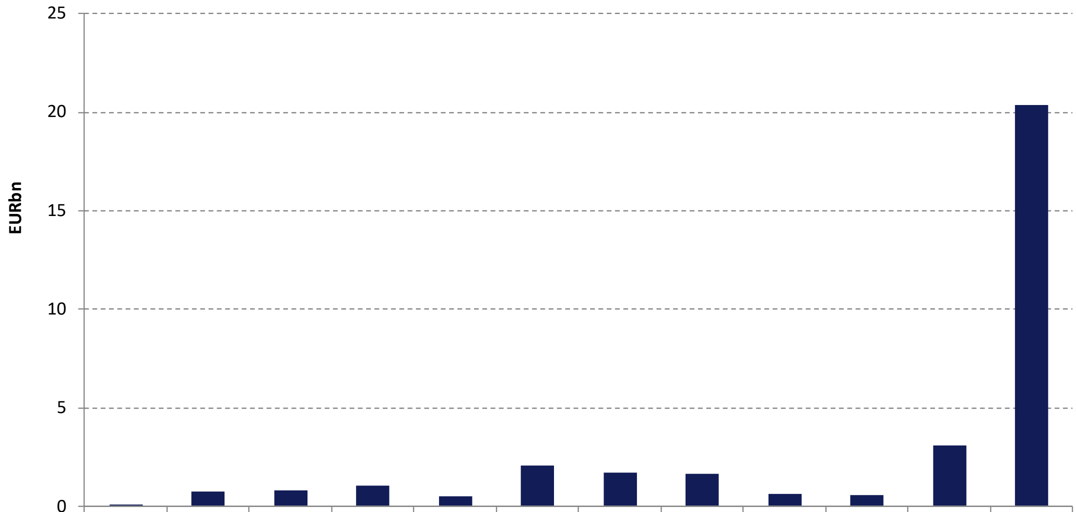
- ANTWRP (Province of Antwerp)
- BLMBRB (Province of Vlaams-Brabant)
- **BRUCAP** (Brussels-Capital Region)
- BRUGGE (City of Bruges)
- DGBE (German-speaking Community of Belgium)
- FLEMCT (City of Aalst, Beringen, Boom, Bree, Brugge, Lier, Wachtebeke, Zaventem)
- **FLEMSH** (The Flemish Community)
- **FRBRTC** (Brussels Municipalities Regional Fund / classified as an agency)
- GHENTB (City of Ghent ASBL)
- HASSLT (City of Hasselt)
- HOGENT (Hogeschool Gent - University College Ghent)
- IZEGEM (City of Izegem)
- **LCFB** (Communauté Francaise de Belgique – French Community of Belgium)
- MECHLN (City of Mechelen)
- REGWAL (Investment fund of Wallonia)
- VILLIE (City of Liège)
- VLNAMR (City of Namur)
- **WALLOO** (Region of Wallonia)
- ZAVENT (Municipality of Zaventem)
- ZOTTGM (City of Zottegem)

Bold: Already purchased as part of the PSPP/PEPP
Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

Outstanding volumes on the Belgian sub-sovereign market

The regional market as a whole comprises EUR 33.1bn. Here, FLEMSH with a total of EUR 12.5bn and WALLOO with EUR 9.4bn clearly lead the way. Thereafter follows LCFB with a total of EUR 5.5bn, in addition to BRUCAP and DGBE with EUR 4.5bn and EUR 0.4bn respectively. FLEMSH has topped these rankings for several years now. Due to the increased issuance activity in benchmark bonds, WALLOO has risen up the rankings to become the second-largest regional issuer within Belgium. Previously, this status was attributable to the French Community in Belgium (LCFB). Due to private placements up to 100 years in duration, the Belgian sub-sovereign structure as a whole can be described as very fragmented or diversified. This situation is also illustrated by the following graphic. On the one hand, this comes at the expense of liquidity, although on the other, it does deliver a pick-up in terms of an illiquidity premium, which we will examine in greater detail below. Incidentally, the issuers SOCWAL and FRBRTC are defined as agencies, which have been included on the purchase list of the Eurosystem. Both are classified as local public-sector issuers (Société Wallone du Credit Social and Brussels Municipalities Regional Fund).

Maturity profile of Belgian regions



	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	>2030
Other	0	0	0	0	0	0	0	0	0	0	0	0
EUR	3	742	810	1,019	520	2,074	1,700	1,614	642	575	3,065	20,344

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

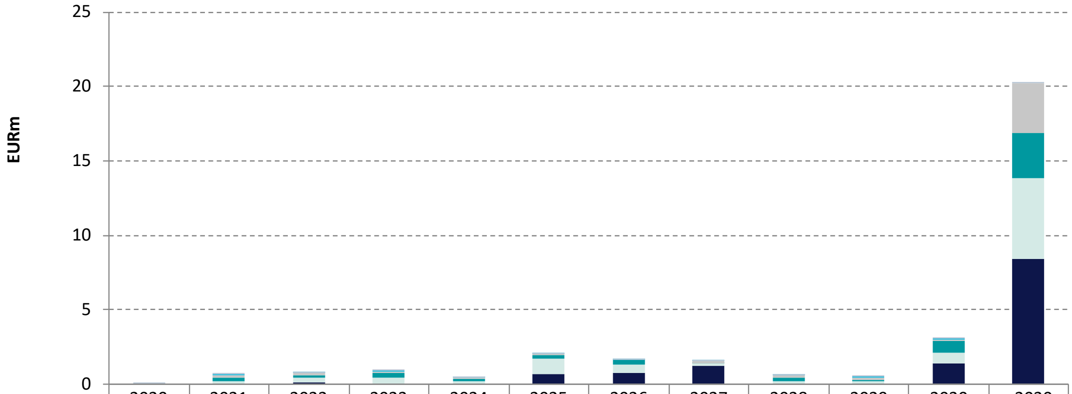
Outstanding volume

Not all the tickers listed above are regions. Some regional governments and local authorities or other regional vehicles/agencies are also active in the capital market. Nevertheless, as the above breakdown shows, there are now 558 bonds outstanding. In our analysis from September 2016, there were around 300 bonds outstanding, which had jumped to 467 outstanding bonds just last year. However, this masks the granularity of the Belgian regional bonds: there is now of total of EUR 33.1bn outstanding, against just under EUR 12bn in September 2016 and EUR 20.1bn in the prior update (May 2019). Back then, just as now, there were no foreign currency deals to discuss; accordingly, the FX segment has no share of the composition of the liabilities, meaning that any diversification of the composition is provided by different maturity segments. Roughly EUR 20bn will only mature after 2030, which shows that the issuers in question are opting for very long-term funding. Whereas in 2016, there were only three bonds outstanding that amounted to more than or equal to EUR 500m, and which were therefore designated as benchmark bonds, there is presently a total of 17 bonds outstanding with a volume of between EUR 500m and EUR 2bn. Alongside a total of five bonds from the region of Wallonia, these now include 11 bonds issued by the Flemish Community in addition to a single bond placed by the LCFB in June 2020. In 2020 alone, a total of eight bonds in benchmark size were issued. Incidentally, the Belgian state has also already issued green bonds, like Germany and France too.

Belgian regions issue predominantly fixed-rate bonds

The majority of bonds issued by the Belgian regions featured fixed coupons. Of the bonds we have counted (558), 483 (or 86.6%) have a fixed coupon. These are followed by FRNs (floating rate notes; 9.4%), and then by variable-rate bonds, which account for only a marginal share. Zero-coupon bonds and step-up coupon bonds are hardly worth mentioning. In this respect, Bloomberg makes a distinction between floaters (classic FRNs, e.g. 3-M Euribor +70bp) and inflation-linked bonds (variable). All in all, Belgian regions are therefore definitely open to niche products when it comes to their funding (private placements). The proportion of fixed-rate bonds is fairly high in relation to German Bundeslaender (69%).

Outstanding bonds of select Belgian regions



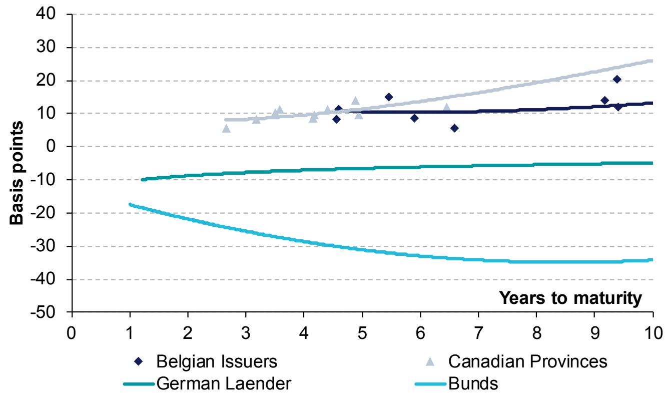
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	>2030
FRBRTC	3	15	40	22	44	14	10	14	18	26	20	49
DGBE	0	88	40	88	45	15	18	29	15	33	46	0
BRUCAP	0	168	150	65	25	65	30	140	180	213	95	3,364
LCFB	0	260	152	280	180	235	290	20	245	65	765	3,006
WALLOO	0	180	283	440	185	1,085	565	184	159	178	752	5,436
FLEMSH	0	0	134	0	0	627	750	1,200	0	0	1,377	8,408

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

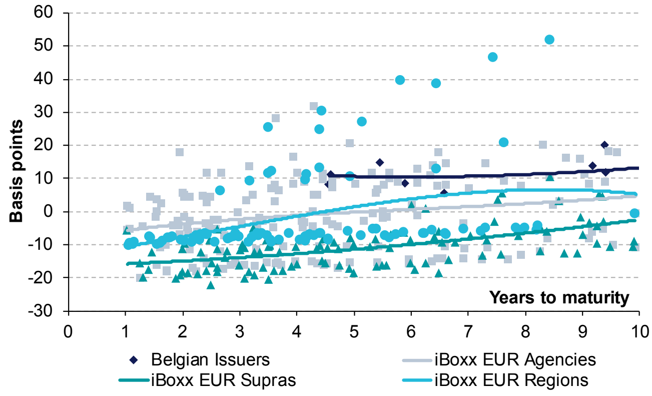
Belgian regions offer pick-up vs. OLOs and German peers

It should not come as any great surprise that Belgian regions are trading at the widest spreads to Belgian government bonds and the German peer group. There are no bonds outstanding at the short end. The widest spreads are between four and six years, where there are three EUR benchmark bonds in a cluster. Two of the bonds in this cluster have been issued by the Flemish Community (FLEMSH 1.341 06/25 & FLEMSH 0 3/8 10/26); they are trading at an ASW spread of around ms +7bp and ms +8bp. This produces a considerable spread of around +45bp and +49bp in relation to Bunds. Of course, this pick-up has recently fluctuated to some extent and has tended to be above that seen in 2019. The figures are similar for the bond WALLOO 0 1/4 05/26. However, investors looking at potential switch ideas have to factor in rating disadvantages (in relation to German peers, which mostly have a rating of AAA). The Flemish Community is rated at (AA / Aa2 / -), while Wallonia has been awarded a rating of (- / A2 / -). Belgian sovereign bonds are rated at (AA- / Aa3 / AA). From a regulatory point of view, Belgian regions and government bonds can be seen as identical to their German counterparts (LCR Level 1; RW 0%, Solvency II: preferred), although the latter mainly have a triple-A rating and can generally be traded on a far more liquid basis on the secondary market. The bonds FLEMSH 1 3/8 11/33 & WALLOO 1 ¼ 05/34 have been joined up by additional bonds placed in the ultra-long maturity segment. FLEMSH 1 01/23/51 continues to represent the longest maturity in the EUR benchmark segment. In addition to the bonds listed here, there are also EUR benchmark bonds with terms to maturity of between 13 and 30 years placed by the Belgian regions. In view of limited liquidity, including in a peer-group comparison, we have declined to look at these bonds in any more detail. In addition, Belgian regions are open to private placements and custom maturity requests from institutional investors.

Comparison of generic ASW spreads



Comparison of Belgian region ASW curves vs. iBoxx



Source: Bloomberg, NORD/LB Markets Strategy & Floor Research; data from 23 Nov. 2020 eod

Belgian regions vs. iBoxx Regions

The Belgian regions also trade at a disadvantage in relation to the iBoxx Regions. At the long end, the spread difference now amounts to around 10bp. At the short end of the Belgian regions (around the 5y maturity mark), the spread is far less pronounced; however, the differences are again much more significant vs. agencies and supras. We calculate a spread difference of roughly 10bp against the iBoxx Agencies curve at the short end. At the long end, the difference is higher. In comparison with supras, which on balance tend to have even better ratings, with the bonds placed by these regular issuers also generally featuring far higher liquidity, the spread at the short end is around 25bp. At the long end, this difference narrows only marginally. Overall, the Belgian regions display the widest spreads compared with their peers (with the exception of Spanish regions) and can therefore generate a pick-up for investors – bearing in mind limited liquidity and the rating. Moreover, as you can see, Belgian regions are open to private placements (PP) and certain yield and maturity ideas suggested by institutional investors.

ECB purchase programme

It is worth taking a look at the Eurosystem's purchase activities: this reveals that there are four Belgian names among the agencies: FRBRTC, SOCWAL, FONWAL and SWLBEL. Some of these do not even have any outstanding bonds eligible for purchase under ECB criteria. To date, the Eurosystem has still only purchased one bond issued by the Brussels Municipalities Regional Fund (FRBRTC) and three ISINs placed by the Société Wallonne du Crédit Social. In contrast, over time, nine bonds with the WALLOO ticker, 12 with the FLEMSH ticker in addition to five and three ISINs respectively from LCFB and BRUCAP have been included on the Eurosystem's purchase list. SOCWAL bonds in particular are very small, with an outstanding volume of EUR 18-50m. However, the single FRBRTC bond to have been purchased is even smaller, coming in at just EUR 10m. As such, the bonds in question are among the smallest ISINs acquired under the PSPP/EAPP and PEPP ever since. In particular, the FLEMSH bonds tend to be far more liquid at up to EUR 1.25bn. The same also applies to WALLOO bonds (up to EUR 1bn). Even so, the size of the bonds is still small in relation to bonds issued by some of the German Bundeslaender, of which the Eurosystem has already purchased more than 430 various ISINs.

