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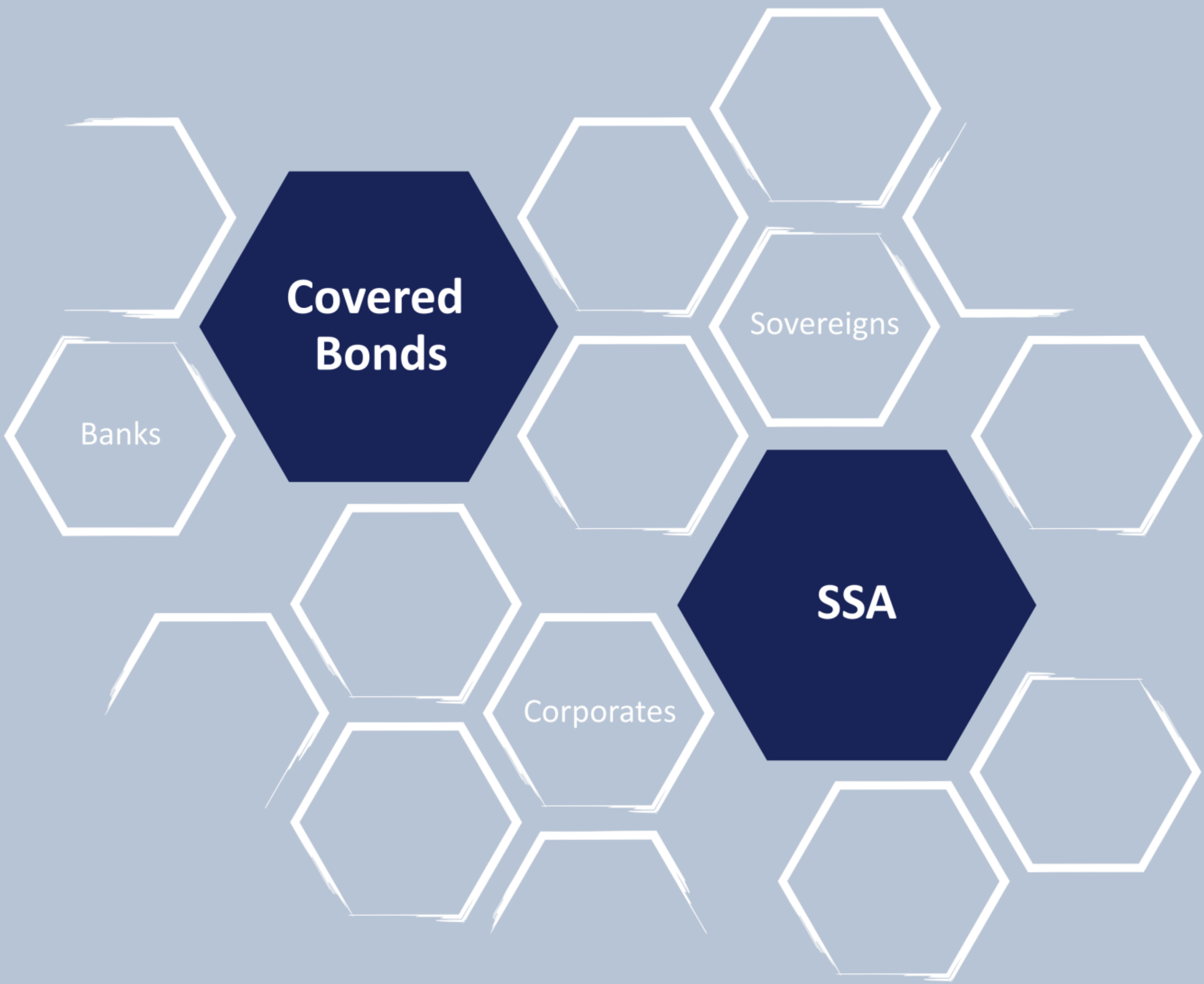

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

7 October 2020 ♦ 38/2020

Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

Finanzgruppe

Agenda

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Market overview Covered Bonds

Analyst: Henning Walten, CIIA

Another deal from Norway and just the second EUR benchmark in 2020 from the UK

Two banks were active on the market with EUR benchmark transactions over the past five trading days in the form of DNB Boligkreditt and the Yorkshire Building Society. For the Norwegian issuer, this was its first EUR benchmark bond of the current year. The institute was last active on the market back in January 2019. As was the case on this previous occasion, DNB Boligkreditt again opted to issue a covered bond in the amount of EUR 750m with a term to maturity of seven years. With a bid-to-cover ratio of 1.4x, the most recent deal was also subject to a similar level of demand to its transaction in the first week of January 2019 (1.3x). In contrast, however, there were significant differences in pricing. In this context, the most recent transaction started the marketing phase with guidance in the area of ms +10bp, before ultimately being fixed four basis points tighter at ms +6bp. The issuing yield stood at -0.291%. At the beginning of 2019, pricing still reached around ms +20bp, while the yield stood at +0.650%. This latest placement was predominantly snapped up by investors from the DACH region (34%), the Benelux countries (23%) in addition to UK/IE (29%). In terms of type of investor, Bank Treasuries dominated proceedings, accounting for 78% of this transaction. Yesterday, on Tuesday, the Yorkshire Building Society placed what is just the second EUR benchmark bond of the year from the UK. Santander UK had issued a 7y deal worth EUR 1.25bn at ms +17bp at the beginning of January. The deal issued yesterday again featured a term to maturity of seven years, although with a volume of just EUR 500m, was substantially smaller. The soft bullet bond initially entered the marketing phase in the area of ms +28bp, before ultimately being brought to market at ms +22bp. The final order book amounted to a considerable EUR 3.0bn, which implies that the bond was 6x oversubscribed. The issuing yield for this deal was -0.130%. In the current year, only the transaction from Belfius Bank in Belgium back in mid-January (EUR 500m; 10y; ms +4bp) was more heavily oversubscribed, at 6.6x. In the USD market, Desjardins from Canada issued a bond last Wednesday worth USD 750m for three years – this maturity has almost become standard practice for this segment – at ms +25bp. This was the first USD benchmark since the transaction from HSBC Bank Canada on 07 May. At the beginning of the current trading week, there was still time yesterday (Tuesday) for My Money Bank from France to mandate for investor calls. A deal with a term to maturity of ten years in the amount of EUR 500m is expected to be placed in the near future.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
Yorkshire Building Society	GB	06:10.	XS2243314528	7.0y	0.50bn	ms +22bp	AAA / Aaa / -
DNB	NO	01:10.	XS2238292010	7.0y	1.50bn	ms +6bp	- / Aaa / AAA

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

Highest issuance volume from Norway since the end of the summer break

Since issuers returned to the primary market to herald the end of the summer break, a total volume of EUR 13.6bn has been placed on the market in the form of EUR benchmark bonds. At EUR 3.5bn, the largest share of this figure is attributable to issuers from Norway, followed by France (EUR 3.35bn) and Germany (EUR 3.0bn). In addition, one bank each from Canada, Japan, the Netherlands and the UK, as well as two banks from Austria, have also approached their investors with primary market deals. The USD deal from Desjardins and the GBP deal by pbb also show that issuance activity has returned to the FX segment.

BMF presents draft bill to implement provisions of the covered bond directive

Last Friday, the Federal Ministry of Finance (BMF) in Germany published a draft bill on the implementation of the provisions of the directive to harmonise the European covered bond market (cf. NORD/LB Issuer Guide Covered Bonds 2020 pp. 564) on its website (German only). The draft bill is essentially intended to implement the requirements as part of the harmonisation initiative, but also contains other adjustments in connection with revising the Pfandbrief Act that are not directly related to the European initiative, as well as editorial adjustments with the aim of simplifying the language used, for example. One of the most significant revisions results from Article 17 of the Covered Bond Directive, which grants national legislators the right to rule on the possibility of maturity extensions to covered bonds. For example, the draft bill envisages an amendment to Section 30 of the Pfandbrief Act (PfandBG) that would in future, if necessary, allow the caover pool administrator to postpone principle payments linked to Pfandbriefe by a maximum of twelve months (spread over two periods of six months each). The repayment sequence must not be changed by way of a maturity extension. Section 30 PfandBG contains additional disclosure requirements for this purpose as well as defining the conditions under which the cover pool administrator is able to implement a maturity extension of this kind. Furthermore, as part of the harmonization initiative, adjustments are made in particular with regard to the use of derivatives for hedging purposes (Section 4b PfandBG for the implementation of Article 11 of the Directive newly created) and transparency requirements (revision of Section 28 PfandBG for the implementation of the requirements defined in Article 14 of the Covered Bond Directive).

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Market overview
SSA/Public Issuers

Analyst: Dr Norman Rudschuck, CIIA

Update: ESM investor newsletter Q3 2020

The investor newsletter from the European Stability Mechanism (ESM) began with a review, as is always the case at the start of a new quarter. This concentrated on the capital market webinar it hosted together with the European Investment Bank (EIB) at the beginning of July, which was well attended. The spotlight also once more fell on the European Union's bailout packages, which are augmenting national measures and – with EUR 540bn in May and a further EUR 750bn in July ("Next Generation EU") – aim to cushion against the consequential damages of the coronavirus pandemic. Here, the newsletter already looked to the future because the European Commission, the EIB and the ESM will again be holding an exclusive online event for investors on 8 October (Thursday). Speakers will include Valdis Dombrovskis, Werner Hoyer and Klaus Regling, who are from the three respective institutions. Again, the focus will be on the all-pervading topic of "collective response to COVID-19", which will be responsible for considerable funding requirements among supranational institutions until the end of the year and far beyond.

Funding activities of the ESM/EFSF in the second half of 2020

At the start of July, the European Financial Stability Facility (EFSF) priced a new five-year bond of EUR 4bn, which attracted orders of more than EUR 11bn. The remaining EUR 1bn that is needed for the third quarter was raised through a tap of the EFSF bond maturing in October 2026. With EUR 3bn to be issued in the third quarter, the ESM has now placed its fourth USD bond since the dollar programme was established in 2017. This represents a new point on the dollar curve, and – like the EFSF paper – was a five-year bond that attracted an order volume of more than EUR 6.1bn, which enabled the ESM to issue a bond worth USD 3bn. The residual volume that needs to be procured was added to financing for the fourth quarter in the funding table below. Therefore, at the ESM, the figure for the third quarter accordingly declined from EUR 3.0bn to EUR 2.5bn, while the amount in the fourth quarter increased from EUR 1.5bn to EUR 2.0bn. No adjustments were made to the EFSF. Looking to the year as a whole, the volumes remained unchanged at EUR 19.5bn and EUR 11.0bn respectively. Moreover, the first bond window has already opened as early as this week (EFSF).

Long-term funding planning 2020 (EUR bn)

	Q1	Q2	Q3	Q4	∑ 2020
EFSF	5.0	4.5	5.0	5.0	**19.5**
ESM	5.0	1.5	2.5	2.0	**11.0**

Timeframe for…

…ESM/EFSF bond issuances

CW 41	5 to 9 October
CW 43	19 to 23 October
CW 46	9 to 13 November
CW 48	23 to 27 November

… ESM bill auctions (3m, 6m and 12m)

October	TUE 06	TUE 20	TUE 13
November	TUE 03	TUE 17	TUE 10
December	TUE 01	-	-

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

Alberta downgraded from Aa2 to Aa3

As recently as 31 August, Moody's had placed Alberta's rating "under review". The review for downgrade then took place in the wake of the province's budget planning for 2019/20 and 2020/2021 on 27 August. This fiscal plan reflected a significantly faster debt accumulation and larger deficits than previously projected under Moody's stress scenarios. The review period enabled Moody's to assess the impact of the revised fiscal plan of the province, including its susceptibility to the continued uncertainty stemming from the ongoing coronavirus pandemic, as well as the impact on its debt and liquidity profiles. On 2 October, the agency took action: the downgrade from Aa2 to Aa3 reflects elevated idiosyncratic risks, including a forecast of multiple years of material deficits, an elevated debt burden and a structurally weaker credit profile as a result of the continued twin negative economic and fiscal shocks on the province from weak oil prices and the coronavirus pandemic, which Moody's views as a social risk. On a Moody's-adjusted basis, the consolidated deficit will reach 57% of revenues in the 2020/21 period, the highest forecasted deficit among Canadian provinces this year. The revised deficit is more than two times larger than the province's largest previous deficit since the global financial crisis. The outsized and continued deficits will also drive up the debt burden in both the 2020/21 and 2021/22 financial years, as will the accelerated capital plan launched by the province to stimulate the economy. Moody's assumes that the debt burden (in terms of direct and indirect net debt relative to revenues) will increase to almost 280% in 2020/21 (from 186% in the budget year of 2019/20) and that it could potentially exceed 300% over the next two years.

Debt situation in German municipalities

The German municipalities and municipal associations (excluding city states) reported a financial deficit of EUR 9.7bn in the first half of 2020. In the same period of the previous year, the deficit only totalled just under EUR 0.3bn. As the German Federal Office for Statistics (Destatis) informed based on the quarterly cash statistics, this development was mainly caused by high revenue shortfalls of the municipalities in the second quarter of 2020 due to the coronavirus pandemic. The result is comprised of core and extra budgets in the municipalities: the deficit of the core budgets in the first half of the year amounted to EUR 9.5bn, after EUR 0.9bn in the first half of 2019. The extra budgets recorded a financial deficit of roughly EUR 0.2bn in the reporting period, compared with a surplus of around EUR 0.7bn in the same period a year earlier. In the period under review, the total adjusted income of the municipalities fell by 1.1% – or EUR 1.5bn – on the first half of 2019, and consequently amounted to EUR 127.4bn. Tax revenue was down 10.6% and amounted to EUR 39.6bn. This was due to the decline of 21.3% in trade tax income (net) to EUR 19.1bn. The 8.8% fall in income from administration and user charges to EUR 14.9bn was attributable to the closure of municipal facilities in the second quarter. To offset these losses, the Laender increased key allocations by 14.1% to EUR 24.8bn (EUR +3.1bn), allocations for a specific purpose by 11.7% to EUR 12.6bn and allocations for investment by a noteworthy 28.9% to EUR 4.2bn. In particular, the Laender bringing forward the payment of key allocations to the municipalities and allocations for a specific purpose prevented an even greater deficit in the budgets of the municipalities in the second quarter, as reported in a press release. The Bund's fiscal package, which includes the "municipal solidarity pact" to compensate for the losses in trade tax revenues, will only be effective in the second half of 2020.

Primary market

The primary market continues to be a hive of activity for public sector issuers: the calendar week beginning 5 October was a fixed window for the EFSF or ESM. The dice fell in favour of the EFSF, as we noted from the “Request to Banks”. Yesterday, Tuesday, EUR 4bn was printed in two parts. First, the credit facility opted for a seven-year bond of EUR 3bn (WNG). This was placed at ms -4bp, following guidance of ms -2bp. The order book amounted to EUR 17.7bn. Second, the EFSF topped up its bond maturing in 2050 by EUR 1bn at ms +26bp. Here, too, the pricing narrowed by 2bp against the guidance, while orders amounted to EUR 11.1bn. On the Laender side, NIESA was active on the market with a EUR 500m tap for its 2025 bond at ms -6bp. At EUR 675m, this bond was also clearly oversubscribed, albeit not too substantially, as is to be expected for a placement of this nature. Less information was available on the deal from BREMEN, with the focus only on the facts – EUR 500m, 8 years, ms -3bp. No details of the order book were released, but the pricing was exactly in line with the guidance. North Rhine-Westphalia (NRW) once again accounted for the largest deal in the Laender segment: EUR 2.4bn was raised at ms +7bp through a sustainability bond. Guidance had been in the area of ms +10bp. The books exceeded EUR 6.5bn. A global investor call had taken place at the end of September ahead of the transaction. We appreciate the transparency offered by NRW. The EIB was also active, placing a tap of EUR 500m for its 2035 Climate Awareness Bond (CAB) at ms +1bp in the trading week under review. The order book amounted to around EUR 2.4bn. A second CAB tap followed (2042), also at ms +1bp but only for EUR 250m. However, the order book was more than tenfold oversubscribed (EUR 2.6bn). Guidance for this issue had been ms +3bp. Finland’s MuniFin was again active in the green segment, this time with a ten-year bond of EUR 500m (WNG). Almost seven times oversubscribed, the bond was priced at ms +2bp, after guidance of ms +5bp. Another active player on the market was FLEMSH, with two transactions: EUR 2bn was split evenly between a new 15-year bond and a tap issue for the 2051 maturity. Both were priced at 23bp above the respective Belgian reference bond (OLO). Today, Wednesday, (10 a.m. CEST), the EU is hosting an investor call on the topic of SURE (“Support to mitigate Unemployment Risks in an Emergency”) and will also discuss the SURE Social Bond Framework pursuant to the ICMA standard. The first bond placement under the new programme is then expected to follow in the second half of October. At present, a total of EUR 87.4bn is available under the SURE framework up to the end of 2021. A further EUR 3bn will be generated as macro-financial assistance (MFA) to non-EU partner countries, with EUR 160m already raised through a private placement at the end of September. On the funding side, a further EUR 9.75bn is set to be refinanced by the EFSM to Portugal and Ireland in June and September 2021. The Development Bank of Japan (DBJ) also hosted a call at the start of October and we are expecting a sustainability bond to follow soon (maturity: 4-7 years). Furthermore, a Global Investor Broadcast with video and Q&A session took place with Société du Grand Paris yesterday, Tuesday. The consortium for a 10-year and 40-year bond has already been mandated and we expect this to proceed swiftly as well. Last but not least, BAYERN has mandated for a 14-year benchmark.

Issuer	Country	Timing	ISIN	Maturity	Volume	Spread	Rating
KUNTA	Other	06:10.	XS2242924491	10.0y	0.50bn	ms +2bp	- / Aa1 / AA+
EFSF	SNAT	06:10.	EU000A1G0EK7	7.0y	3.00bn	ms -4bp	AA / Aa1 / AA
FLEMSH	Other	05:10.	BE0002736172	15.0y	1.00bn	ms +16bp	AA / - / -
NRW	DE	05:10.	DE000NRW0ML8	15.0y	2.40bn	ms +7bp	AAA / Aa1 / AA
BREMEN	DE	01.10.	DE000A289K30	8.0y	0.50bn	ms -3bp	AAA / - / -

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

Covered Bonds
New issuer from Japan – Sumitomo Mitsui Trust Bank places inaugural EUR benchmark bond

Analyst: Dr Frederik Kunze

Growth within the Japanese EUR benchmark segment

In our weekly publications, we have on a number of occasions highlighted the growth momentum and future potential of comparatively young overseas markets, especially jurisdictions in Asia. While Singapore should certainly be seen as a mature market in this context, the inaugural bonds from South Korea and Japan were not placed all that long ago. The public Korea Housing Finance Corporation (KHFC) and the Japanese issuer Sumitomo Mitsui Banking Corporation (SMBC) each placed EUR benchmarks on the market for the first time in October 2018. Now, the total number of EUR benchmarks outstanding for both countries is nine. While SMBC currently has four such bonds with a total volume of EUR 3.25bn outstanding, the five South Korean benchmarks are split between KHFC (four bonds, totalling EUR 2.5bn) and Kookmin Bank, a newcomer in 2020 (one bond; EUR 500m). A distinctive feature worth noting is the contractual nature of the SMBC benchmarks, as Japan does not have any covered bond legislation in place. The primary cover assets are also senior tranche residential mortgage-backed securities (RMBS) originated by the issuer. With Japan's Sumitomo Mitsui Trust Bank (SuMi TRUST Bank, Bloomberg Ticker: SUMITR), a new bank is now preparing to enter the EUR benchmark segment. It will also be placing RMBS covered bonds on a contractual basis. In the following article, we will introduce the issuer and the covered bond programme.

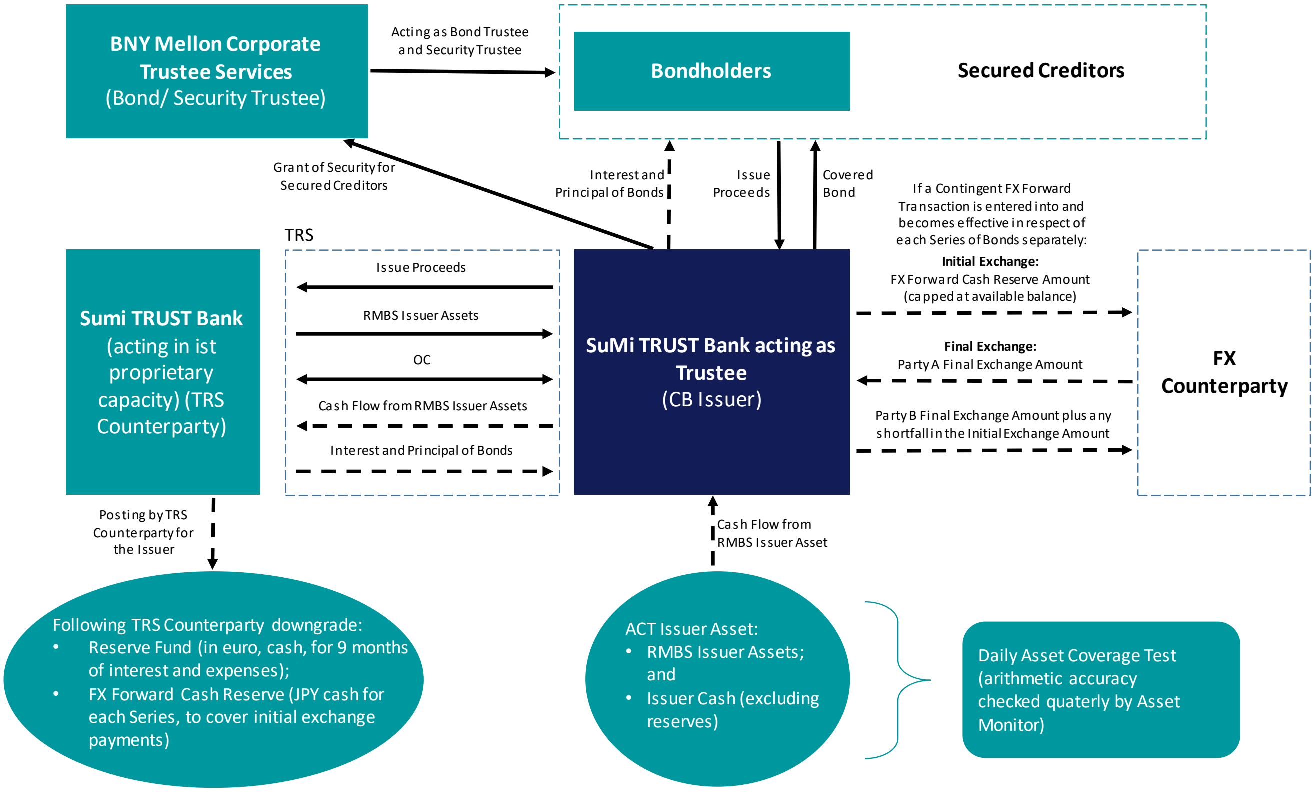
Sumitomo Mitsui Trust Bank

As an entity of the SuMi TRUST Group, the SuMi TRUST Bank is a wholly owned subsidiary of Sumitomo Mitsui Trust Holdings, which had market capitalisation of JPY 1.1tn as at 18 September 2018. The SuMi TRUST Group also claims to be the only major financial group specialised in trust banking in Japan. This distinctly sets it apart from the financial group of Japan's only other covered bond issuer to date, the SMBC (Bloomberg Ticker: SUMIBK). At this point, it must be underlined that despite the similarities in terms of the name of issuer and group, the corporate structures do differ. As a core unit of the SuMi TRUST Group, the SuMi TRUST Bank boasts a total asset volume of JPY 55,567bn (June 2020) and therefore accounts for the largest share of assets in SuMi TRUST Holdings (unconsolidated share of total assets: 96.5%). In terms of earnings, the asset volume of JPY 124.7bn accounted for no less than 76.5% of net income for SuMi TRUST Holdings in the 2019 financial year. The lending portfolio of the SuMi TRUST Bank amounted to JPY 32.0tn in June 2020, with JPY 10.5tn of this attributable to the private client segment. In March 2020, 93.9% of residential mortgage loans were made up of these "loans to individuals". In Japan, the SuMi TRUST Bank holds a market share of 5% in outstanding residential loans (March 2020), which is equivalent to that of the SMBC, albeit slightly lower than the 7% share attributable to the market leader, MUFG Bank.

Compliance with minimum regulatory requirements

In its own documentation for the bond, the issuer highlights the high quality of its own loan portfolio and in this context points out that its default rates and loss ratios as well as share of outstanding receivables are all low for the country. The SuMi TRUST Bank has capitalisation that exceeds the regulatory minimum (CET1 Ratio in June 2020: 10.85%; minimum requirement: 4.5%). It also exceeds the regulatory minimums for both the Leverage Ratio (4.99% vs. 3.00%) and the LCR requirements (120.4% vs. 100.0%) as at the same reporting date.

Structure of the SuMi TRUST Bank's covered bond programme



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

SuMi TRUST Bank covered bond programme worth EUR 5bn

The covered bond programme for the issuance of covered bonds with dual recourse against the issuer and the cover pool is defined by its contractual structure. This ensures it is essentially collateralised by Aaa-rated RMBS transactions of the SuMi TRUST Bank, while the SuMi TRUST Bank at the same time acts as the Total Return Swap (TRS) counterparty in its role as sponsor bank. Within this programme structure, only senior tranches are eligible for the cover pool. Ratings of Aa and A might also be permitted, though specific haircuts must then be taken into account. Cash is allowed as substitute cover assets. Minimum overcollateralisation of 25% is stipulated and asset coverage tests must be carried out on a daily basis to ensure compliance with the relevant OC specifications. The LTV limit within this structure is also 80%. Given that the cover assets consist of loans in Japanese yen and the expected bond placements will be in a foreign currency, corresponding foreign exchange risks have been hedged.