Regulatory overview of RGLAs*/ ** (examples)

Issuer	Risk weighting	LCR classification	NSFR classification	Solvency II classification
Belgian regions	***0%***	***Level 1***	***0%***	***preferred (0%)***
German Bundeslaender	0%	Level 1	0%	preferred (0%)
French regions	20%	Level 2A	15%	preferred (0%)
Italian regions	20%	Level 2A	15%	non-preferred (individual review)
Austrian Bundeslaender	0%	Level 1	0%	preferred (0%)
Spanish regions	0%	Level 1	0%	preferred (0%)

* Regional governments and local authorities
** NB: in the absence of an explicit guarantee from the respective nation state, the current LCR level is dependent on the relevant rating (see CQS classification and LCR classification of assets).
Source: NORD/LB Markets Strategy & Floor Research

Exceptions to scope of application of the Leverage Ratio (CRD Art. 2 no. 5) (examples)

EU	Central banks of member states
Belgium	***Institut de Réescompte et de Garantie/- Herdiscontering- en Waarborginstituut***
Denmark	Eksport Kredit Fonden, Eksport Kredit Fonden A/S, Danmarks Skibskredit A/S and KommuneKredit
Germany	Kreditanstalt für Wiederaufbau (KfW), undertakings which are recognised under the "Wohnungsgemeinnützigkeitsgesetz" as bodies of state housing policy and are not mainly engaged in banking transactions, and undertakings recognised under that law as non-profit housing undertakings (e.g. Rentenbank, L-Bank, IFBHH, IBSH etc.).

Source: CRD IV, NORD/LB Markets Strategy & Floor Research

Regional governments and local authorities (solvency stress factor allocation of 0% possible; examples)

Country	Regional and local governments
Belgium	***Municipalities (Communauté/Gemeenschappen), regions (Régions/Gewesten), towns (Communes, Gemeenten) & provinces (Provinces, Provincies)***
Germany	Bundeslaender, municipalities & municipal associations
France	Regions (région), municipalities (commune), “Départements”

Source: (EU) 2015/2011, NORD/LB Markets Strategy & Floor Research

Summary of Belgian regions

Risk weighting	0%
LCR classification	Level 1 (EBA list)
NSFR classification	0%
Solvency II classification	Preferred (0%)

Issuer	Population	Unemployment rate	GDP per capita (2018)	Outstanding volume	No. of bonds	Rating
FLEMSH	6.6 million	4.0%	EUR 36,600	EUR 12.5bn	29	(AA / Aa2 / -)
WALLOO	3.6 million	7.5%	EUR 25,700	EUR 9.5bn	154	(- / A2 / -)
LCFB	-	-	-	EUR 5.5bn	136	(- / Aa3 / -)
BRUCAP	1.2 million	15.1%	EUR 61,300	EUR 4.5bn	130	(- / - / AA)
DGBE	-	-	-	EUR 0.4bn	22	(- / - / -)
Kingdom of Belgium	11.5 million	6.3%	EUR 35,510	EUR 362.4bn	30	(AA- / Aa3 / AA)

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

Liability mechanism

Interestingly, the Belgian regions enjoy neither horizontal financial equalisation nor an explicit guarantee from the Kingdom of Belgium. Consequently, the federal state is charged with making corresponding transfer payments (vertical structure). Tensions between Flanders and Wallonia can be described as significant. It can therefore be stated that no support or liability mechanisms are in place either between the regions and communities or in relation to the federal state. However, Moody's believes it is "highly probable" that the federal government would provide support in the event of payment difficulties.

Conclusion

Bearing in mind a further escalation of the low interest rate environment in 2020, there are still interesting investment opportunities cropping up in certain niche areas – in some cases amplified by the rampant coronavirus pandemic. Our studies on the Canadian provinces, the Australian states and on Auckland Council in New Zealand are also to be interpreted in this light. They enhance the classical SSA portfolio to include maturity and/or yield, but contribute to diversification in any case. The benchmark transaction of LCFB last week shows that opportunities are always arising here. Even more attention should be paid to FLEMSH and WALLOO with regard to the volume issued. Even though at EUR 33.1bn, and despite growth in recent years, the Belgian market for bonds below the rank of sovereign bonds can certainly be described as small, Flemish bonds accounting for the largest volume. It is interesting to note that there is no FX diversification. Second and third tier issuers are regularly the focus of attention when it comes to rare investment alternatives, not least because the Eurosystem has already purchased Belgian bonds as part of the PSPP and PEPP. These bonds are therefore interesting from a yield and regulatory point of view and are also accessible for private placements. It remains to be seen whether and via which measures Belgium is able to contain the spread of the coronavirus pandemic. In view of the current developments, the second wave of the pandemic has the potential to hit the economy harder than previous forecasts might have suggested.

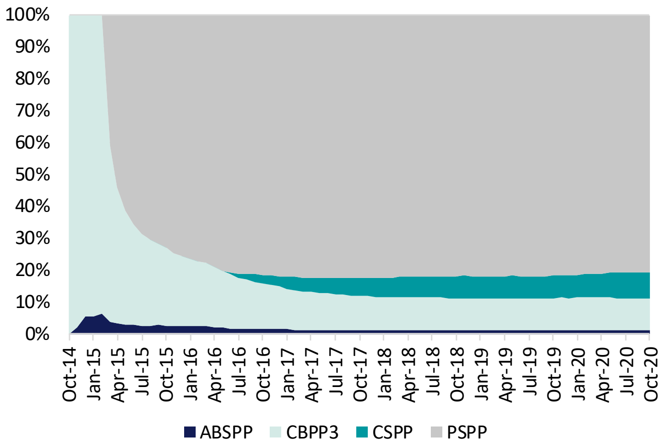
ECB tracker

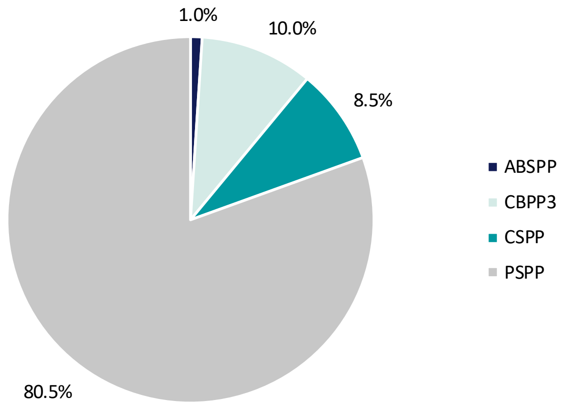
Asset Purchase Programme (APP)

Holdings (in EURm)

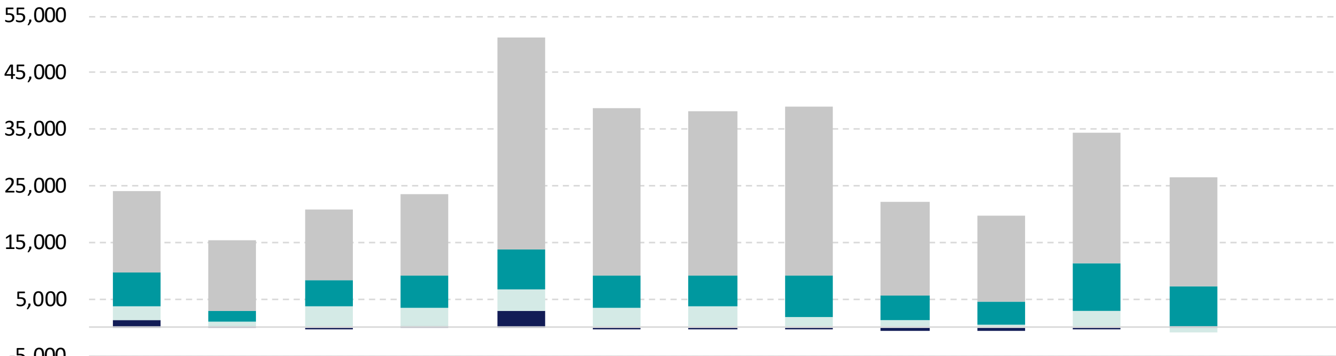
	ABSPP	CBPP3	CSPP	PSPP	APP
Sep-20	29,112	286,852	236,349	2,290,140	2,842,453
Oct-20	29,401	285,864	243,331	2,309,322	2,867,918
Δ	+289	-989	+6,983	+19,182	+25,465

Portfolio structure





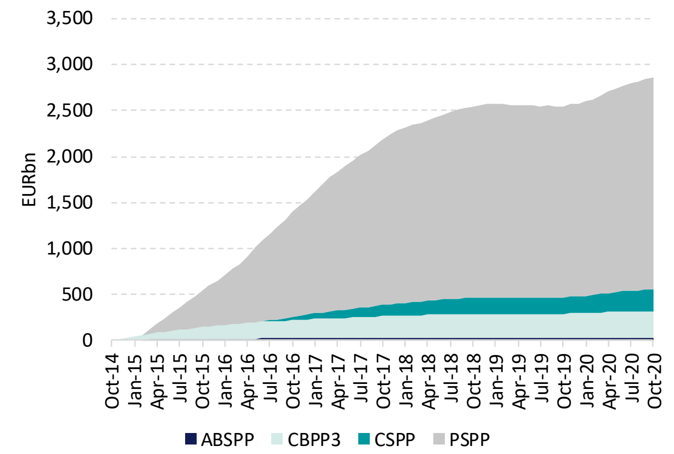
Monthly net purchases (in EURm)



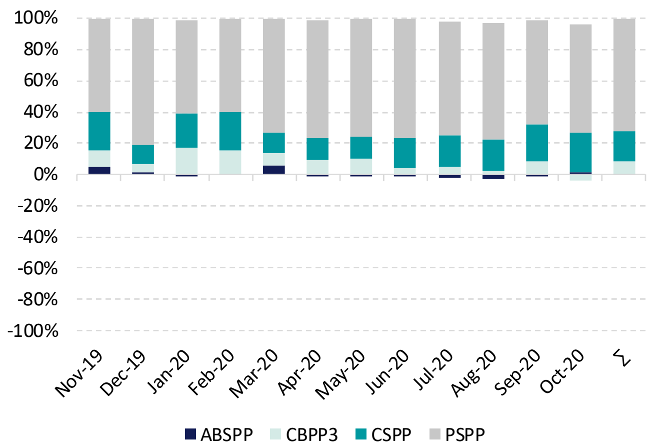
	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
APP	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,014	25,465	349,986
PSPP	14,478	12,515	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	19,182	253,048
CSPP	5,917	1,799	4,611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

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

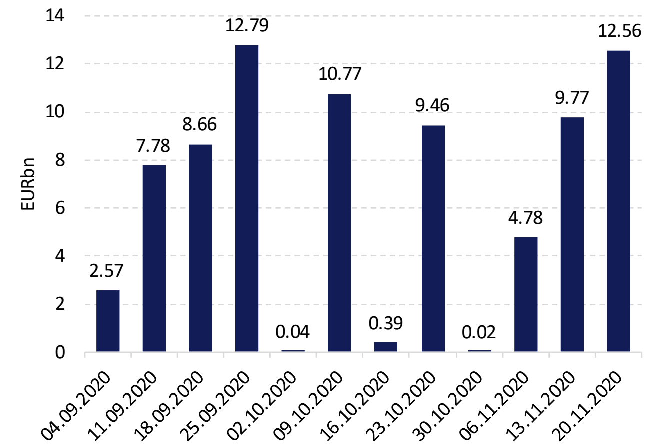
Portfolio development



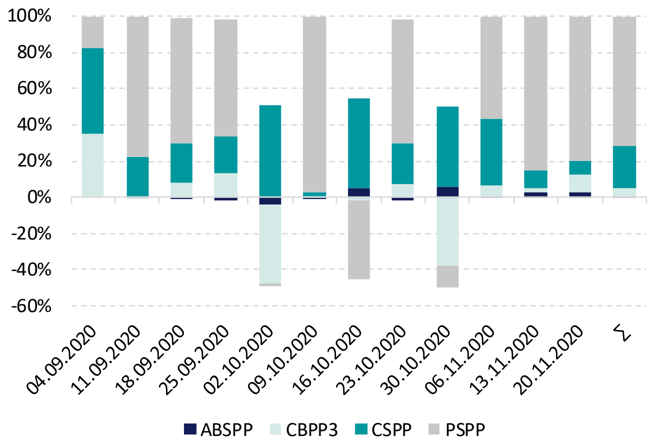
Distribution of monthly purchases



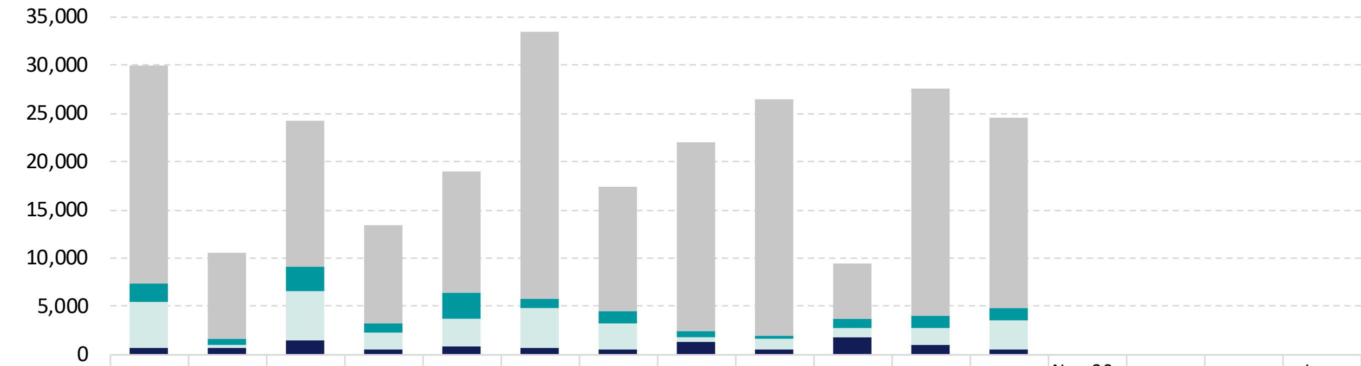
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