Reserve funds stipulated

It should also be emphasized in the structure that a reserve fund is to be set up in the event of a downgrade of the long-term senior unsecured debt rating of SuMi TRUST Bank (as TRS counterparty) below Moody's A3 rating. The reserve fund must contain an amount that covers the payments due (interest and repayment) for the next nine months plus any other anticipated costs (e.g. for the trustee)

Moody’s assigns preliminary Aaa rating to SuMi TRUST Bank covered bonds

In the course of their evaluation process, rating experts at Moody’s have derived a preliminary rating of Aaa for the covered bonds that will be placed by the issuer. The analysts take into account the counterparty risk (CR) assessment of A1 (cr) for the SuMi TRUST Bank (and a Senior Unsecured Rating of A1 with a stable outlook), the credit quality in the cover pool and the contractual framework of the structure. As strengths, the risk experts also highlight the stipulated minimum overcollateralisation of 25% and the reserve fund. Conversely, the analysts see as a challenge the high dependency on the issuer, as is usually the case for covered bonds. Moody’s also considered refinancing, foreign exchange and interest rate risks, with the latter being met through comprehensive hedging provisions. Moreover, the risk experts point out the unusually high degree of uncertainty in relation to the coronavirus pandemic, the consequences of which Moody’s assesses as a social risk in the context of its own ESG framework.

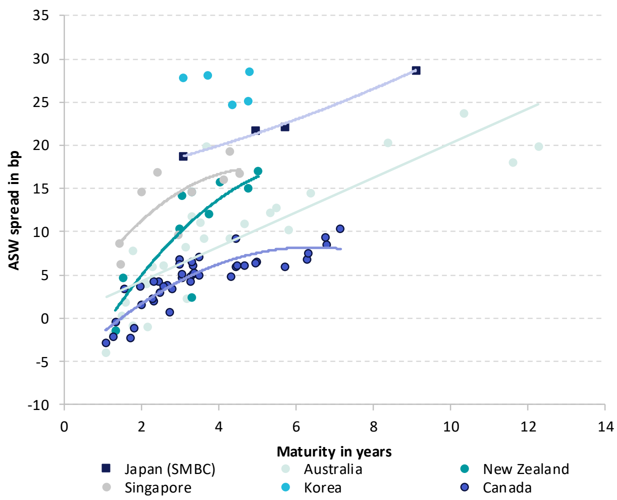
Cover pool as at 30 June 2020 includes RMBS volume of JPY 218.244bn

The cover pool of the SuMi TRUST Bank comprised a total asset volume of JPY 218.24bn as at 30 June 2020. According to the issuer, these consist of Senior RMBS (JPY 200bn) and Subordinated Securities (JPY 18.24bn). For the overcollateralisation calculation, it is our understanding that only Senior RMBS should be included. While the cover assets were 100% Japanese in origin, the regional concentration is on Tokyo (32.8% of assets). Significant shares were also attributable to Kanagawa (15.1%), Osaka (11.9%), Hyogo (8.9%) and Saitama (5.1%).

Programme data

30 June 2020	Summary statistics of the RMBS securities
Covered bonds outstanding	[...]
Total assets	JPY 218.24bn (EUR 1.76bn)
Senior RMBS	JPY 200.00bn (EUR 1.62bn)
Subordinated	JPY 18.24bn (EUR 0.15bn)
Current OC (nominal / committed)	[...] / 25.0%
Weighted average LTV (indexed/unindexed)	80.27%/84.80%
Main region	33% Tokyo
Number of contracts	7,442
Average outstanding principal balance	JPY 29.33m (EUR 235,501)
Weighted average remaining term	347.9 months
Weighted average seasoning	36.5 months
Fixed interest (Cover Pool / CBs)	100% / [100%]
WAL (Cover Pool / CBs)	6.9y / [7.0y]
CB Rating (Fitch / Moody’s / S&P)	- / Aaa / -

Spread overview (BMK) – Overseas



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

No non-performing loans in the cover pool

The cover pool comprises a total of 7,442 contracts, which results in an average outstanding volume of JPY 29.33m or EUR 235,501. The granularity of the portfolio is also reflected in the comparatively low share of the 10 largest exposures, which equates to 0.4%. The pool does not include any non-performing loans.

SuMi Trust Bank covered bond programme: comparison with select overseas jurisdictions

Issuer	SuMi Trust Bank	Australia	Canada	Singapore
Covered bond legislation	No	Yes	Yes	Yes
Collateral	Self-originated Japanese RMBS	Residential Mortgages/ Commercial Mortgages	Residential Mortgages	Residential mortgages
Minimum OC	25%[1]	3%	3%	3%
OC test / frequency	Yes / daily	Yes / monthly	Yes / monthly	Yes / monthly
FX protection	Yes	Yes	Yes	Yes
Interest & expense cash reserve	Yes (for 9 months in case of some downgrade)	Yes (for 3 months in case of some down-grade)	Yes (for 3 months in case of some down-grade)	Yes (for 3 months in case of some down-grade)
Substitution Asset Composition	Yes (cash)	Yes	Yes (securities issued by Government of Canada)	Yes (Cash/ Singapore government securities / MAS Bills)

Source: Issuer, ECBC, national legislation, NORD/LB Markets Strategy & Floor Research; [1] TRS counterparty may amend minimum OC percentage in order to maintain the then current rating of covered bonds, subject to a minimum of 25%

Market for Japanese EUR benchmarks – a comparison

Relevant for both the newest player, the SuMi TRUST Bank, and the SMBC, which has been active on the market since 2018, is that there is no legal basis for the issuance of covered bonds in place in Japan and that the banks' cover pools are made up of self-originated senior tranche RMBS transactions. At the same time, the contractual structure ensures that the dual recourse character of the issuances is preserved. Like the expected issuances from the SuMi TRUST Bank, SMBC covered bonds have therefore also been assigned a rating of Aaa by Moody's. It is our understanding that the RMBS structure of Japanese covered bonds means that they cannot be used as collateral within the ECB Collateral Framework. The risk weighting pursuant to the Capital Requirements Regulation (CRR) is 20%. As we see it, these EUR benchmarks are not LCR eligible, which is specifically due to the absence of national legislation. Consequently, the higher ASW spreads for SMBC issuances in the secondary market when compared with bonds from other overseas jurisdictions can to some extent also be explained by the lower appeal for investors motivated primarily by regulatory considerations. However, at -0.168%, the issue yield of the SMBC transaction from September 2020 (SUMIBK 0.01 09/10/25) is, from our perspective, indicative of buoyant demand for Japanese EUR benchmarks.

Conclusion

With the addition of the SuMi TRUST Bank, the Japanese covered bond market is gaining a further issuer that will likely remain active on the market beyond its inaugural placement. We welcome this development, even if the specific characteristics of Japanese bonds mean broad regulatory preference is not possible. This growth in the Japanese market is likely to widen the investment universe for investors not motivated solely by regulatory considerations. From an issuer point of view, we continue to see the benefits of access to EUR funding in this time of crisis.

Covered Bonds/SSA
PEPP – taking stock six months on

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

ECB has been buying assets under the PEPP for the past six months

Half a year ago, the European Central Bank responded to the global COVID-19 pandemic by setting up a specific purchase programme (Pandemic Emergency Purchase Programme, PEPP), after previously increasing the existing Asset Purchase Programme (APP) by a volume of EUR 120bn up to year-end 2020. The PEPP initially had a purchase volume of EUR 750bn and net purchases were planned at least up to the end of 2020. It was then expanded on 4 June 2020 by a further EUR 600bn to its current level of EUR 1,350bn, with net purchasing activities also extended at the same time by at least six months up to the end of June 2021. The prerequisite for ending net purchases on this cut-off date is that, in the ECB's assessment, the COVID-19 pandemic will already have been overcome at that point in time. In contrast, reinvesting of PEPP securities which mature will continue until at least the end of 2022. Compared with the APP, the scope of assets eligible for purchase was intentionally defined as wider for the PEPP. For example, in the public sector segment, Greek government bonds can be purchased as well as public sector money market instruments and in the corporate sector, also non-financial commercial paper. Furthermore, the requirements regarding the minimum maturity of securities differ in some respects and, for the most part, securities may have a shorter time to maturity under the PEPP.

PEPP volume already exceeds EUR 570bn

Following our comments on the first and second comprehensive PEPP reports, we now take the publication of this current issue as an opportunity to look at the development and structure of the PEPP half a year after purchase activities began. The charts on which the following information is based are available, as usual, in our ECB tracker each week. As at the cut-off date of 02 October 2020, the PEPP volume amounted to EUR 571.3bn and had therefore increased by a considerable EUR 131.3bn (+29.8%) since the last comprehensive reporting at the turn of the month of July/August. This represents a significantly smaller increase than in the previous two-month period. However, this was to be expected in view of reduced primary market activities during the summer break. We anticipate a similar phase in approximately one and a half months, when primary market activities usually slow down towards the end of the year. Compared with the APP, which has a volume of EUR 2,847.3bn, the PEPP remains on the small side. Yet, considering the volume purchased in the period during which the two programmes have coexisted, the opposite picture emerges. In the months from March to September, 70% of the volume purchased by the ECB was attributable to the PEPP. In addition, the overall volume purchased under the PEPP is likely to be slightly higher than the current volume, since maturities that have already occurred under the PEPP amount to around EUR 16.2bn. After the ECB responded to initial criticism about a lack of transparency with regard to the PEPP by introducing the now well-established bi-monthly PEPP reporting based on the APP reporting, a list of PEPP maturities that have already occurred and those expected is still missing. We continue to consider such a list to be worthwhile, especially against the backdrop of a reinvestment phase that will last until at least the end of 2022.

Estimated portfolio development

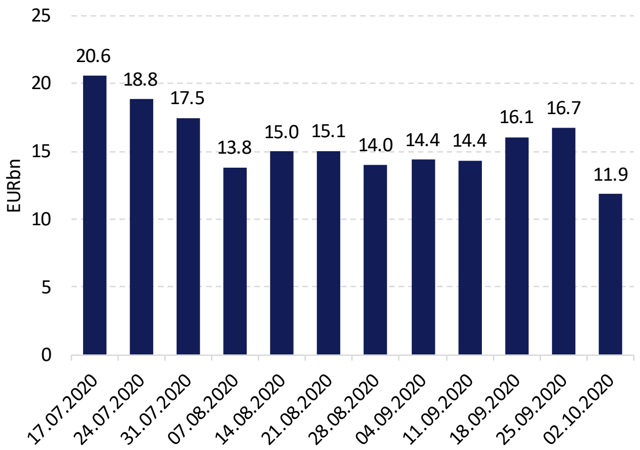
Assumed future purchase pace	Weekly net purchase volume	PEPP Limit hit in...
Average net weekly purchase volume so far	EUR 21.2bn	37 weeks (18 June 2021)

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

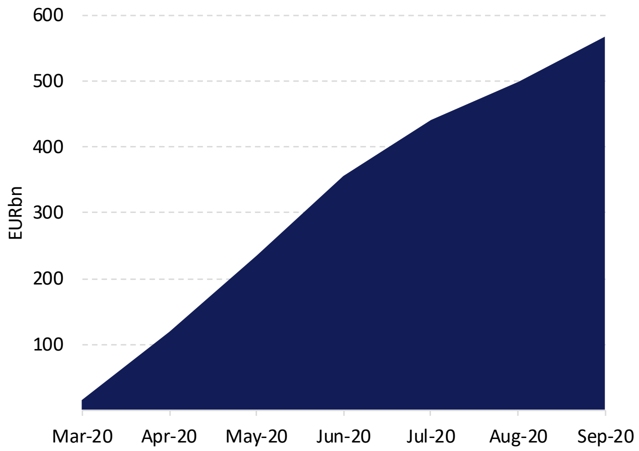
PEPP likely to be increased again before the end of this year

Based on the current, more tense situation regarding the trend in the number of COVID-19 cases, we believe it is not very likely that the ECB will already assess the COVID-19 pandemic as having been overcome by the end of June 2021 and net purchases under the PEPP will stop. Instead, we assume that the ECB will increase the PEPP volume once more in December this year, probably by EUR 400bn and extend the programme's duration. Similar to the first increase implemented, it is likely that the signalling effect will be important and will be seen as the ECB communicating its scope of action. The reinvestment of any securities maturing to beyond 2022 also would not be surprising.