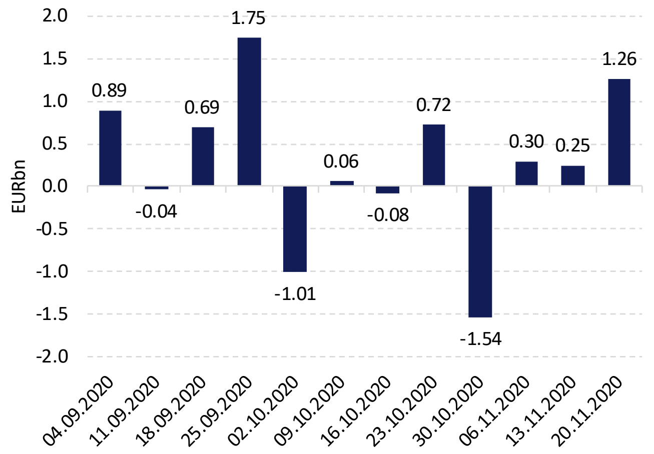


	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-20 - Oct-21	2019	2020	Jan - Oct-21
APP	29,933	10,567	24,192	13,413	19,027	33,473	17,407	22,010	26,534	9,505	27,612	24,653	258,326	204,542	259,637	217,826
PSPP	22,509	8,871	15,064	10,268	12,669	27,702	12,976	19,519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

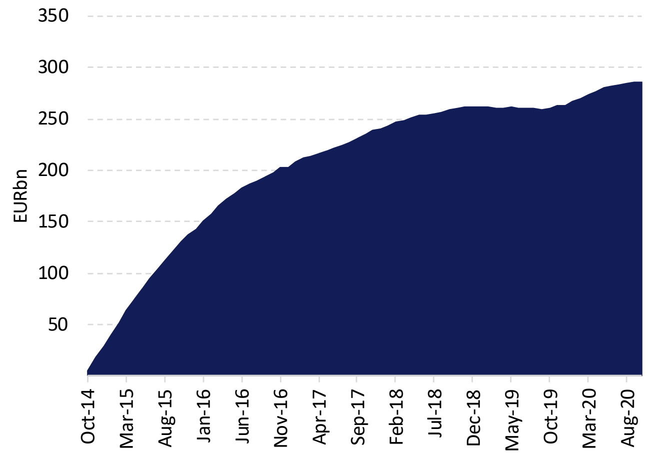
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

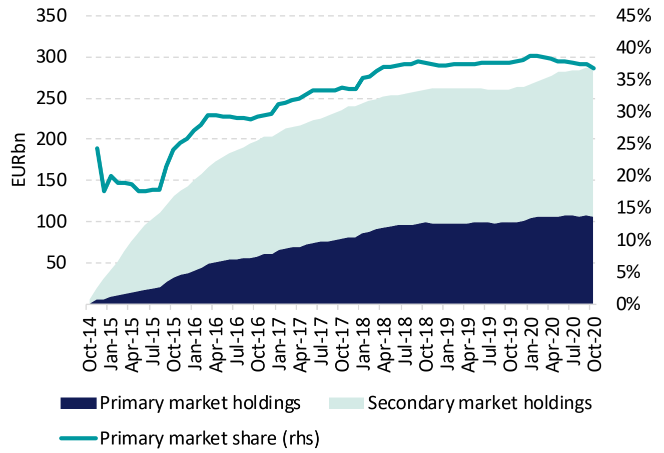
Weekly purchases



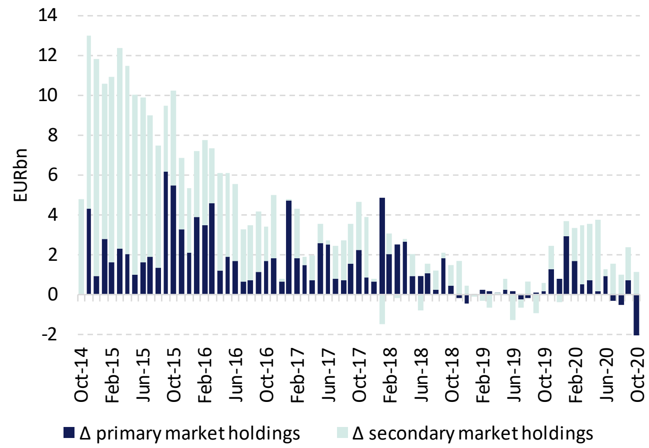
Development of CBPP3 volume



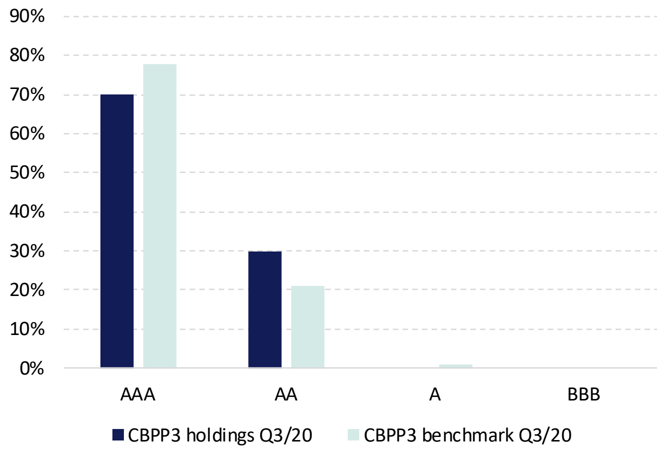
Primary and secondary market holdings



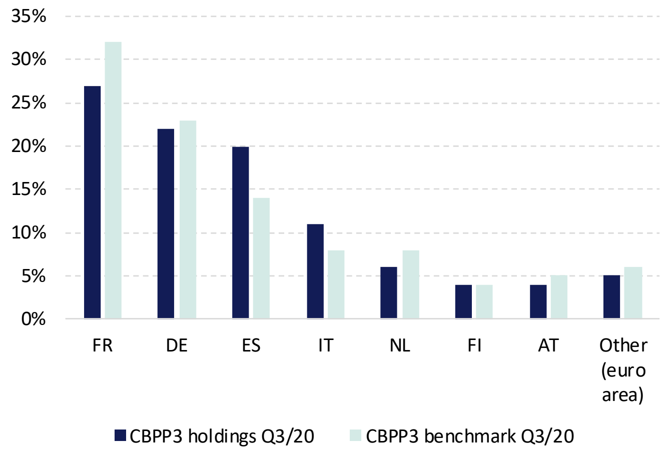
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



Distribution of CBPP3 by country of risk

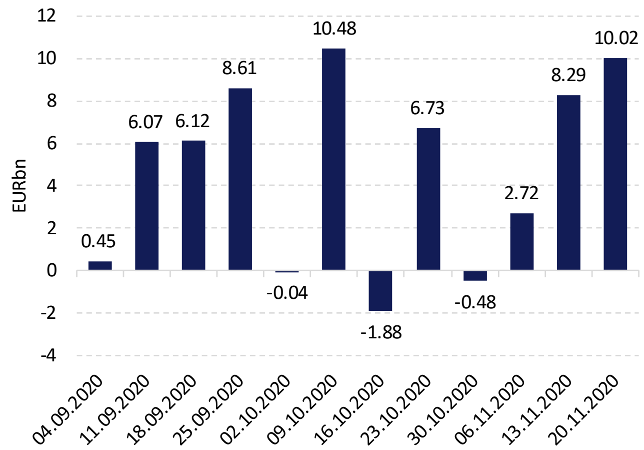


Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

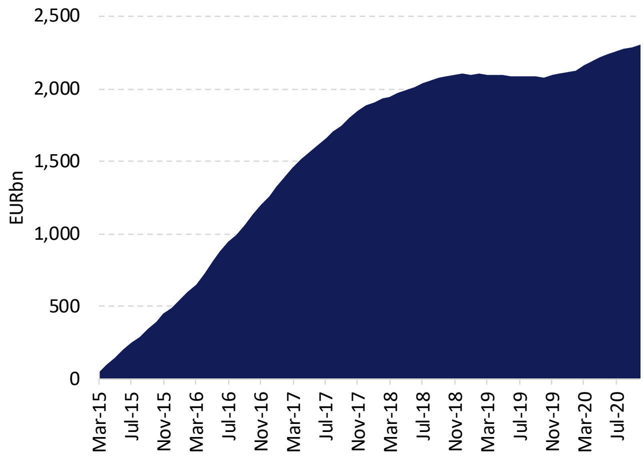
NORD/LB

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



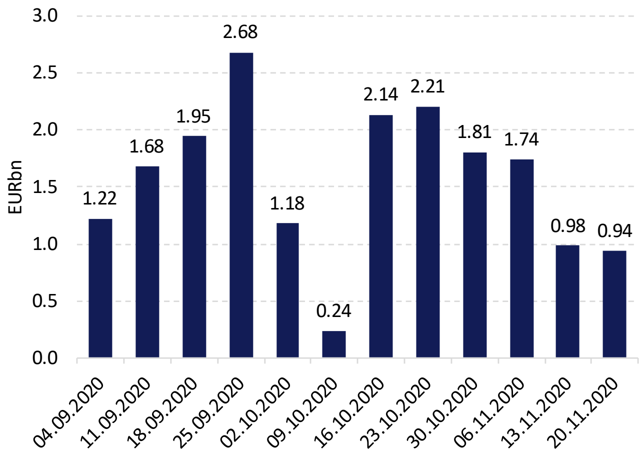
Overall distribution of PSPP buying at month-end

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

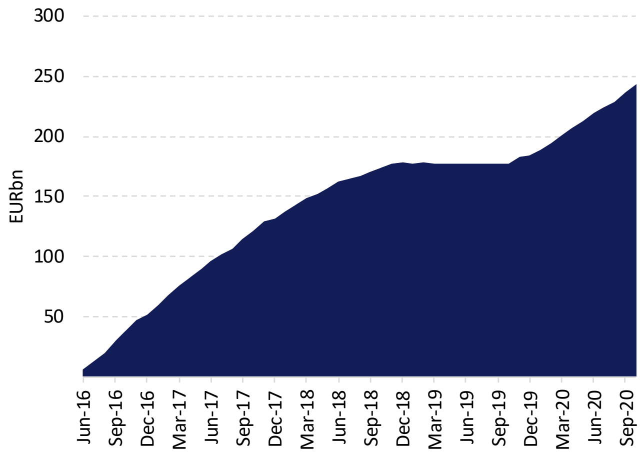
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

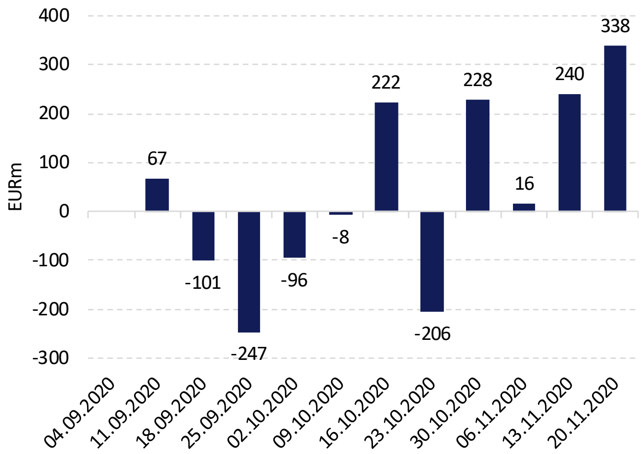


Development of CSPP volume

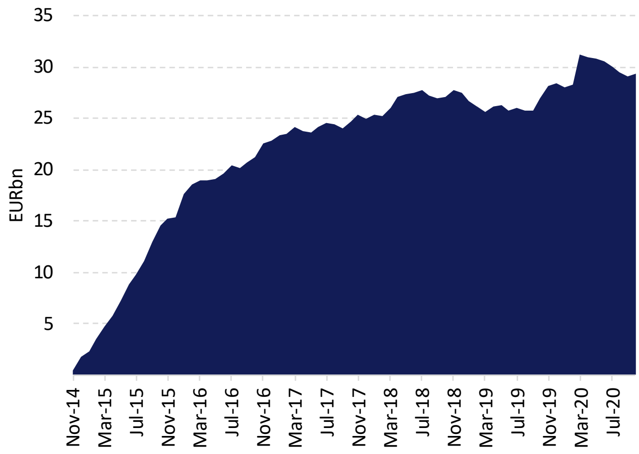


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



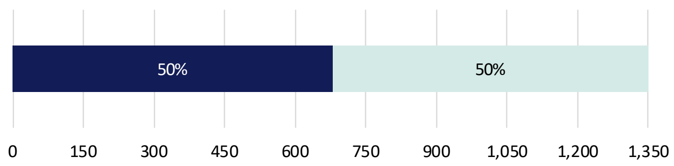
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