Weekly purchase volume



Trend in PEPP volume



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

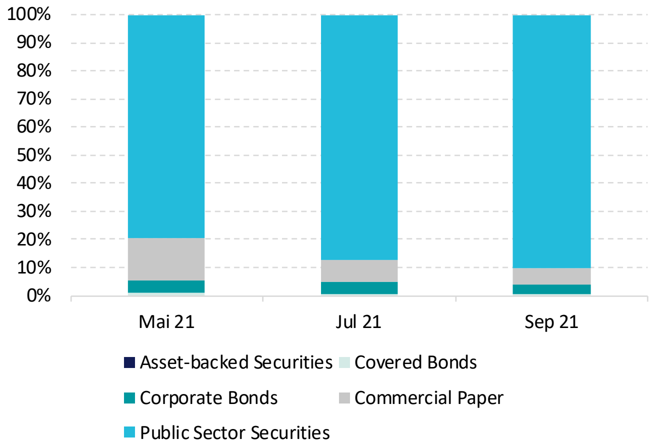
Share of public sector assets meanwhile exceeds 90%

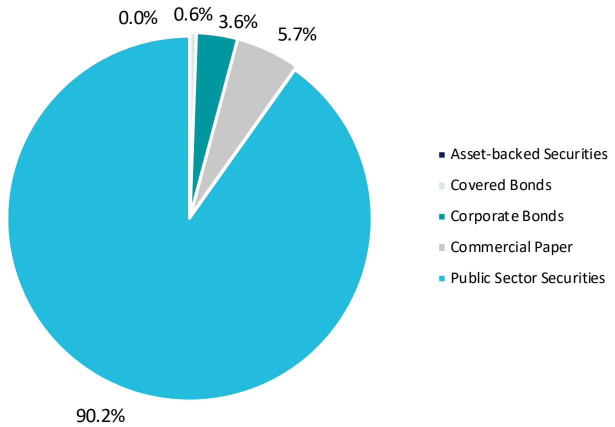
Based on the latest comprehensive PEPP report, it is evident that the PEPP's focus on public sector assets has further intensified in the last couple of months. While the first comprehensive report indicated the share of public sector assets under the PEPP as totalling 79.5%, this share initially rose to 87.4% and now amounts to 90.2%. Conversely, the two categories of corporate sector assets lost significant shares over time. At the end of May, the share of corporate bonds amounted to around 4.5% and that of commercial paper to 15.1% (=19.6% corporate sector assets). The shares of both asset classes then gradually decreased to 3.6% and 5.7% respectively, which represents a combined share of now only 9.3% and means that the combined share has approximately halved. The share of covered bonds has also continuously decreased since the programme was first set up and at currently 0.6%, now only accounts for a marginal share of the overall programme. Even at its peak, this share was very small at 0.9%. As before, no asset-backed securities were purchased under the PEPP. We therefore do not expect any such purchases in the next two months.

Volumes of the asset classes (EUR m)

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

Portfolio structure



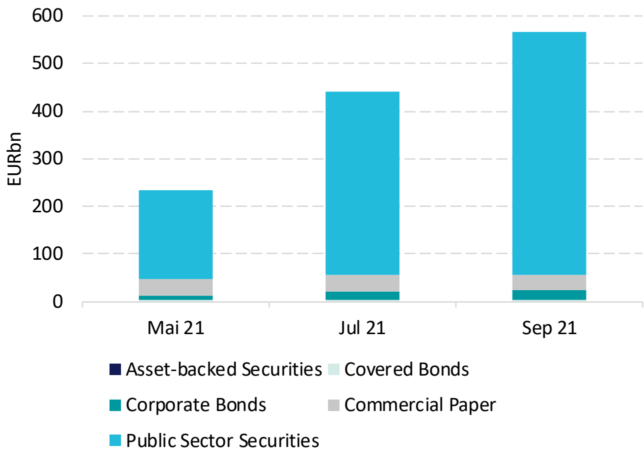


Source: ECB, NORD/LB Markets Strategy & Floor Research

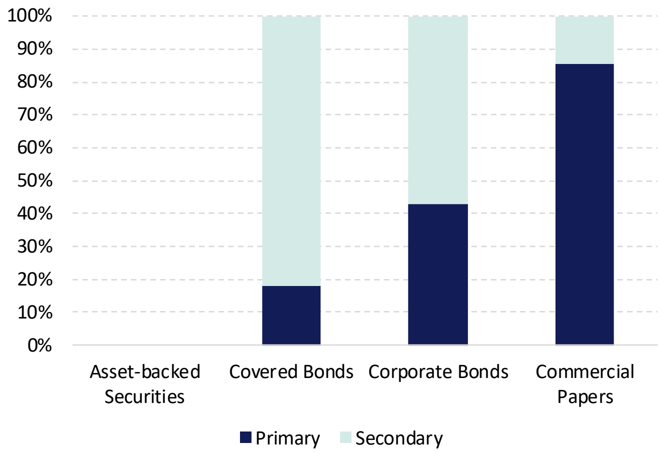
Covered bond holdings marginally down

In addition to public sector securities, only the volume of corporate bonds also increased during the last two months. Conversely, holdings of covered bonds and, in particular, commercial paper decreased in the same period. The shares of securities bought in the secondary market remained at an almost steady level, apart from the share of securities purchased in the corporate bond segment. In this segment, the share dropped from 48.2% to 42.8%. In our view, this was due to the reduced new issuance activity over the period of the summer break.

Portfolio trend



Share of primary/secondary market purchases



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

PEPP capital key…

To recap, since the structure and set-up of the PEPP differs from that of the PSPP, there are changes to the capital key as well as purchases resulting from maturities, because Greek bonds are eligible to be purchased under the PEPP but excluded from purchases under the PSPP. The capital key for Germany is 23.7%, followed by France (18.4%), Italy (15.3%) and Spain (10.7%). Next are supranationals at 10%. At 2.2%, Greece ranks between Austria (2.6%) and Finland (1.7%).

…compared with capital key for the PSPP

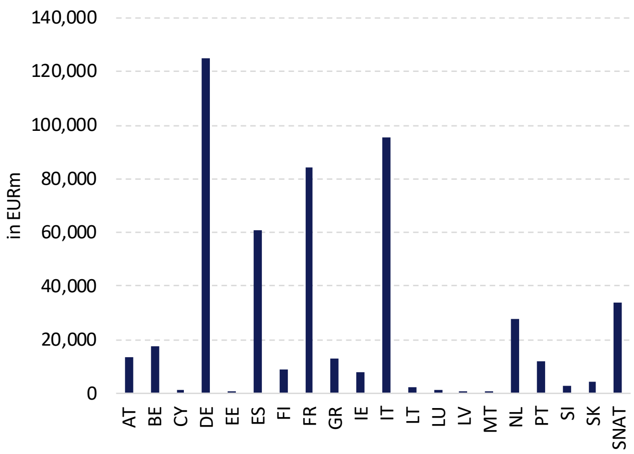
Since the PSPP differs, as explained, from the PEPP in terms of its structure and set-up, adjustments to the capital key result as well as maturity-driven purchases because Greek bonds are not eligible for purchase under the PSPP. The capital key for Germany in relation to this programme is 24.3%, followed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

Overview of public sector assets under the PEPP

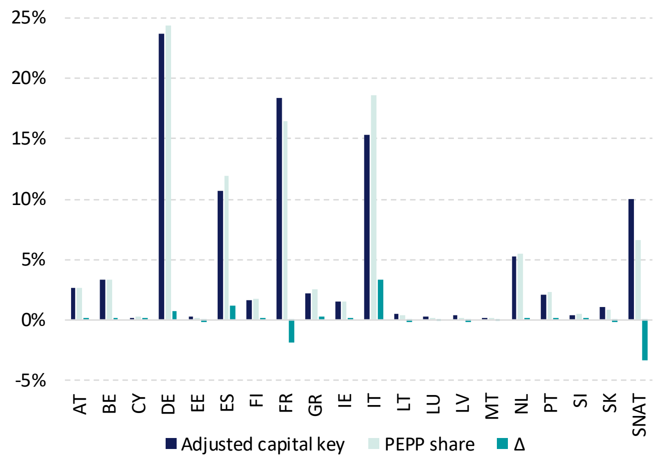
Jurisdiction	Holdings (in EUR m)	Adjusted distribution key[1]	PEPP share	Δ vs. adjusted distribution key[2]	Ø time to maturity (in years)	Market average[3] (in years)	Rounded difference (in years)
AT	13,614	2.6%	2.7%	0.0%	10.9	7.2	3.8
BE	17,279	3.3%	3.4%	0.1%	5.9	9.4	-3.5
CY	1,194	0.2%	0.2%	0.0%	11.7	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

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

Holdings of public sector bonds by jurisdiction



Deviations from adjusted capital key



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

Nominal holdings of public sector bonds

As illustrated in the above charts and the table, Germany is at the top of both the theoretical and actual ranking, with EUR 125bn. According to the current reporting, German bonds have been overbought, so that there is a positive deviation from the adjusted capital key (+0.7 percentage points). Italian bonds have also been bought above the limit since the start of the PEPP (+3.3 percentage points after previously 3.8 percentage points). The only other upward deviation worth mentioning was seen for Spain (1.2 percentage points). We ascertained departures from the key in a downward direction, i.e. insufficient securities purchased, for France (-1.9 percentage points after the previous -2.9 percentage points) and supranationals (-3.4 percentage points after the previous -2.7 percentage points). Each percentage point currently corresponds to EUR 5.12bn. All other deviations are around the zero line and do not therefore play a significant role.

Monthly PSPP deviation frequently a topic of discussion

In our understanding, the PSPP and PEPP portfolios are permanently breathing. This is also what the ECB is communicating. In addition, the ECB does not consider itself obligated to meet the capital key exactly for its holdings in any one month. This applies not only to the net purchases made in the reporting month. It also applies to the figures recorded since the programme was first set up in 2015. This is due to the fact that there are maturities in specific jurisdictions which may only be replaced subsequently and this means that, in net terms, portfolio outflows can actually occur instead of net purchases, as the vocabulary would suggest. Discrepancies have occurred and are occurring time and again with regard to the target figures for German, Italian and French as well as supranational bonds. In this respect, market observers are left at a loss as to why purchases were made under the one programme on behalf of the Eurosystem rather than on behalf of the other entity in order to avoid such discussion in the media (or among market observers). Sometimes the figure is exceeded for the PEPP and there is a shortfall under the PSPP (or vice versa). In addition, we would welcome any positive change in reporting by the ECB, for example to also facilitate providing information about the volume of reinvestments or to discern certain market shortages in good time, as has already been assumed for German and supranational bonds for many years. As a result of combating the pandemic, it is probable that significantly more securities will be available for purchase in 2020 and 2021, particularly in the public sector, than was assumed at the end of 2019 when the APP was restarted.

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

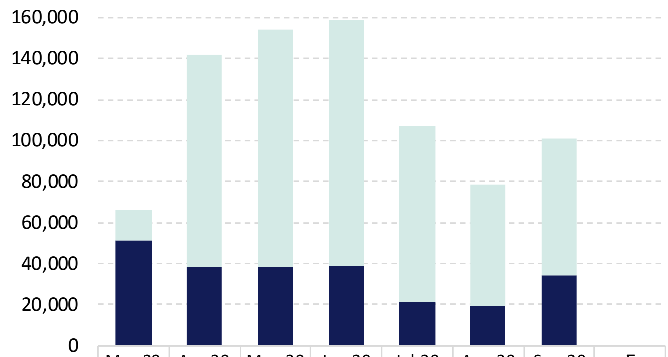
	APP	PEPP	∑ APP & PEPP
Aug 2020	2,815,818	499,876	3,315,694
Sep-20	2,842,465	567,183	3,409,648
Δ	+26,647	+67,308	+93,955

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

APP dominates in terms of portfolio volume and PEPP in terms of net purchases

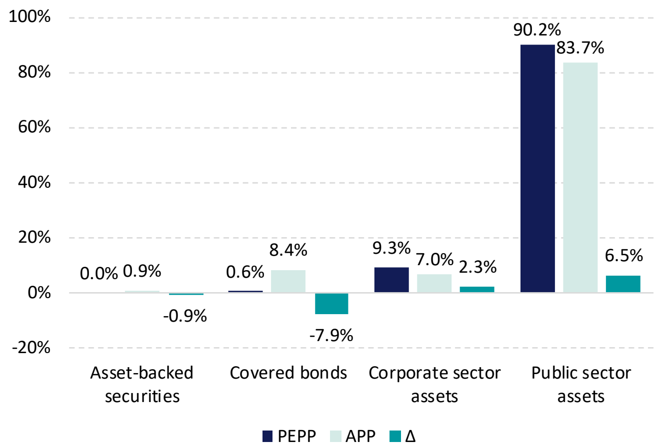
As mentioned above, the APP considerably exceeds the PEPP in terms of the total portfolio volume to date. However, this fact has not had particular significance in recent weeks. For example, the share of weekly PEPP purchases in the last twelve weeks amounted to around 80%. In this period of time, weekly purchases under the PEPP amounted to an average of EUR 15.7bn. Compared with the average across the entire life of the PEPP (EUR 21.2bn, see table on the second page of this article), this is below average. Under the APP, the corresponding figure was only EUR 4.6bn. In view of the fact that the additional volume of EUR 120bn for the APP will expire by year-end 2020, the shift towards the PEPP is likely to continue.