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

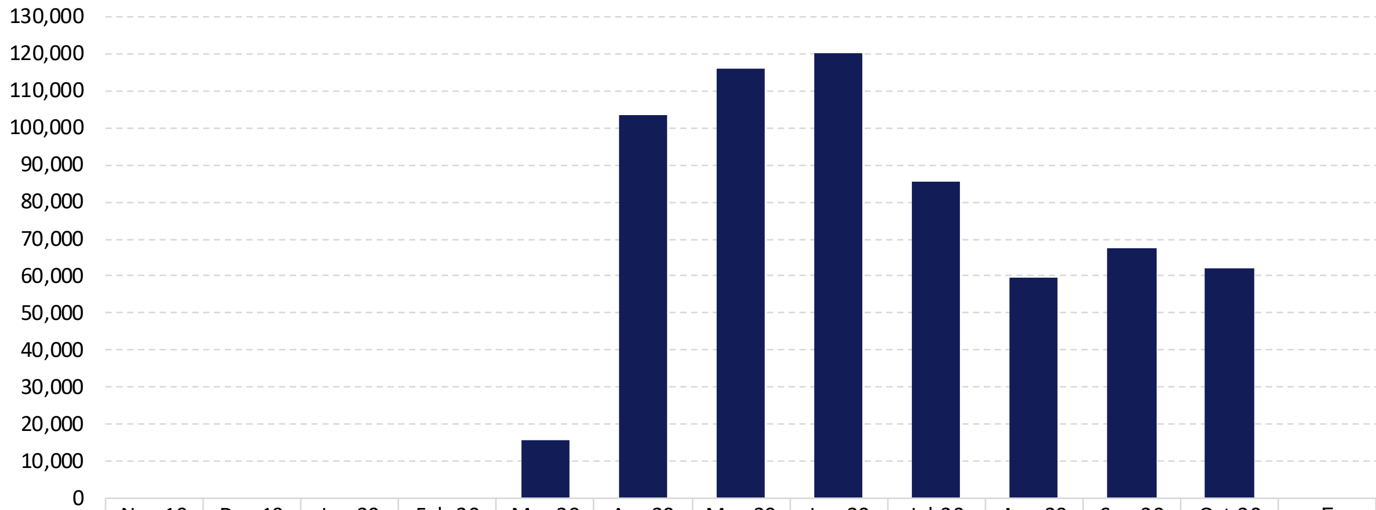
Volume already invested (in EURbn)



Estimated portfolio development

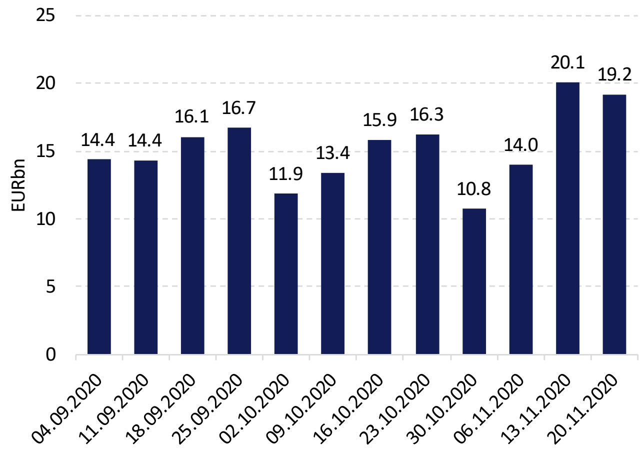
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 20.0bn	33 weeks (09.07.2021)

Monthly net purchases (in EURm)

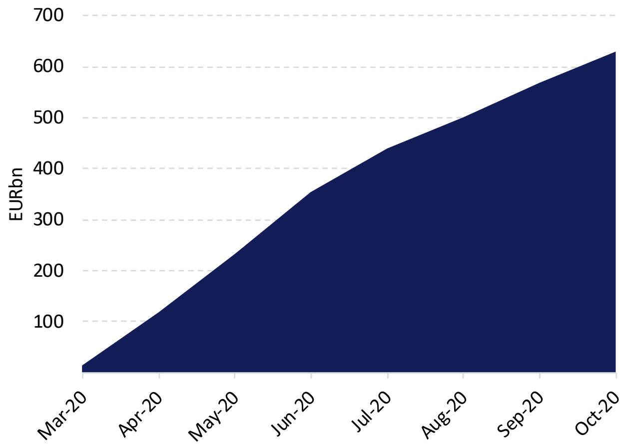


	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
PEPP	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	629,168

Weekly purchases



Development of PEPP volume

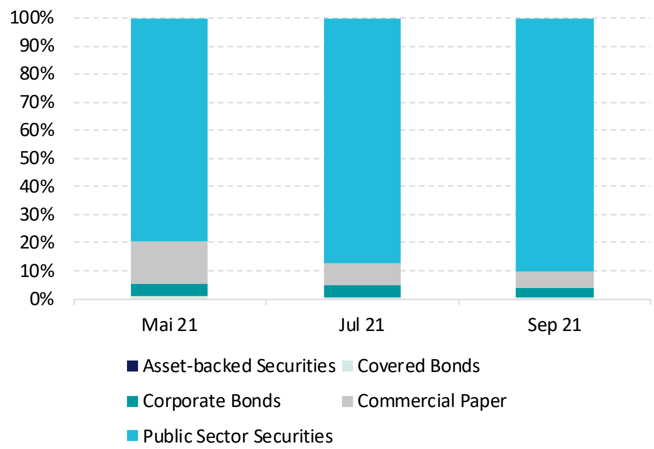


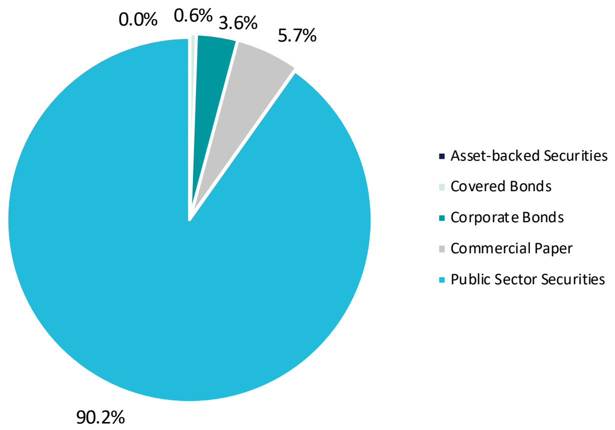
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

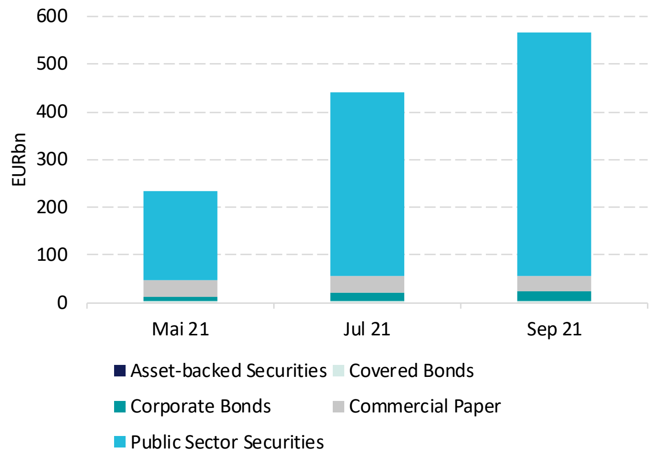
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Jul-20	0	3,128	17,620	34,845	384,464	440,057
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Δ	0	-5	+2,798	-2,857	+125,648	+125,584

Portfolio structure

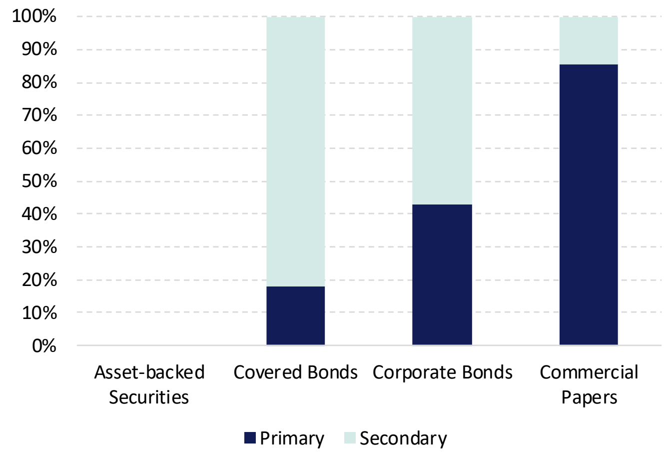




Portfolio development



Share of primary and secondary market holdings



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

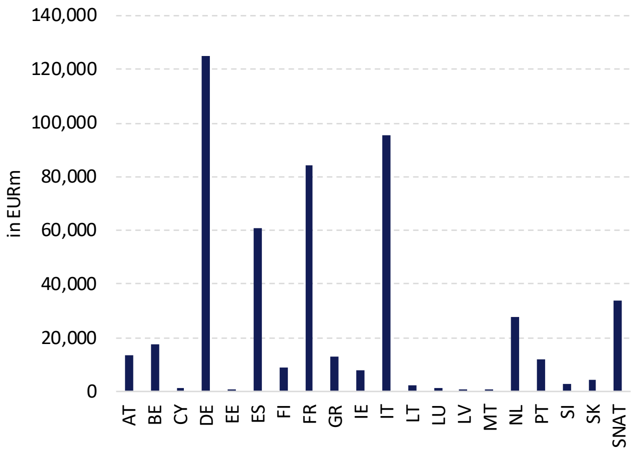
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	557	2,566	8,735	11,683	27,281	4,707
Share	0.0%	0.0%	17.8%	82.2%	42.8%	57.2%	85.3%	14.7%

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

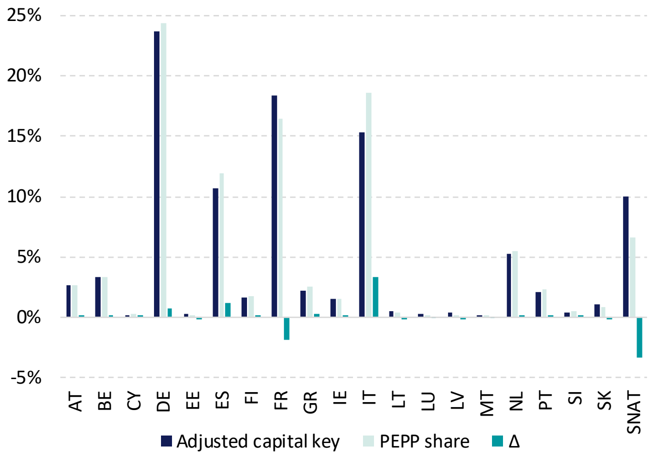
Breakdown of public sector securities under the PEPP

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

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



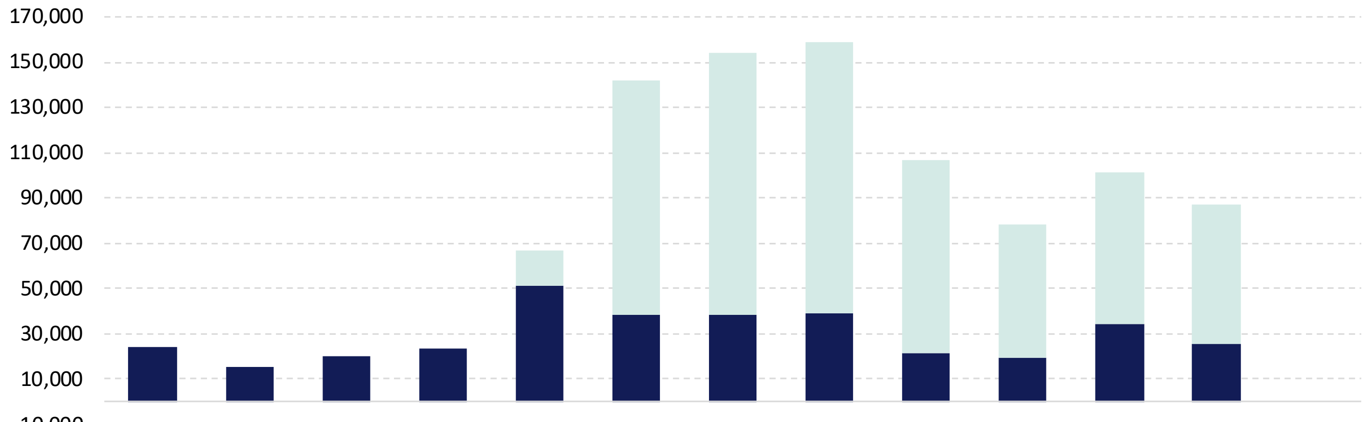
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

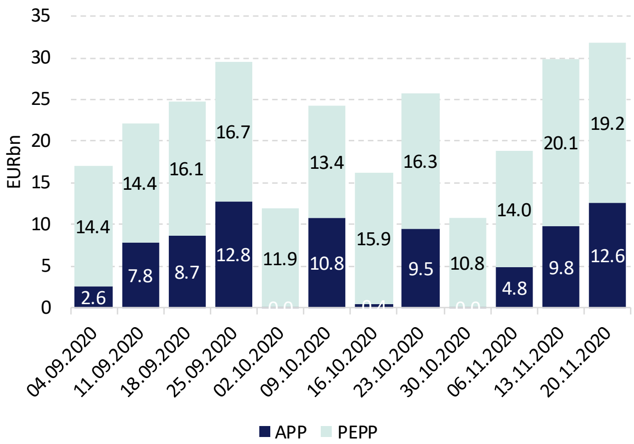
	APP	PEPP	APP & PEPP
Sep-20	2,842,453	567,183	3,409,636
Oct-20	2,867,918	629,169	3,497,087
Δ	+25,465	+61,985	+87,450

Monthly net purchases (in EURm)

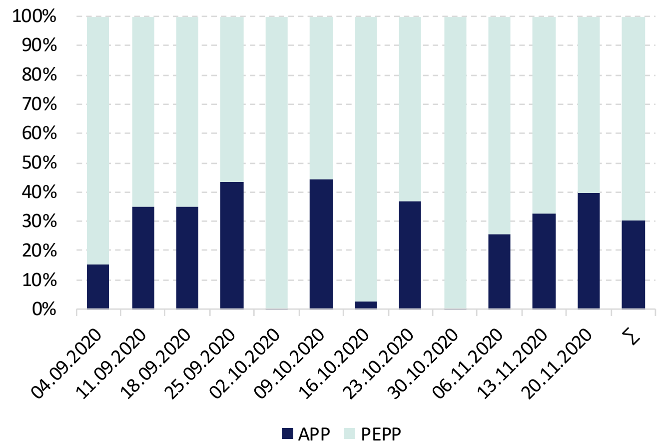


	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	∑
∑	24,096	15,408	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,322	87,450	979,154
PEPP	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	61,985	629,168
APP	24,096	15,408	20,394	23,430	51,142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