Monthly net purchases in EUR m (PEPP & APP)



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

PEPP vs. APP: portfolio shares

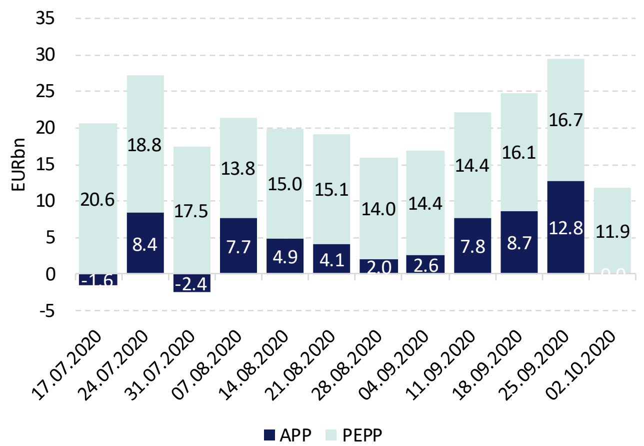


Source: ECB, NORD/LB Markets Strategy & Floor Research

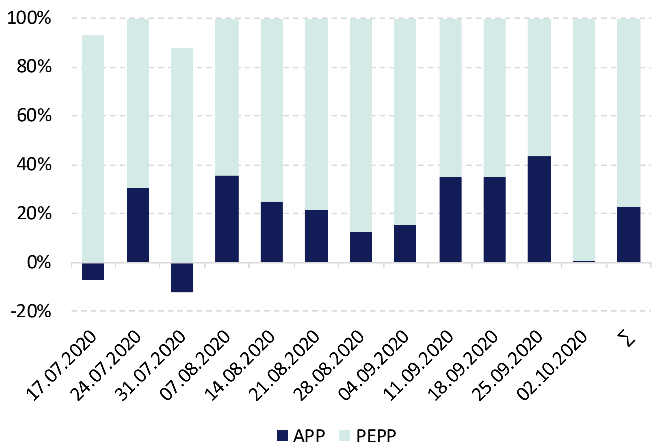
PEPP vs. APP – less deviation in structure

A comparison of the two ECB purchase programmes highlights that discrepancies for the various asset classes have reduced in the past two months. The difference in corporate sector assets, for example, decreased from 3.9 percentage points to 2.3 percentage points, while the share of covered bonds under the APP meanwhile stands at only 7.9 percentage points (previously 9.4 percentage points). The difference with regard to public sector assets has remained almost unchanged at 6.5 percentage points. At the same time, the share of asset-backed securities under the APP continued to decrease and with it, the gap to the PEPP – under which still no ABS have been purchased – also decreased slightly from 1.1 percentage points to 0.9 percentage points. In terms of their structure, the two purchase programmes have therefore converged somewhat.

Weekly purchase volume



Distribution of weekly purchases



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

Conclusion and outlook

With a volume of EUR 571bn, a total of 42% of the PEPP worth EUR 1,350bn overall has already been invested in the market at present. The latest report confirmed once again that this essentially represents an extension of the PSPP, since the share of public sector assets under the PEPP meanwhile amounts to more than 90%. With regard to the average weekly volume purchased since the start of the programme, the current figure is EUR 21.2bn. This means that the volume would be fully exploited by mid-June 2021 and therefore before the scheduled end of the PEPP (end of June 2021). However, since we expect purchase activities to be below average at the end of the year, as was also the case during the summer months, the current programme volume of EUR 1,350bn is likely to be sufficient up to the end of June 2021. Nevertheless, we assume that an end to the programme at that time is not very likely because for this to happen, the ECB would have to come to the conclusion that the COVID-19 pandemic had finished. In view of the dynamic infection trend at present, it is once again debatable whether this will actually be the case. We therefore assume that the PEPP will be increased again at the end of this year, with the aim of, once again, communicating to the market the ECB's capacity to act at an early stage. Our baseline scenario assumes a further increase of EUR 400bn to EUR 1,750bn in total. This would also include an extension of the PEPP, for example, until at least the end of 2021. It is highly probable that this would then result in the reinvestment horizon being extended beyond 2022.

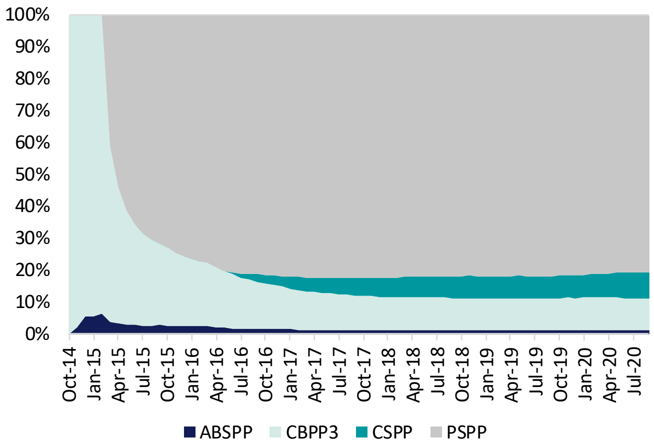
ECB tracker

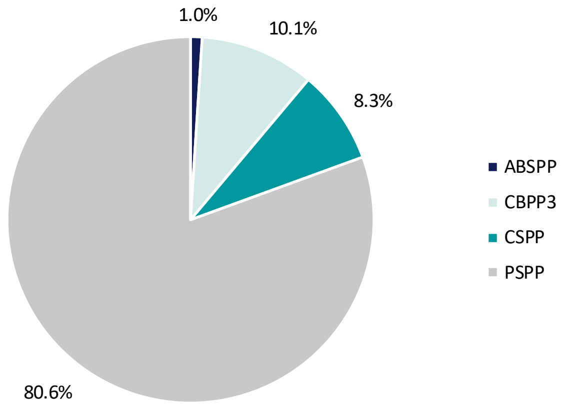
Asset Purchase Programme (APP)

Holdings (in EURm)

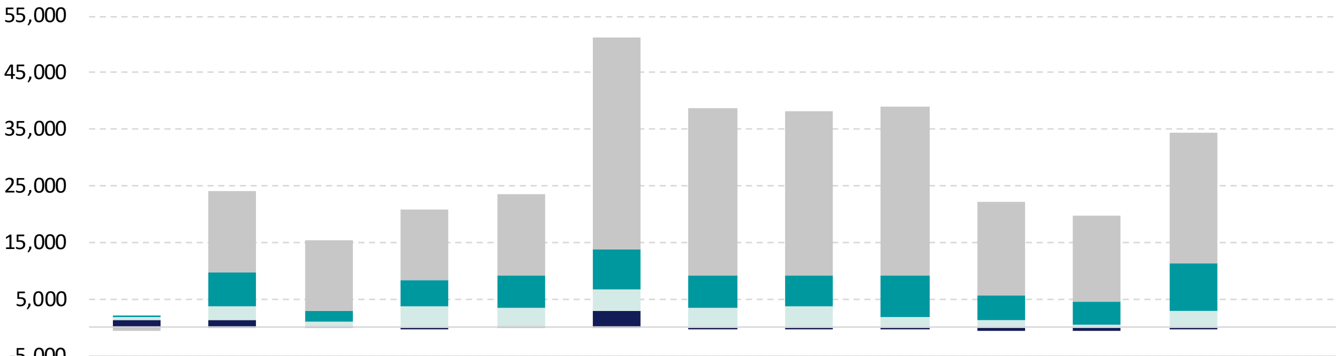
	ABSPP	CBPP3	CSPP	PSPP	APP
Aug-20	29,542	284,464	228,224	2,273,588	2,815,818
Sep-20	29,124	286,852	236,349	2,290,140	2,842,465
Δ	-418	+2,388	+8,125	+16,552	+26,647

Portfolio structure





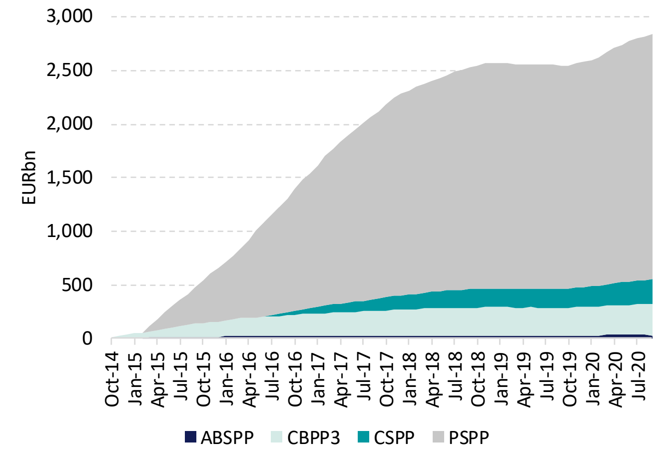
Monthly net purchases (in EURm)



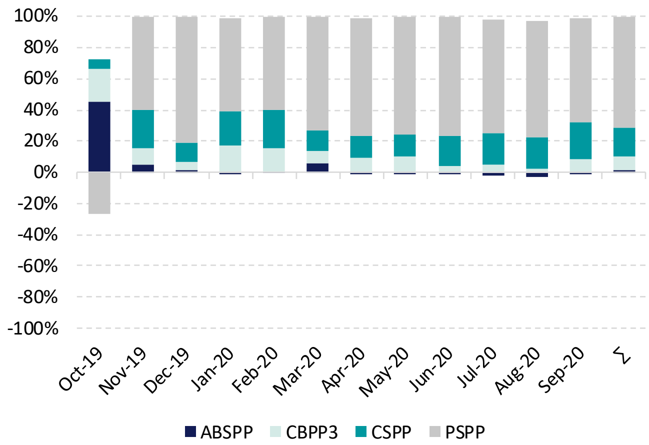
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
APP	1,180	24,096	15,408	20,394	23,430	51,142	38,441	38,170	38,770	21,529	19,127	34,025	325,712
PSPP	-698	14,478	12,515	12,427	14,137	37,323	29,624	28,961	29,779	16,370	15,150	23,102	233,168
CSPP	159	5,917	1,799	4,611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

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

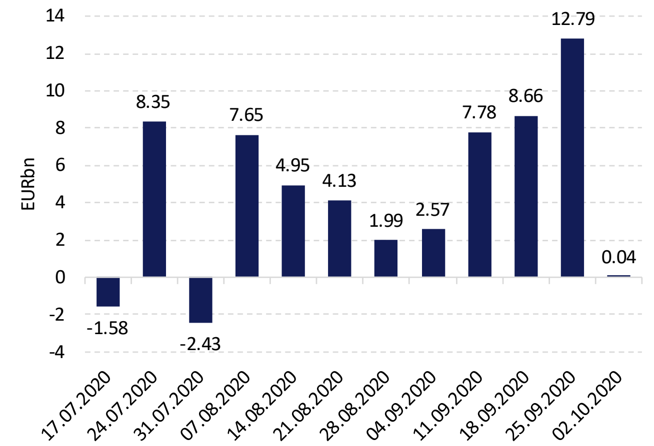
Portfolio development



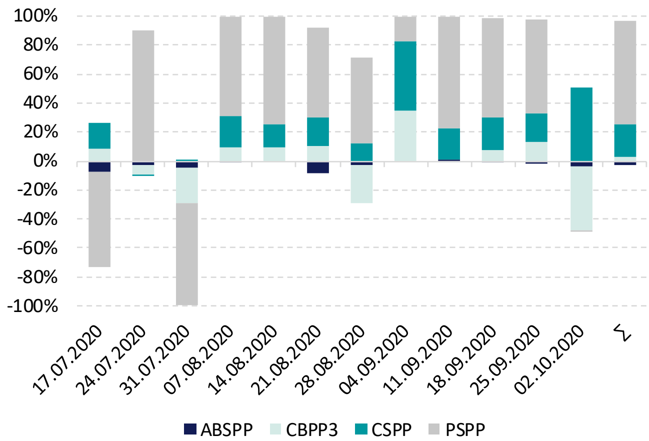
Distribution of monthly purchases



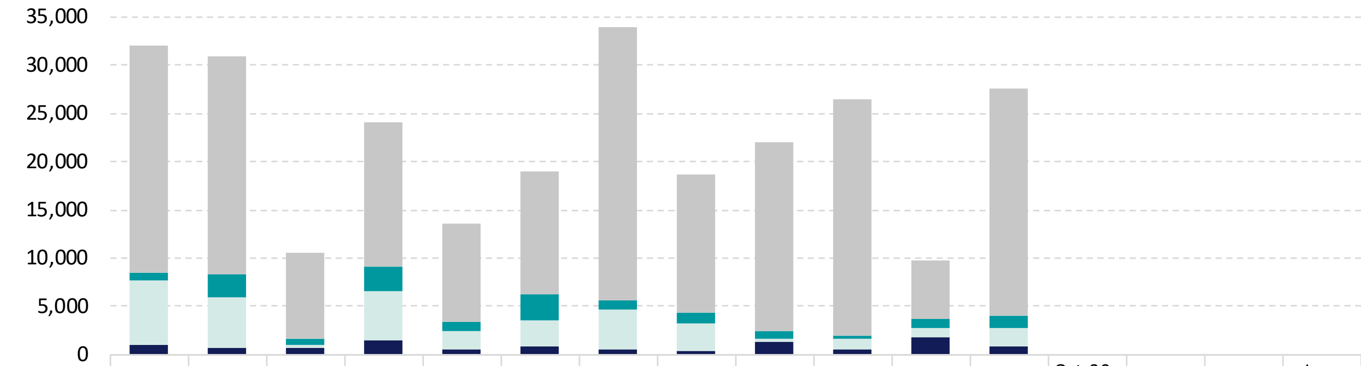
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

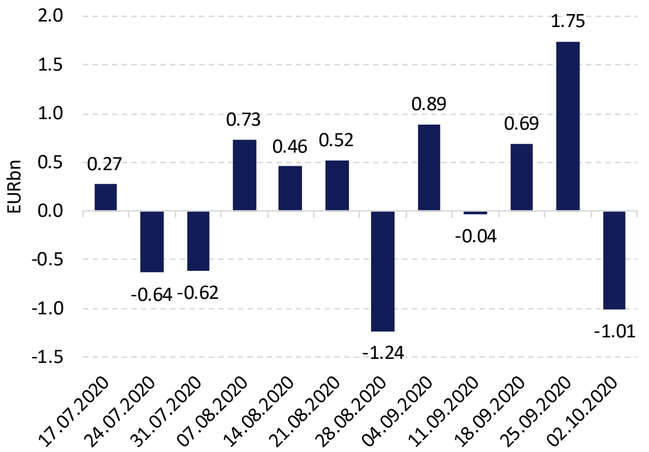


	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-20 - Sep-21	2019	2020	Jan - Sep-21
APP	32,140	30,889	10,544	24,169	13,584	18,989	34,029	18,754	21,971	26,496	9,726	27,590	268,881	204,542	260,115	195,308
PSPP	23,629	22,509	8,871	15,064	10,268	12,677	28,417	14,353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

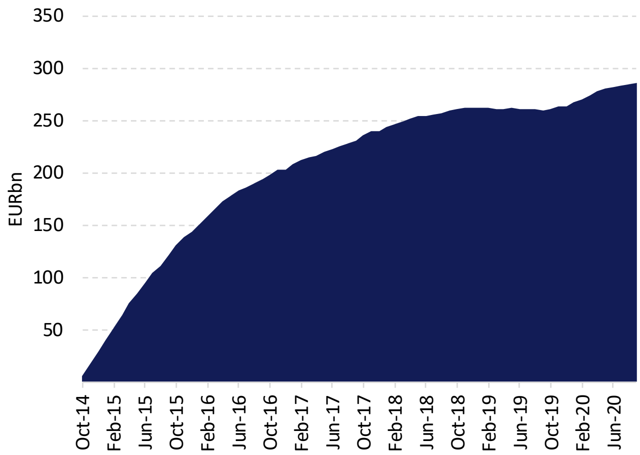
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

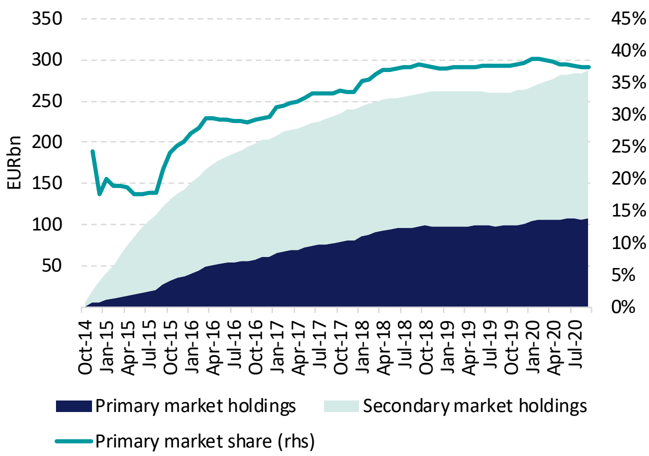
Weekly purchases



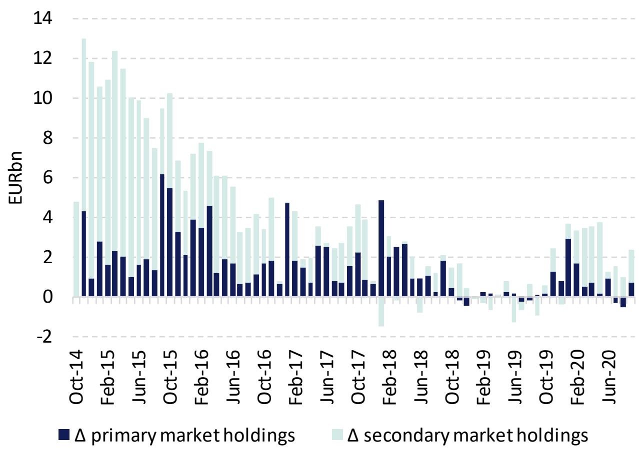
Development of CBPP3 volume



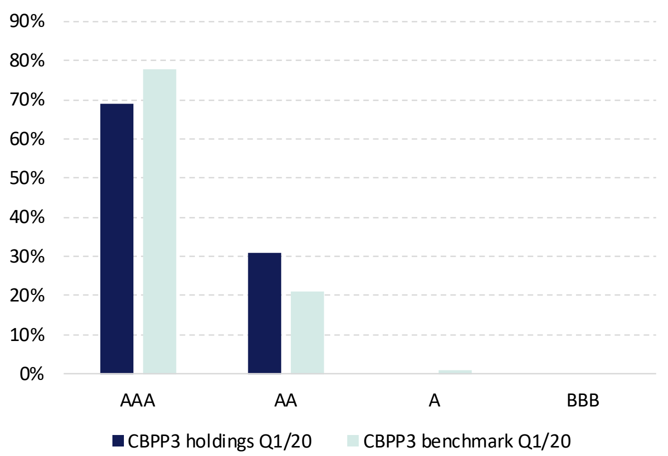
Primary and secondary market holdings



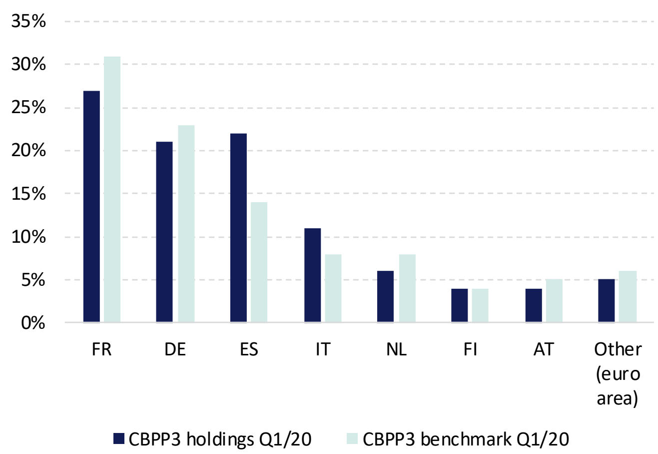
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



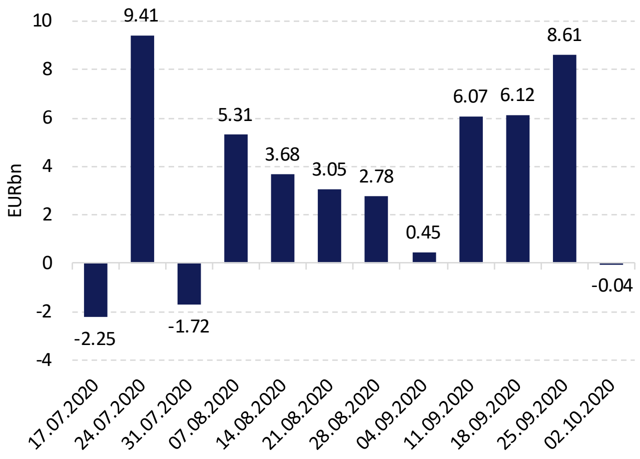
Distribution of CBPP3 by country of risk



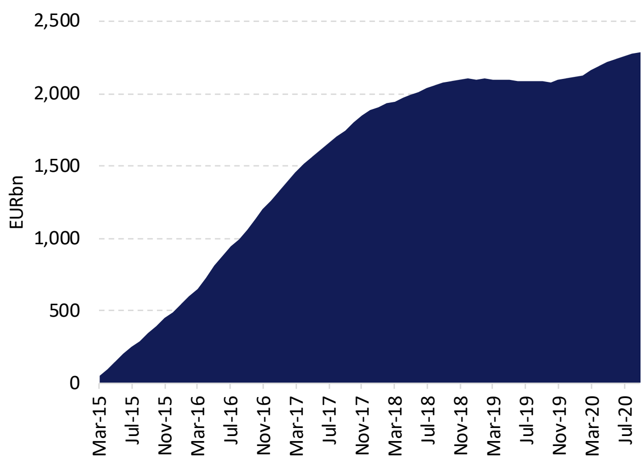
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



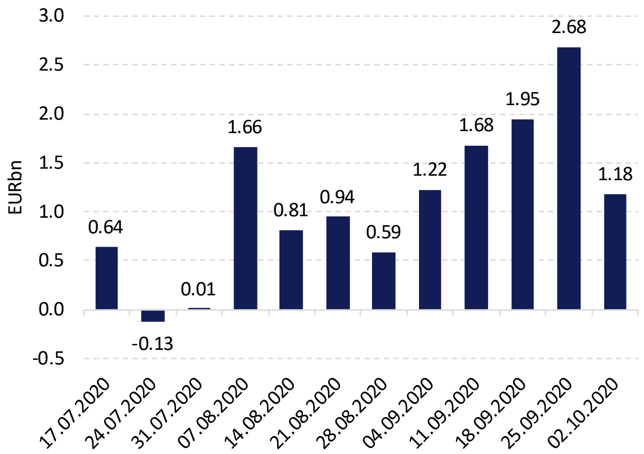
Overall distribution of PSPP buying at month-end

Country	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Average time to maturity in years	Market average in years[3]	Difference in years
AT	2.701%	66,079	64,956	1,123	7.85	7.53	0.3
BE	3.362%	84,096	80,854	3,242	8.40	9.77	-1.4
CY	0.199%	2,894	4,775	-1,881	10.12	9.26	0.9
DE	24.327%	554,810	585,035	-30,225	6.50	7.56	-111
EE	0.260%	224	6,252	-6,028	9.68	9.68	0.0
ES	11.004%	284,516	264,640	19,876	8.14	8.38	-0.2
FI	1.695%	34,173	40,765	-6,592	7.17	8.02	-0.8
FR	18.848%	482,382	453,273	29,109	7.04	8.16	-1.1
IE	1.563%	36,011	37,581	-1,570	8.63	9.95	-1.3
IT	15.677%	411,405	377,022	34,383	7.07	7.54	-0.5
LT	0.360%	4,298	8,648	-4,350	9.51	11.29	-1.8
LU	0.304%	2,646	7,310	-4,664	5.02	6.53	-1.5
LV	0.534%	2,789	12,844	-10,055	10.02	10.49	-0.5
MT	0.097%	1,203	2,328	-1,125	10.03	9.27	0.8
NL	5.408%	114,094	130,059	-15,965	7.52	8.56	-1.0
PT	2.160%	44,501	51,942	-7,441	7.19	7.44	-0.3
SI	0.444%	8,630	10,686	-2,056	9.36	9.39	0.0
SK	1.057%	13,527	25,416	-11,889	8.35	8.67	-0.3
GR	0.00%	0	0	0	0.00	15.95	0.0
SNAT	10.00%	254,597	240,487	14,110	7.23	8.23	-1.0
Total / Avg.	**100.0%**	**2,404,873**	**-**	**-**	**7.21**	**8.14**	**-0.9**

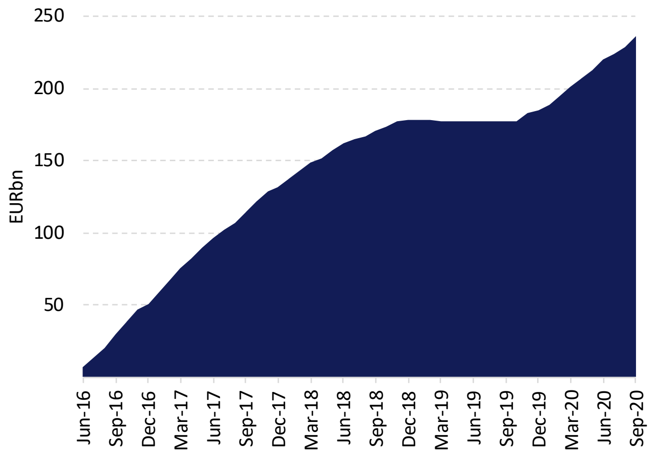
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key [3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

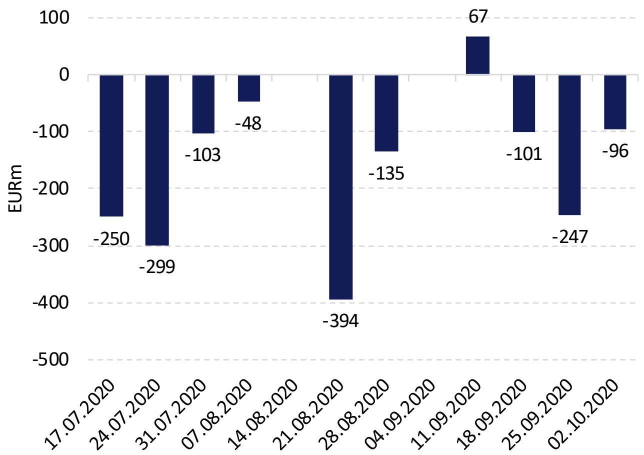


Development of CSPP volume

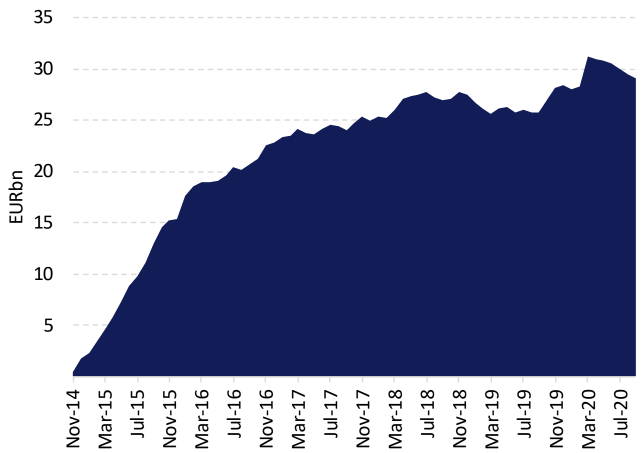


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



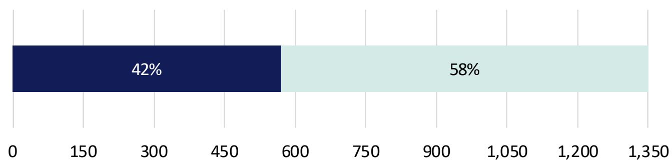
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