Weekly purchases



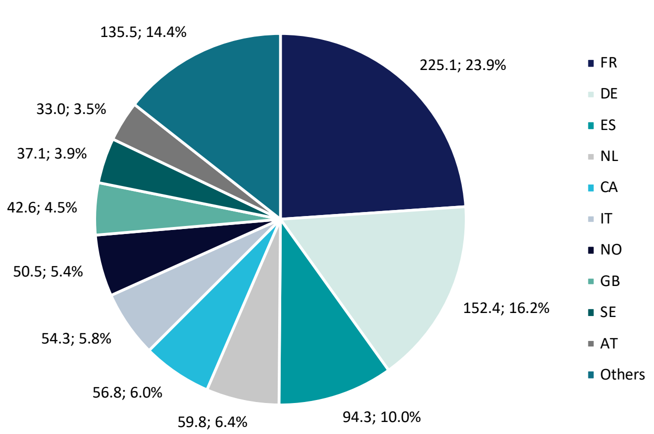
Distribution of weekly purchases



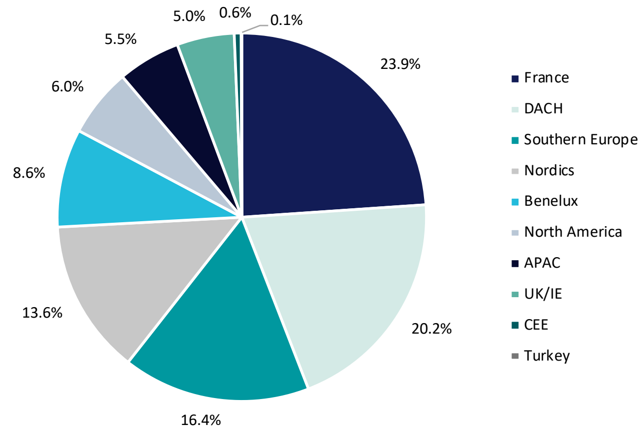
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



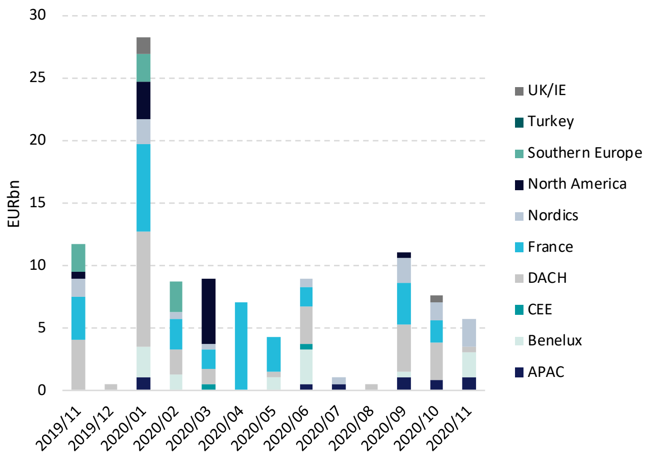
EUR benchmark volume by region (in EURbn)



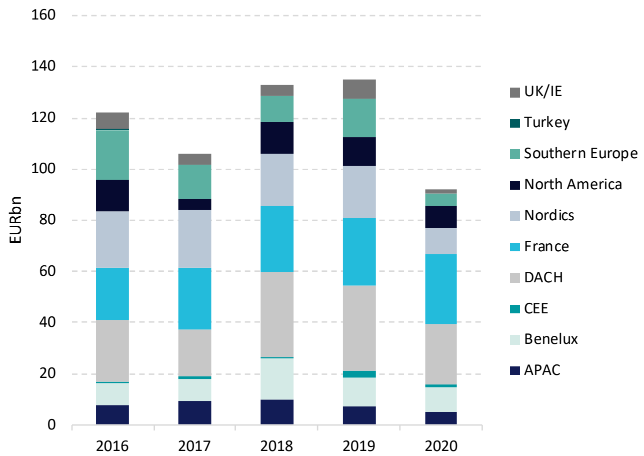
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	225.1	204	7	0.97	10.1	5.5	1.26
2	DE	152.4	227	12	0.60	8.2	4.7	0.51
3	ES	94.3	75	3	1.15	11.4	4.0	1.90
4	NL	59.8	59	0	0.96	11.0	7.3	0.97
5	CA	56.8	48	0	1.16	5.9	2.9	0.32
6	IT	54.3	62	0	0.85	8.9	4.2	1.59
7	NO	50.5	57	6	0.89	7.1	3.7	0.62
8	GB	42.6	46	0	0.94	8.2	3.1	1.24
9	SE	37.1	42	0	0.88	7.3	3.4	0.56
10	AT	33.0	59	0	0.56	9.4	5.8	0.80

EUR benchmark issue volume by month

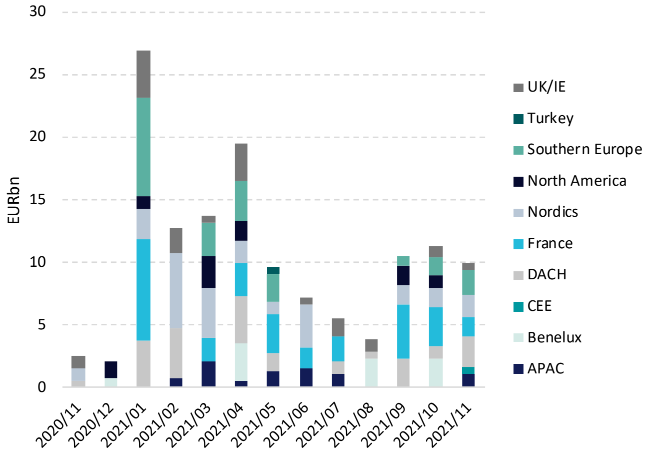


EUR benchmark issue volume by year

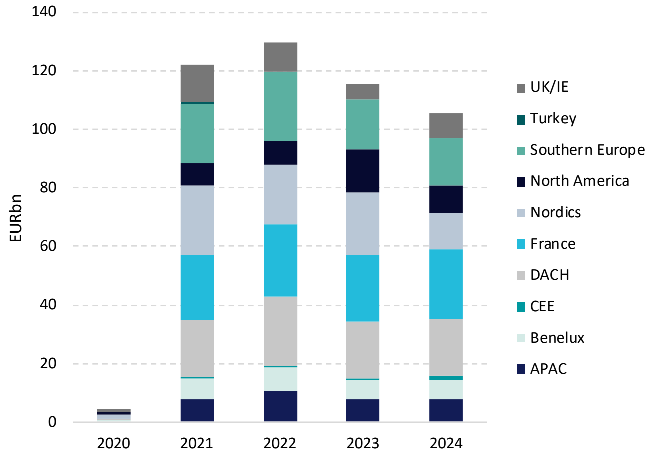


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

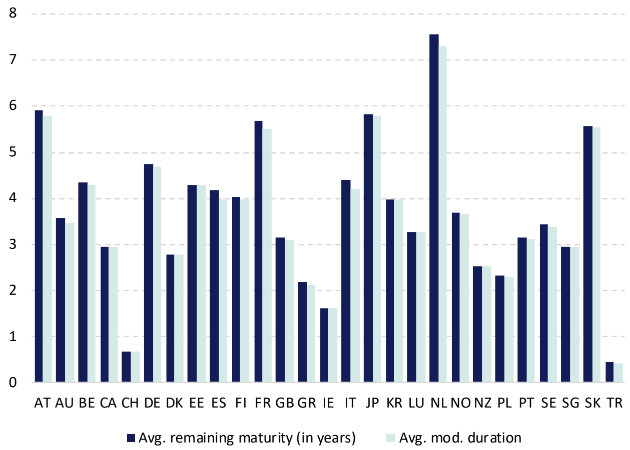
EUR benchmark maturities by month



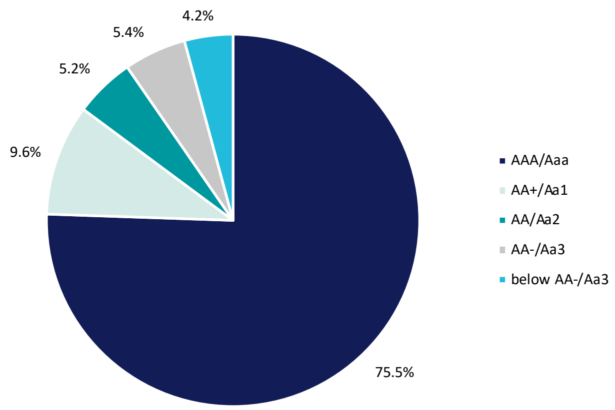
EUR benchmark maturities by year



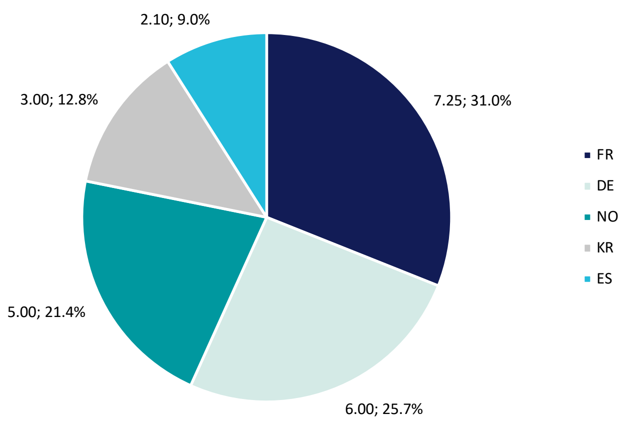
Modified duration and time to maturity by country



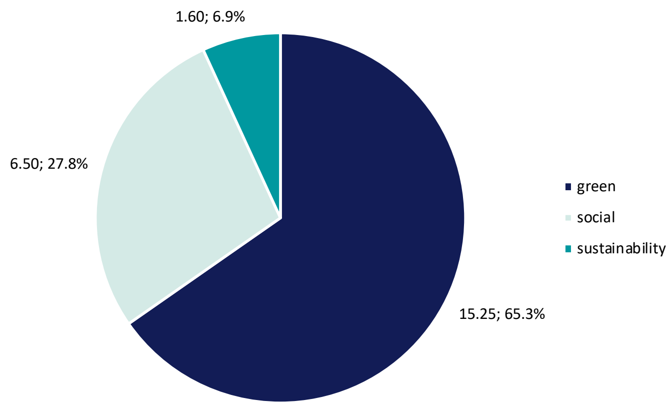
Rating distribution (volume weighted)



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



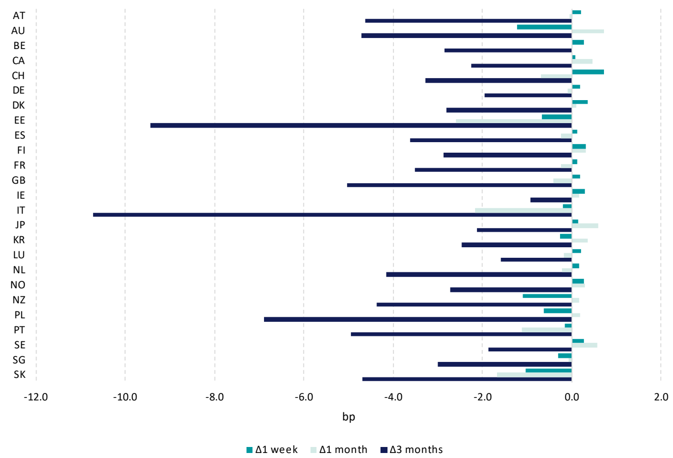
EUR benchmark volume (ESG) by type (in EURbn)



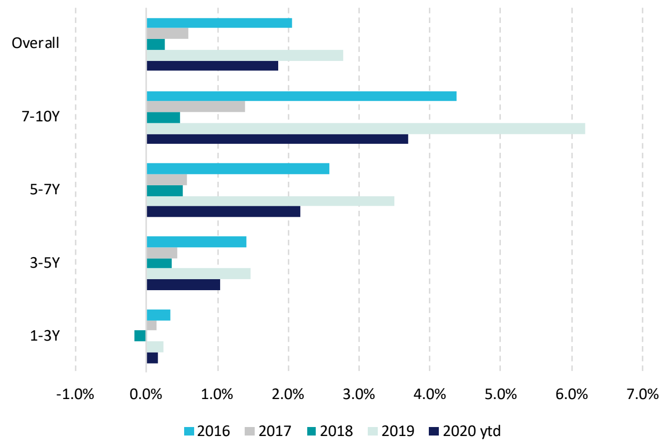
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