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

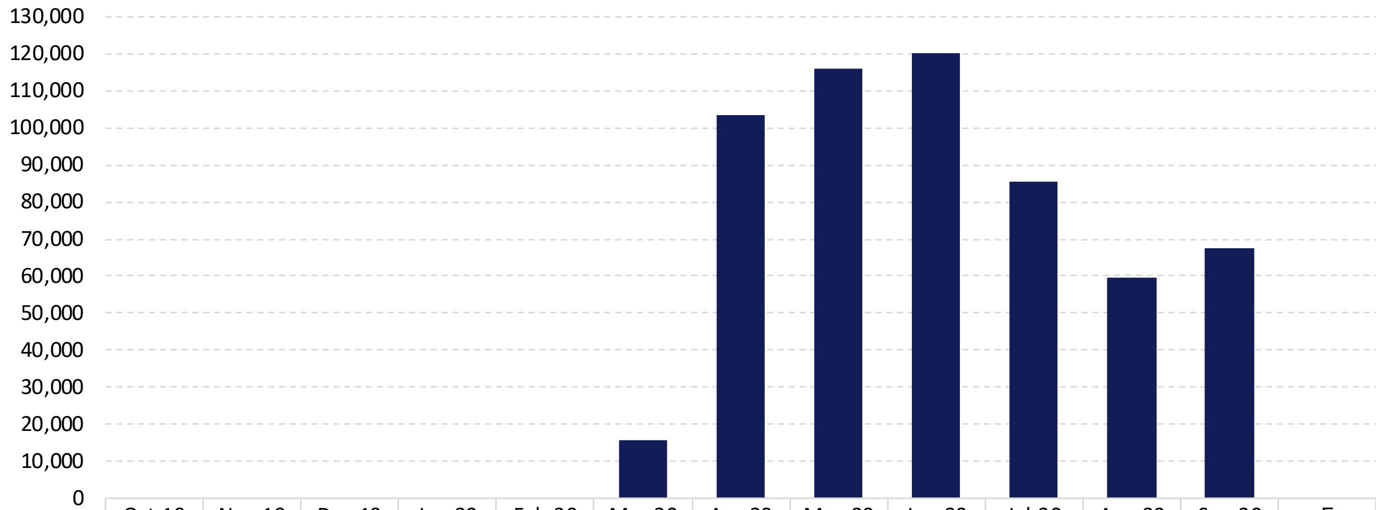
Volume already invested (in EURbn)



Estimated portfolio development

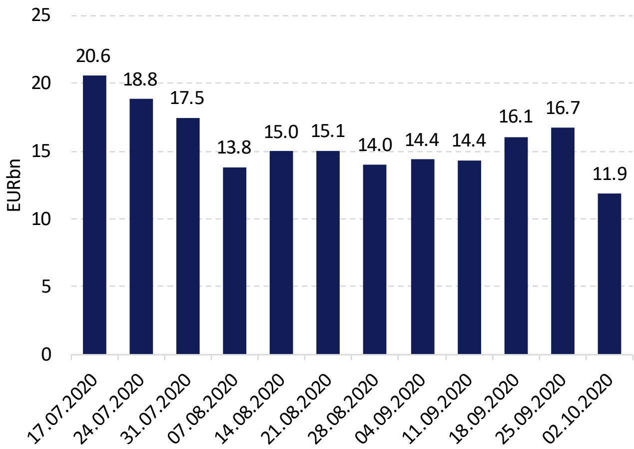
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 21.2bn	37 weeks (18.06.2021)

Monthly net purchases (in EURm)

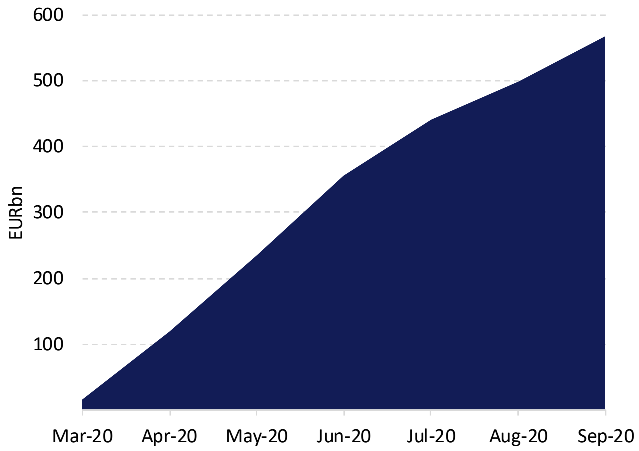


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
PEPP	0	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	567,183

Weekly purchases



Development of PEPP volume

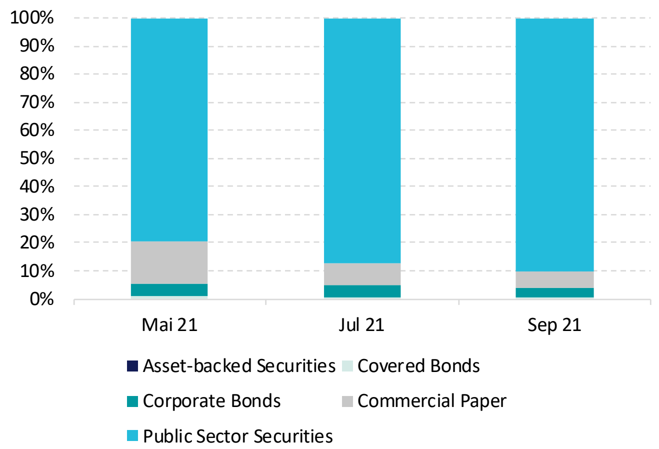


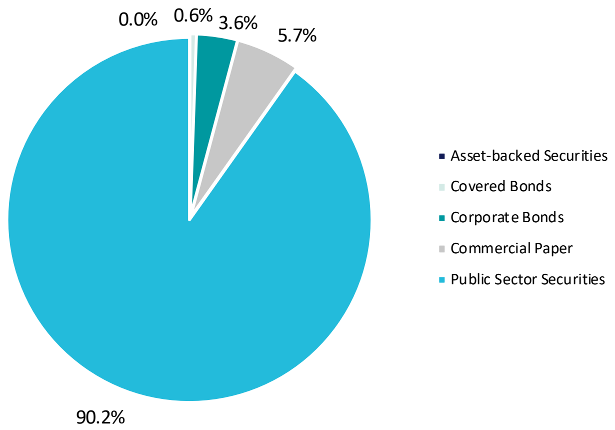
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

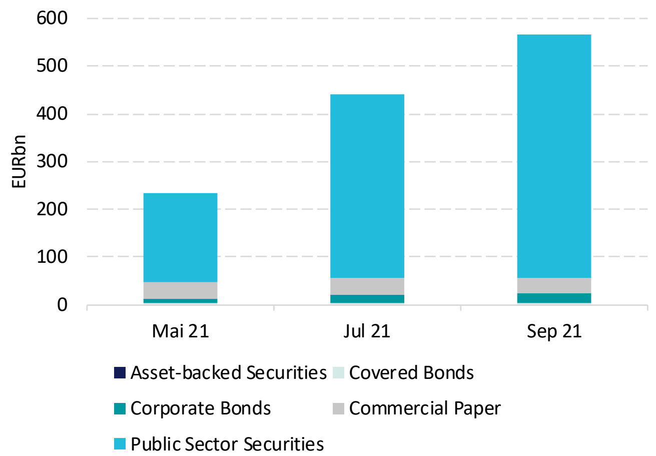
	Asset-backed securities	Covered bonds	Corporate bonds	Commercial paper	Public sector securities	PEPP
Jul-20	0	3,128	17,620	34,845	384,464	440,057
Sep-20	0	3,123	20,418	31,988	510,112	565,641
Δ	0	-5	+2,798	-2,857	+125,648	+125,584

Portfolio structure

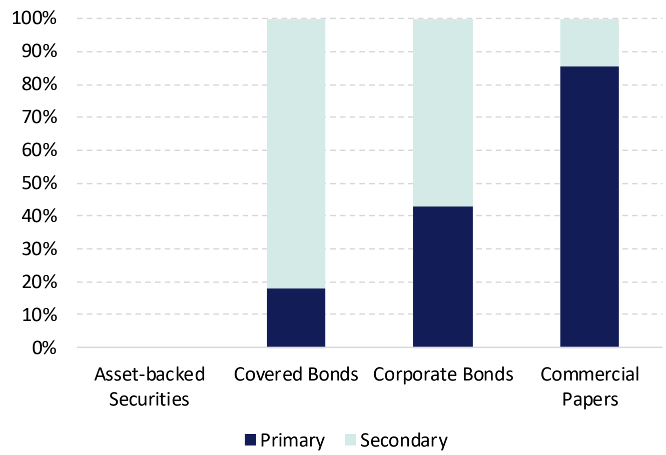




Portfolio development



Share of primary and secondary market holdings



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

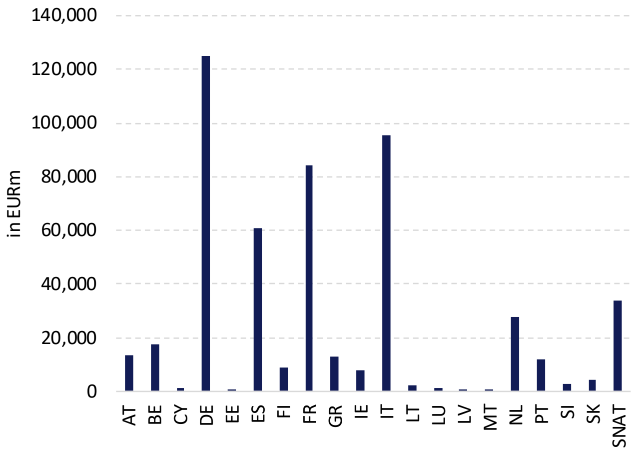
	Asset-backed securities		Covered bonds		Corporate bonds		Commercial papers	
	Primary	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**	**Primary**	**Secondary**
Holdings in EURm	0	0	557	2,566	8,735	11,683	27,281	4,707
Share	0.0%	0.0%	17.8%	82.2%	42.8%	57.2%	85.3%	14.7%

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

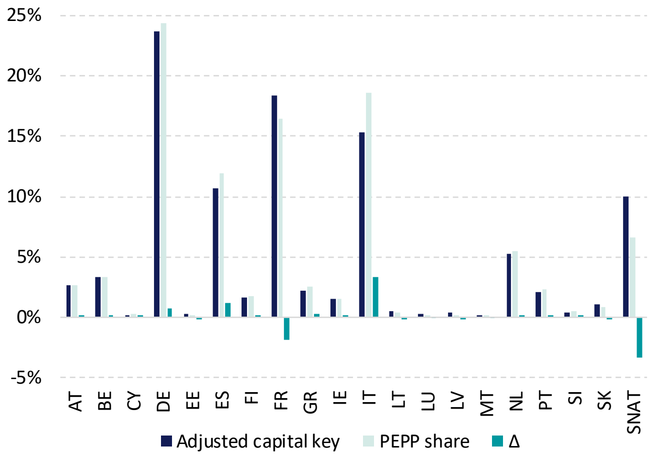
Breakdown of public sector securities under the PEPP

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

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



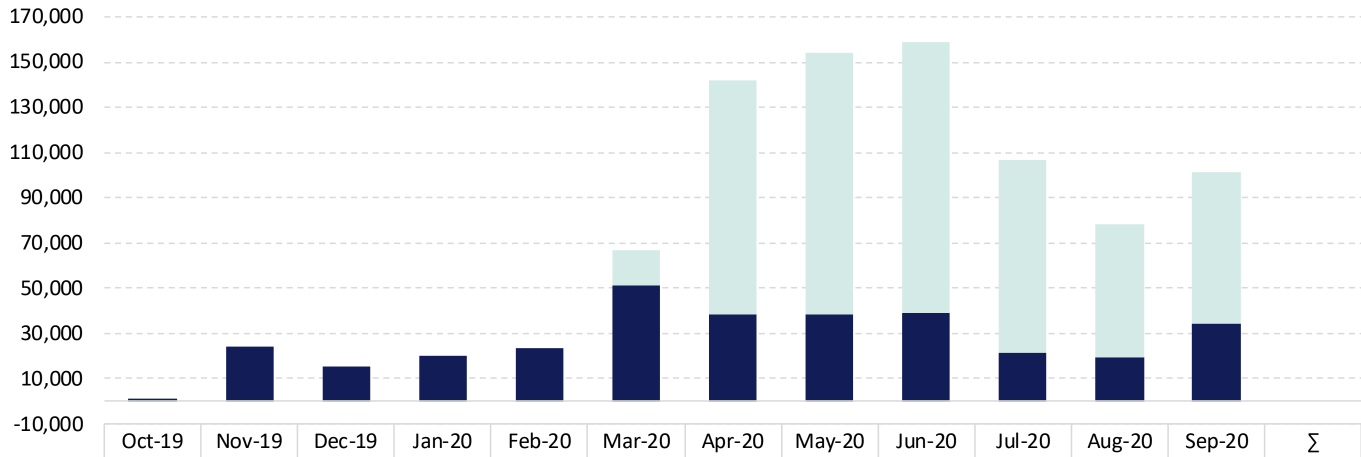
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