NORD/LB

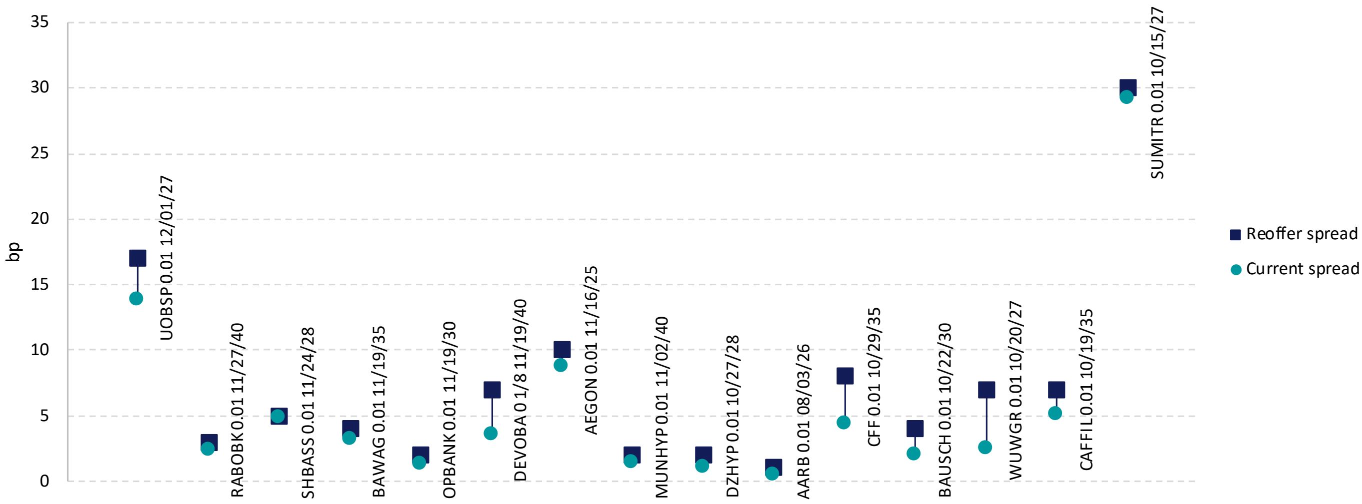
Spread development by country



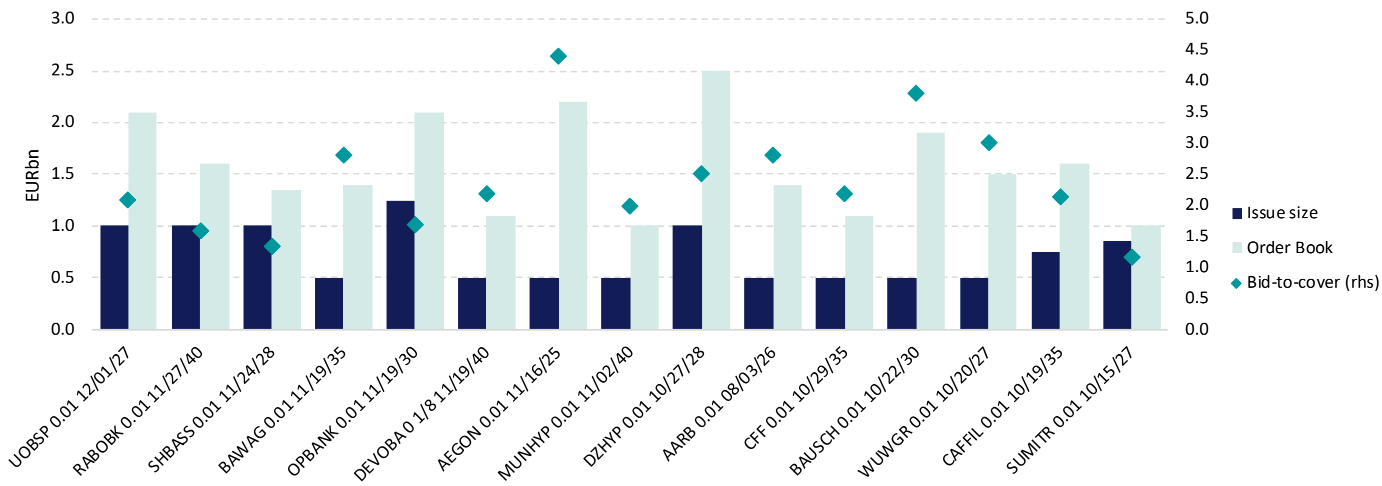
Covered bond performance (Total return)



Spread development (last 15 issues)



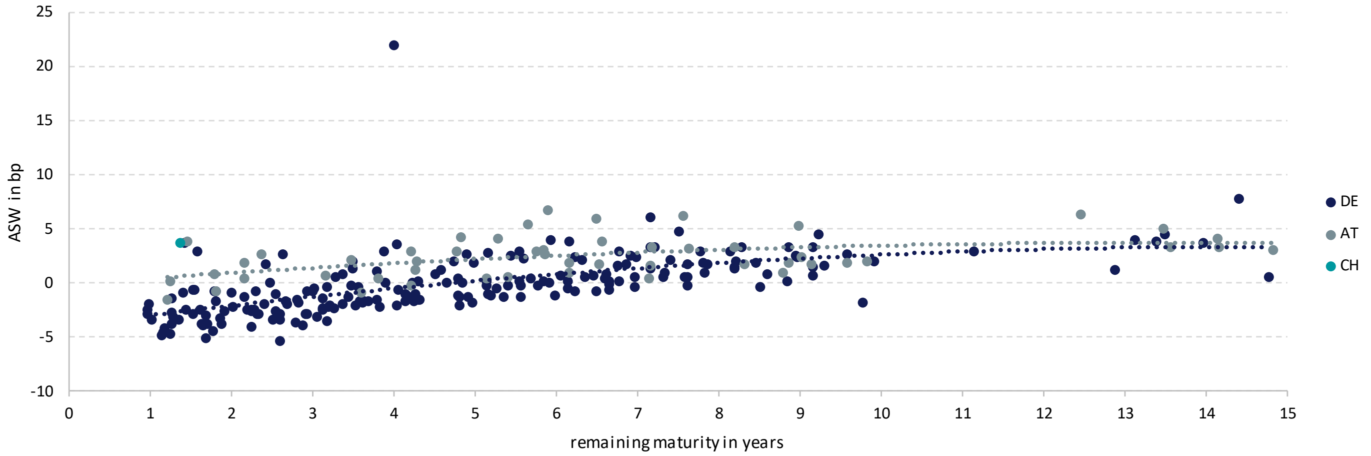
Order books (last 15 issues)



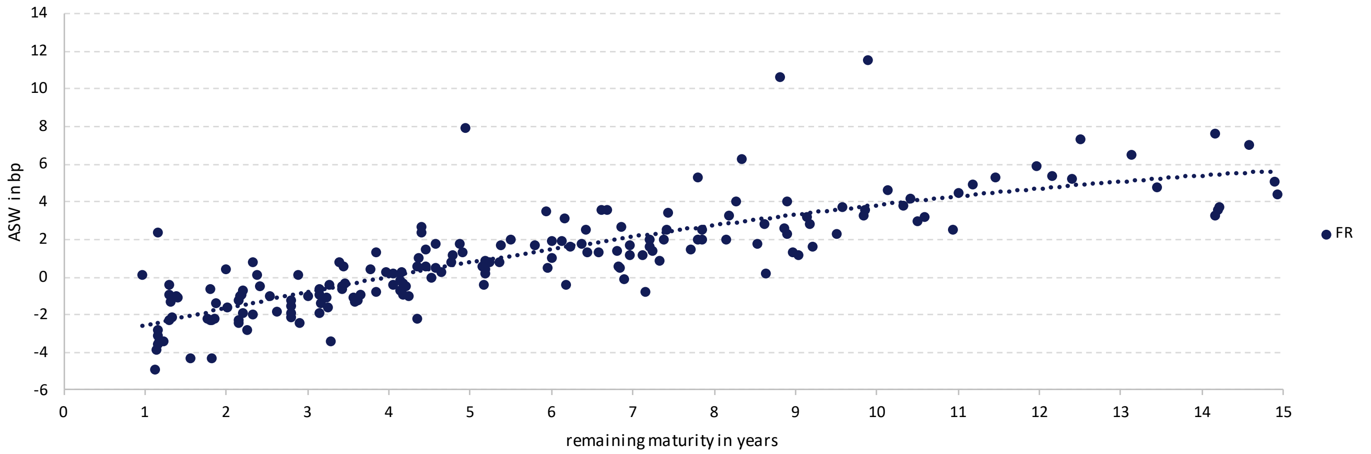
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

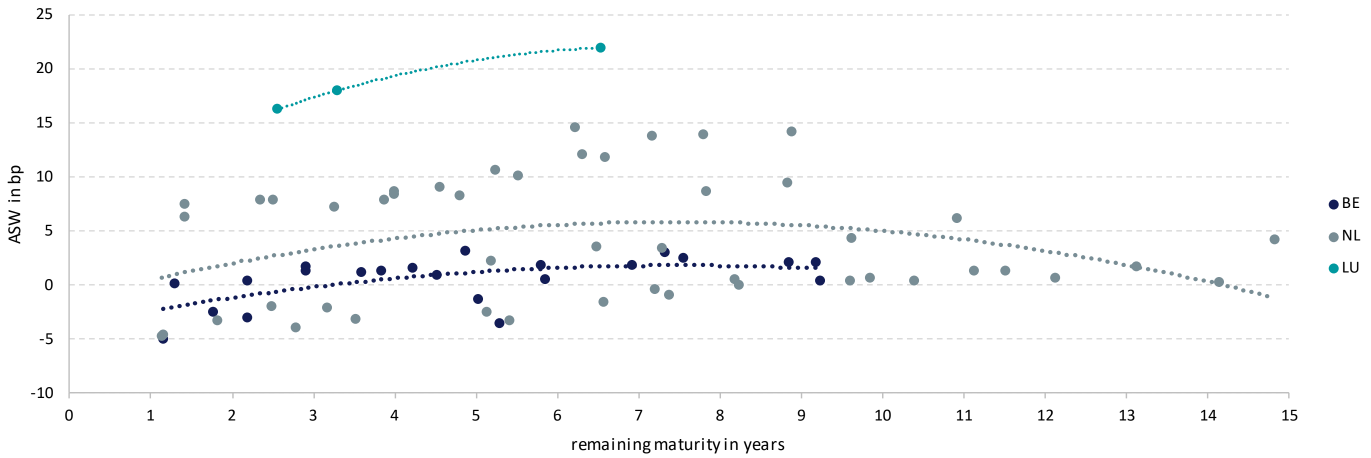
DACH



France

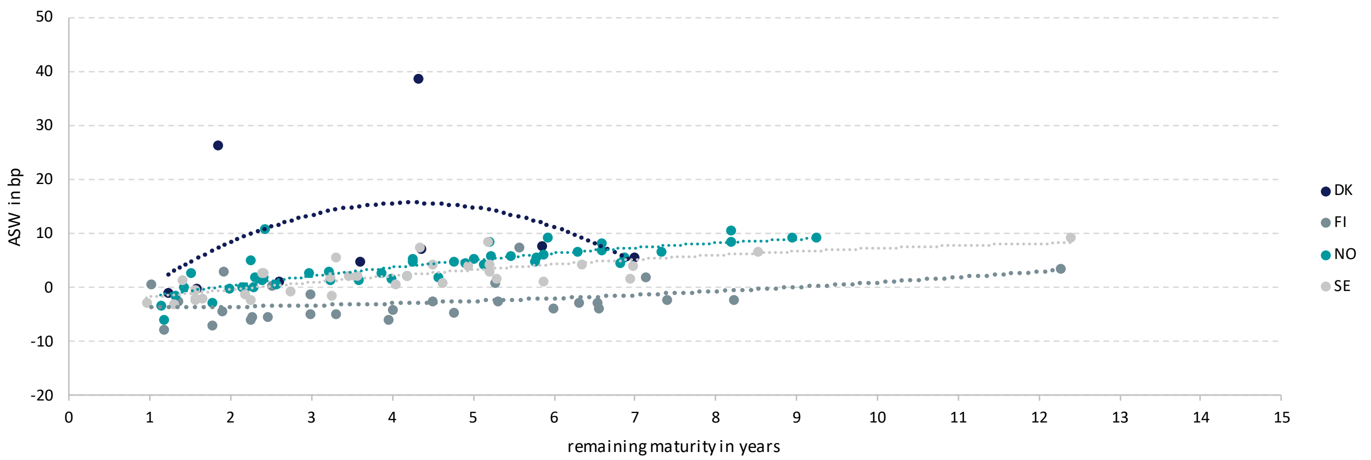


Benelux

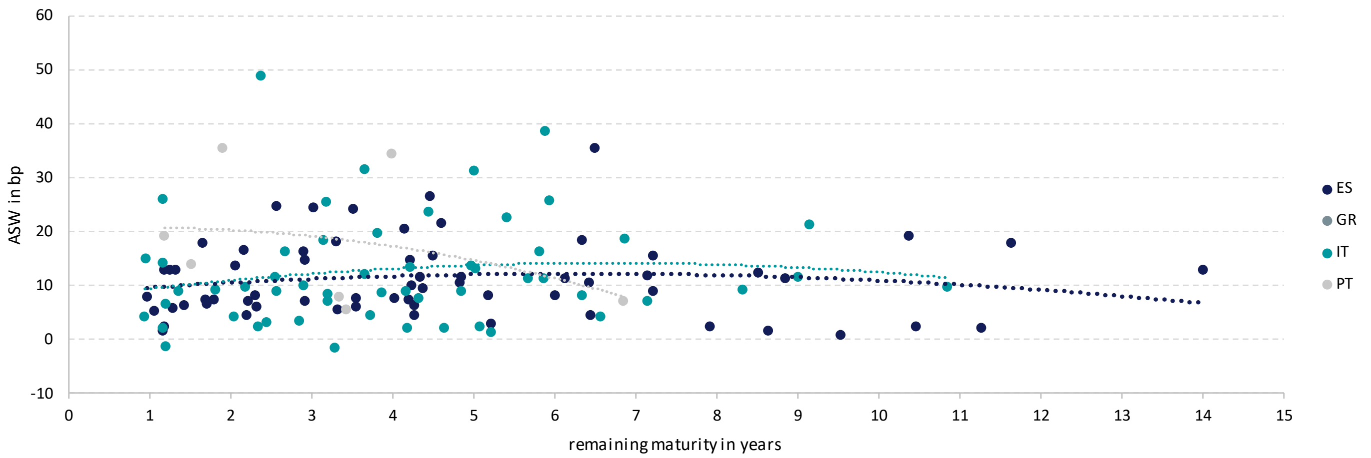


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

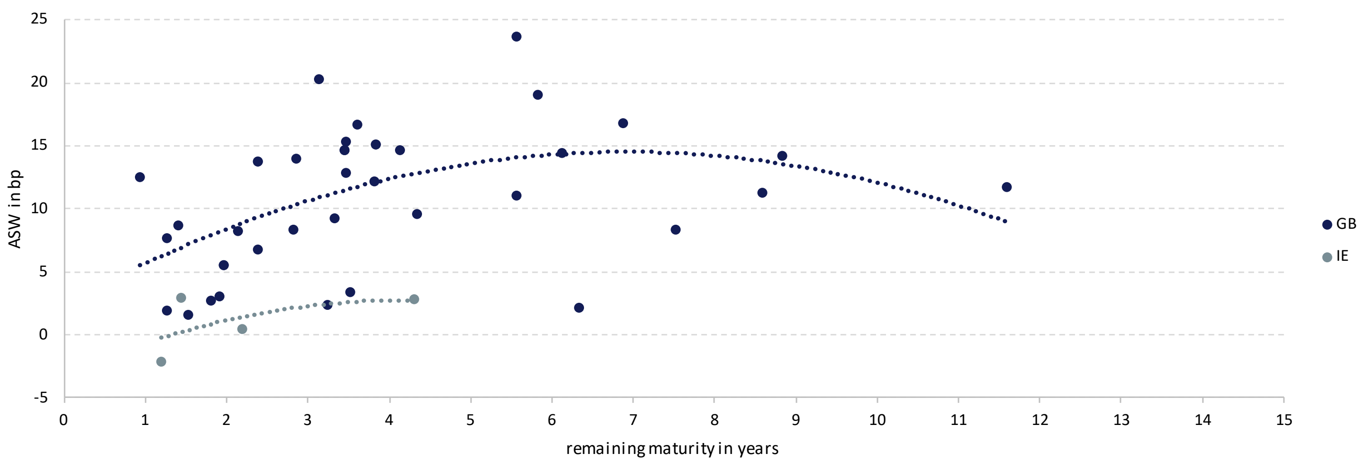
Nordics



Southern Europe

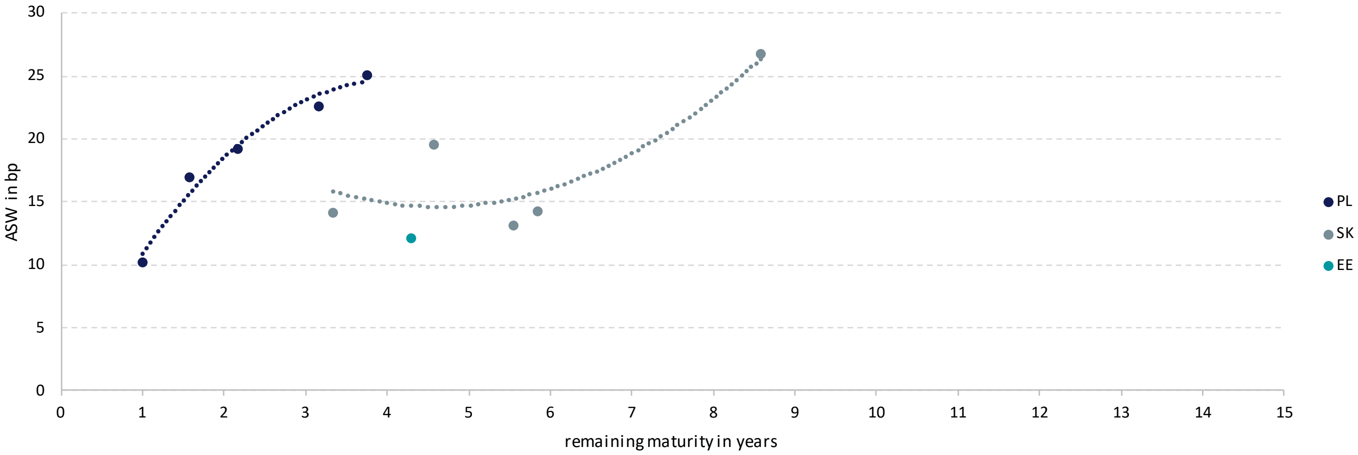


UK/IE

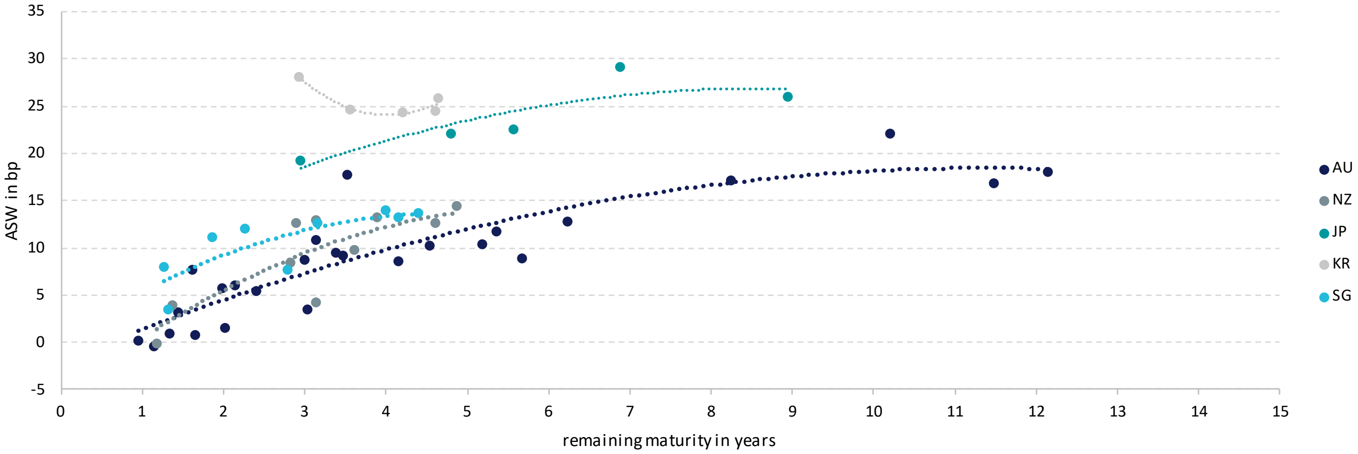


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

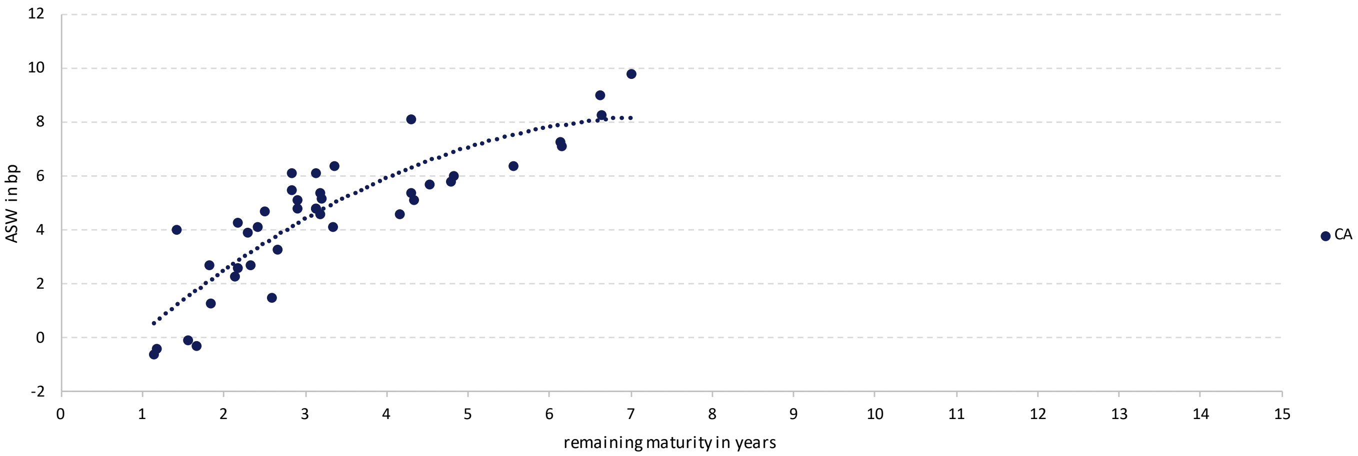
CEE



APAC



North America

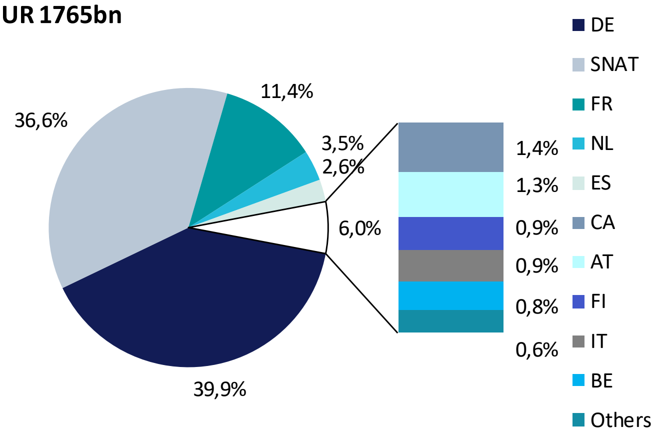


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
SSA/Public Issuers

Outstanding volume (bmk)

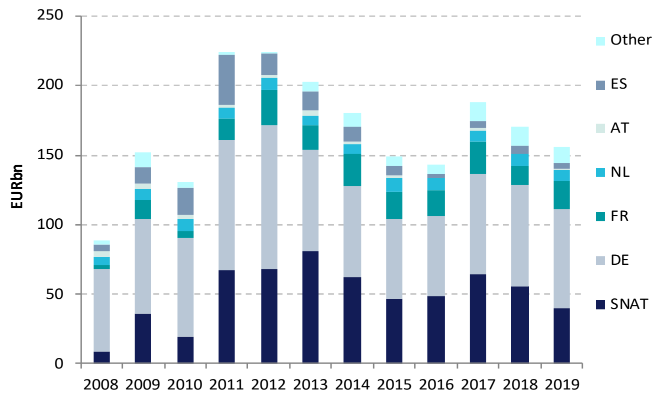
EUR 1765bn



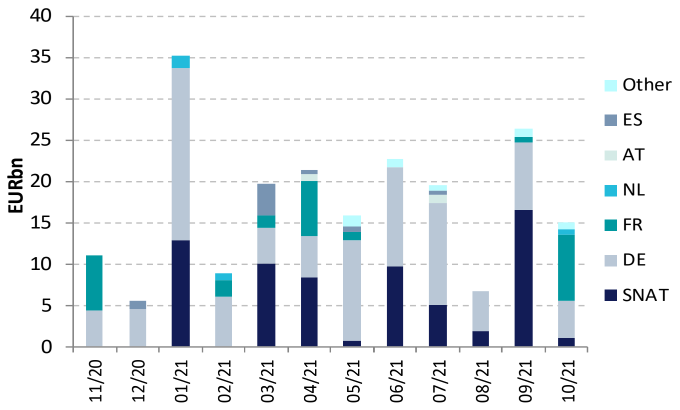
Top 10 countries (bmk)

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

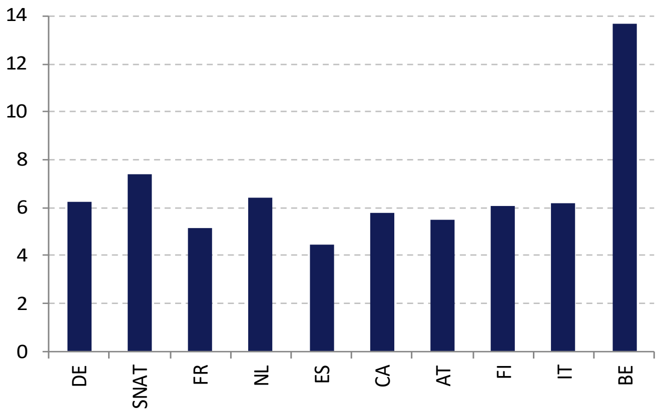
Issue volume by year (bmk)



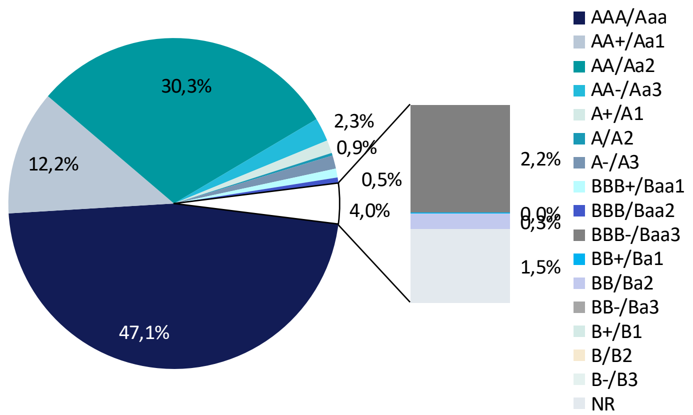
Maturities next 12 months (bmk)



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

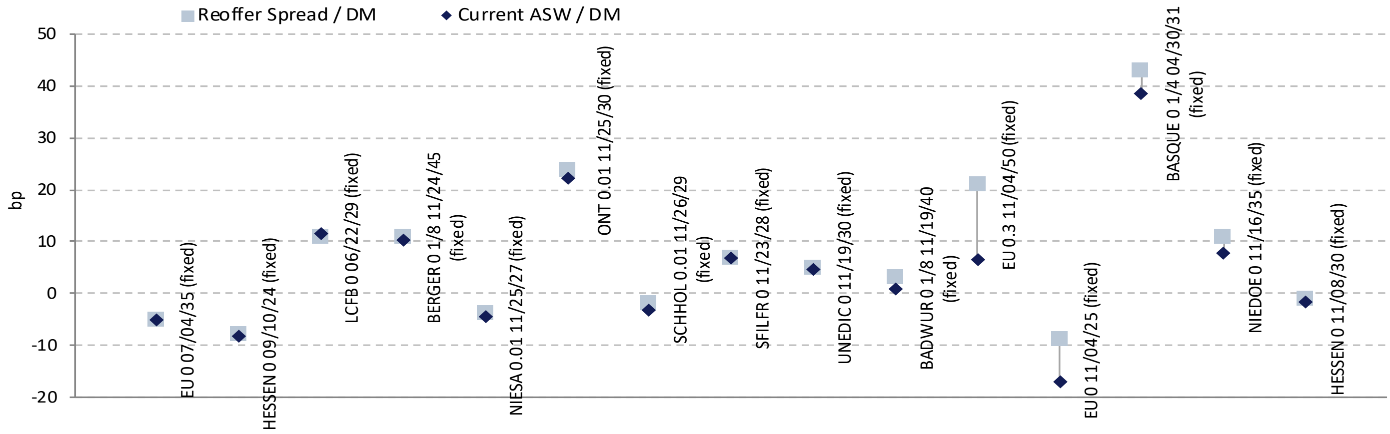


Rating distribution (vol. weighted)

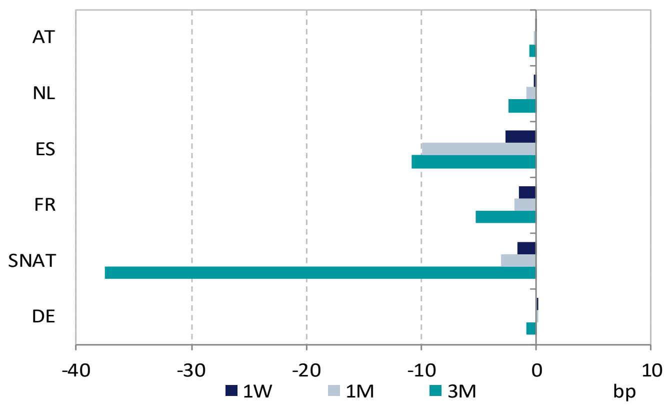


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

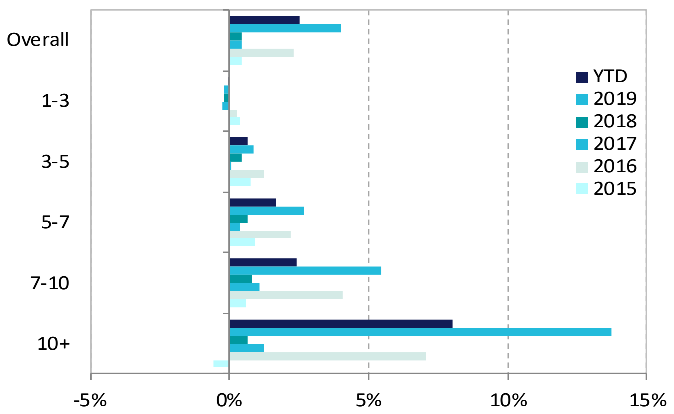
Spread development (last 15 issues)



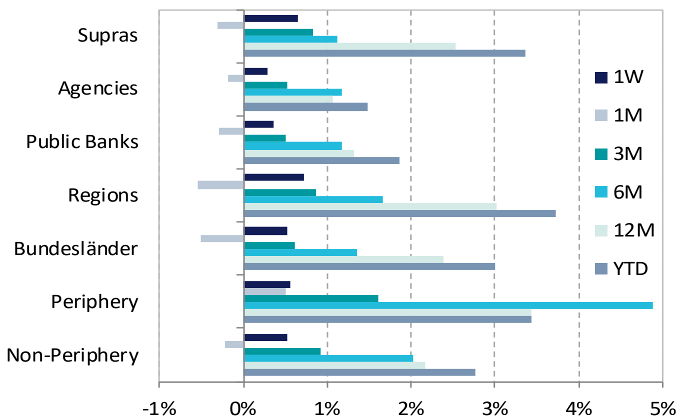
Spread development by country



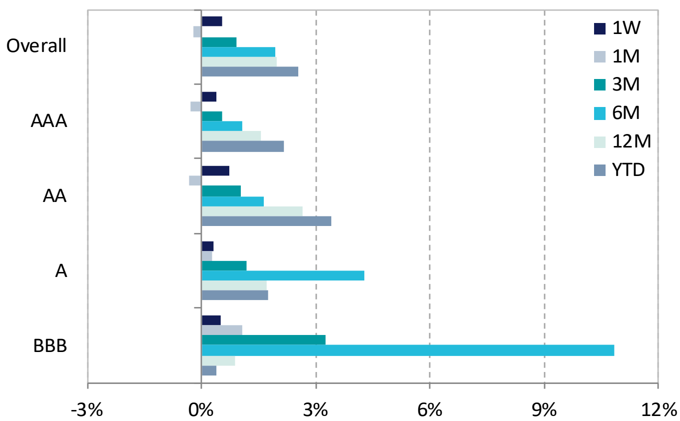
Performance (total return)



Performance (total return) by regions

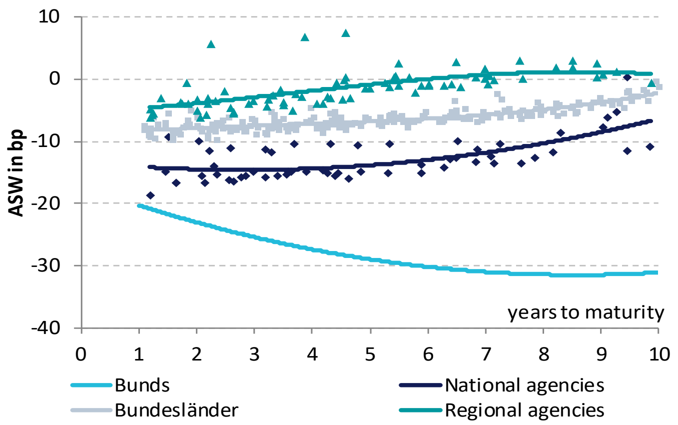


Performance (total return) by rating

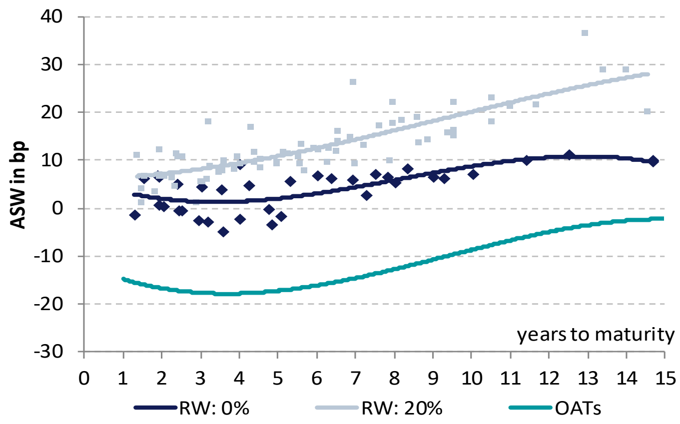


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

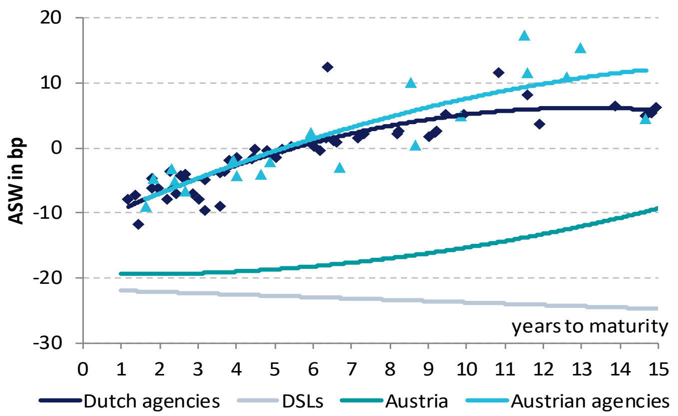
Germany (by segments)



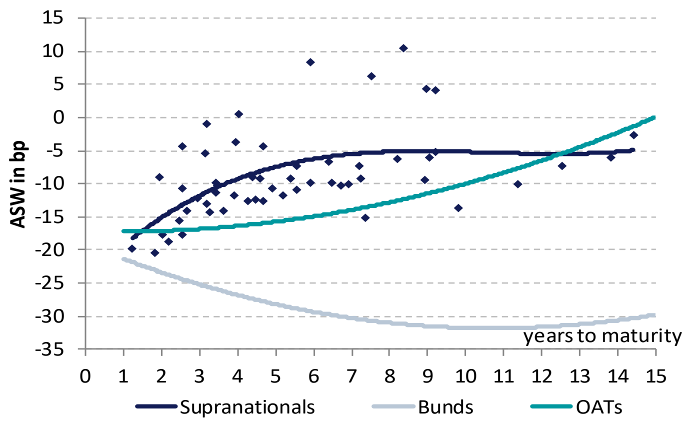
France (by risk weight)



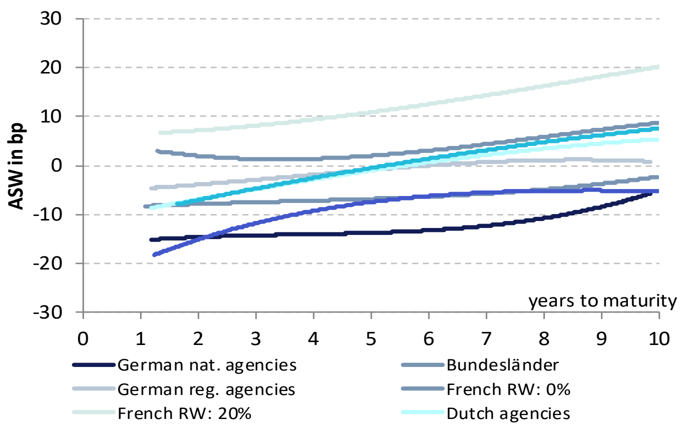
Netherlands & Austria



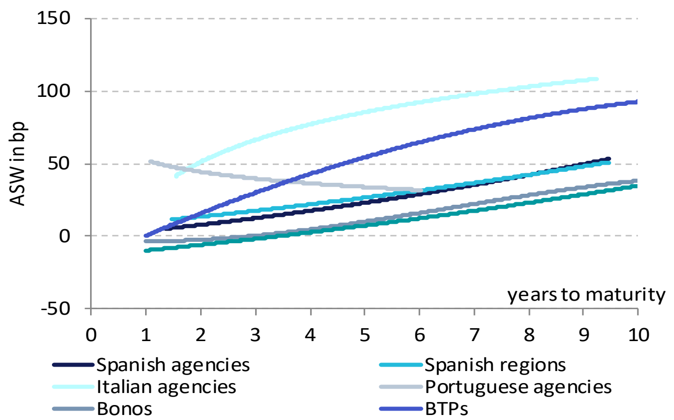
Supranationals



Core



Periphery



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

NORD/LB

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
44/2020 ♦ 18 November	▪ Primary market 2021: real prospect of Hungarian EUR benchmarks? ▪ German Pfandbrief savings banks in Q3 2020 ▪ Development of the German property market
43/2020 ♦ 11 November	▪ Newcomer to the benchmark segment: HSBC Bank Canada sets sights on EUR debut ▪ OP Mortgage Bank: First green covered bond from Finland ▪ Transparency requirements §28 PfandBG Q3/2020
42/2020 ♦ 04 November	▪ Covered Bond Framework and Liquidity Coverage Ratio: European Commission presents draft version of amendments to LCR regulation ▪ An overview of the Fitch covered bond universe
41/2020 ♦ 28 October	▪ ECB: The year of the owl – review and outlook ▪ Yield developments on the covered bond market
40/2020 ♦ 21 October	▪ German building societies: EUR benchmark debuts and requirements for investing in soft bullet bonds ▪ NPLs in cover pools – lack of unified approach at national level
39/2020 ♦ 14 October	▪ Spain: Issuer consolidation ahead? ▪ PfandBG to include extendable maturity structures ▪ The EU has big plans – "SURE" and "Next Generation EU"
38/2020 ♦ 07 October	▪ New issuer from Japan – Sumitomo Mitsui Trust Bank places inaugural EUR benchmark bond ▪ PEPP – taking stock six months on
37/2020 ♦ 30 September	▪ Cover pool characteristics – international comparison
36/2020 ♦ 23 September	▪ Bausparkasse Schwäbisch Hall plans inaugural EUR benchmark ▪ Update: Auckland Council – Investment alternative in Down Under
35/2020 ♦ 16 September	▪ Moody's covered bond universe: an overview ▪ Update Down Under: Victoria (TCV)
34/2020 ♦ 26 August	▪ Covered bonds as central bank-eligible collateral – European Central Bank presents Q2 2020 figures ▪ Update: New South Wales (NSWTC)
33/2020 ♦ 19 August	▪ German Pfandbrief savings banks in Q2 2020 ▪ ECBC publishes annual statistics for 2019
32/2020 ♦ 12 August	▪ Transparency requirements §28 PfandBG in Q2 2020 ▪ Development of the German property market ▪ European Atomic Energy Community (Euratom)
31/2020 ♦ 05 August	▪ PEPP: Second round of reporting again provides valuable insights
30/2020 ♦ 29 July	▪ LCR levels and risk weights of EUR benchmarks ▪ Update: Funding of German Bundeslaender (ytd)
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

NORD/LB: Markets Strategy & Floor Research

NORD/LB: Covered Bond Research

NORD/LB: SSA/Public Issuer Research

Bloomberg: RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2020

Risk weights and LCR levels of covered bonds

Transparency requirements §28 PfandBG

Transparenzvorschrift §28 PfandBG Sparkassen **(German only)**

SSA/Public Issuers:

Issuer Guide – Supranationals & Agencies 2019

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – German Bundeslaender 2020

Issuer Guide – Down Under 2019

Fixed Income:

ESG update

Analysis of ESG reporting

ECB launches corona pandemic emergency

ECB responds to corona risks

Appendix
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Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Origination & Syndicate

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

Treasury

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

Trading

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

Corporate Sales

Schiffe/Flugzeuge	+49 511 9818-9440
Immobilien/Strukturierte Finanzierung	+49 511 9818-8150
Firmenkunden 1	+49 511 9818-4006
Firmenkunden 2	+49 511 9818-4003

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Additional information
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Issuer / security	Date	Recommendation	Bond type	Cause

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