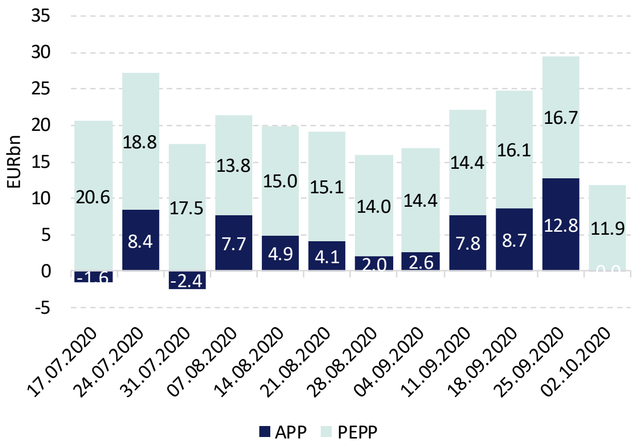
	APP	PEPP	APP & PEPP
Aug-20	2,815,818	499,876	3,315,694
Sep-20	2,842,465	567,183	3,409,648
Δ	+26,647	+67,308	+93,955

Monthly net purchases (in EURm)

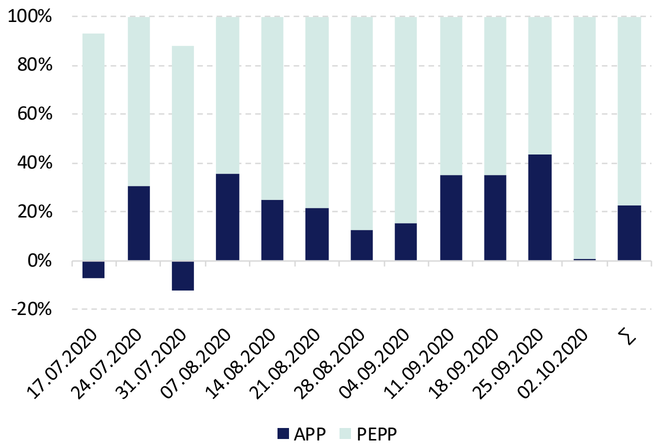


	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	∑
∑	1,180	24,096	15,408	20,394	23,430	66,586	141,807	154,025	159,091	106,952	78,593	101,333	892,895
PEPP	0	0	0	0	0	15,444	103,366	115,855	120,321	85,423	59,466	67,308	567,183
APP	1,180	24,096	15,408	20,394	23,430	51,142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

Weekly purchases



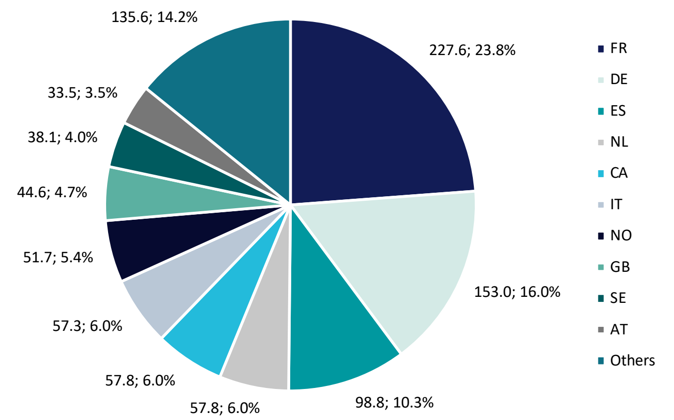
Distribution of weekly purchases



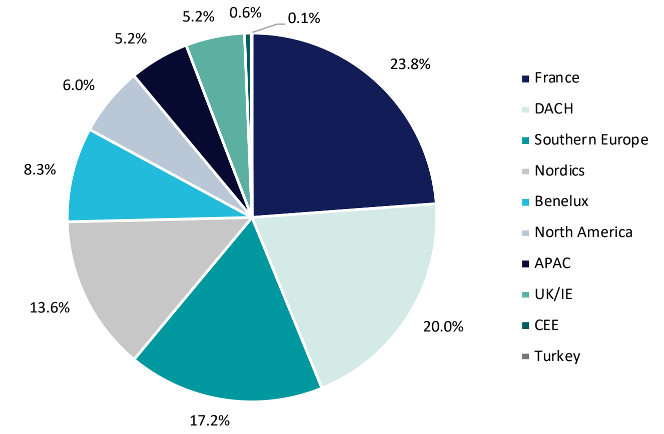
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



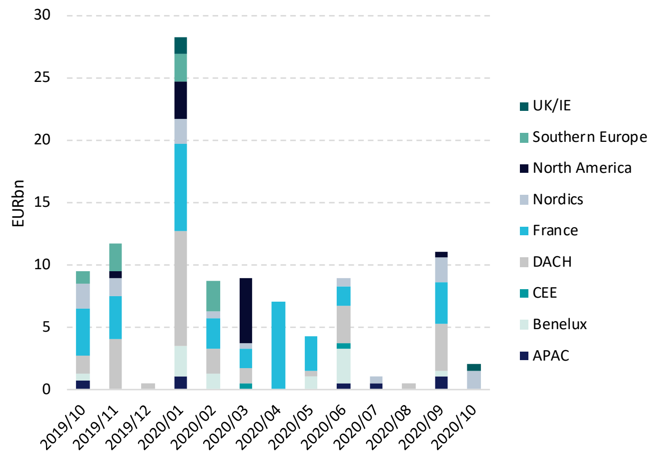
EUR benchmark volume by region (in EURbn)



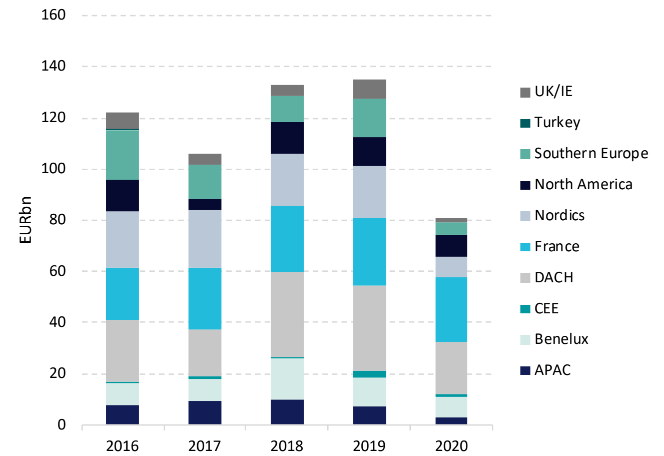
Top-10 jurisdictions

Rank	Country	Amount outst. (EURbn)	No. of BMKs	There of ESG BMKs	Avg. issue size (EURbn)	Avg. initial maturity (in years)	Avg. mod. Duration (in years)	Avg. coupon (in %)
1	FR	227.6	205	7	0.97	10.0	5.4	1.30
2	DE	153.5	228	12	0.61	8.1	4.6	0.52
3	ES	100.8	81	3	1.15	11.1	3.8	1.84
4	NL	57.8	56	0	0.98	10.8	7.0	1.02
5	CA	57.8	49	0	1.15	5.9	3.0	0.32
6	IT	57.3	65	0	0.85	8.8	4.2	1.61
7	NO	50.2	57	6	0.88	7.1	3.7	0.63
8	GB	44.1	46	0	0.97	8.3	3.1	1.32
9	SE	38.8	44	0	0.88	7.2	3.2	0.62
10	AT	34.5	62	0	0.55	9.1	5.4	0.86

EUR benchmark issue volume by month

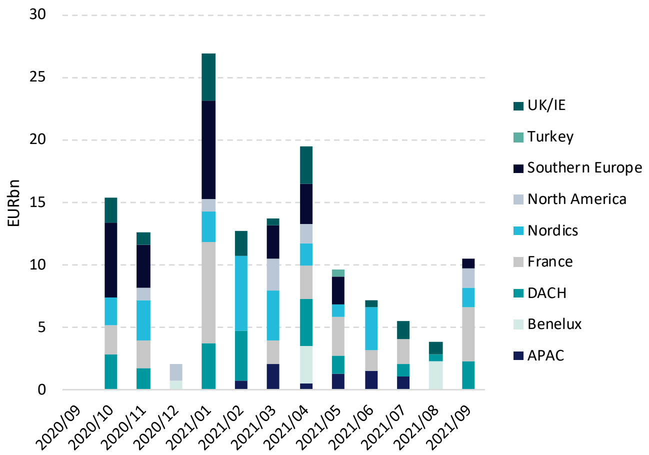


EUR benchmark issue volume by year

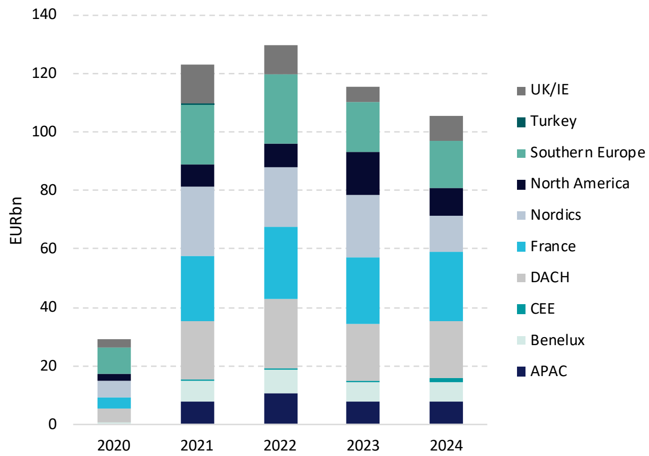


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

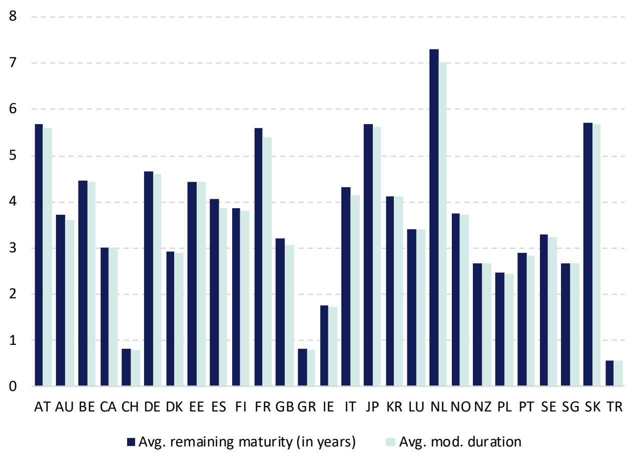
EUR benchmark maturities by month



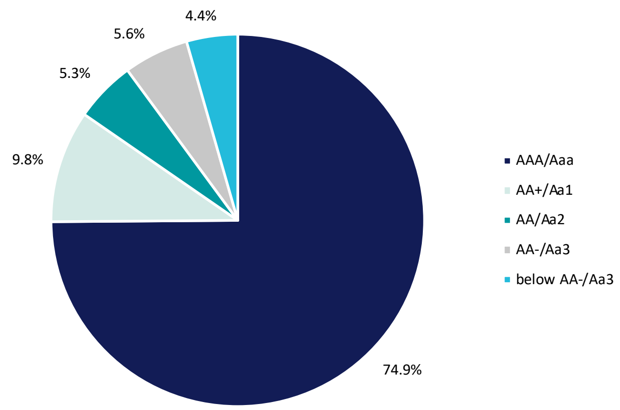
EUR benchmark maturities by year



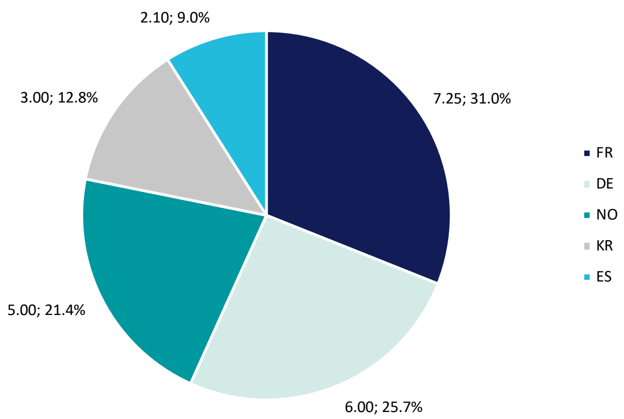
Modified duration and time to maturity by country



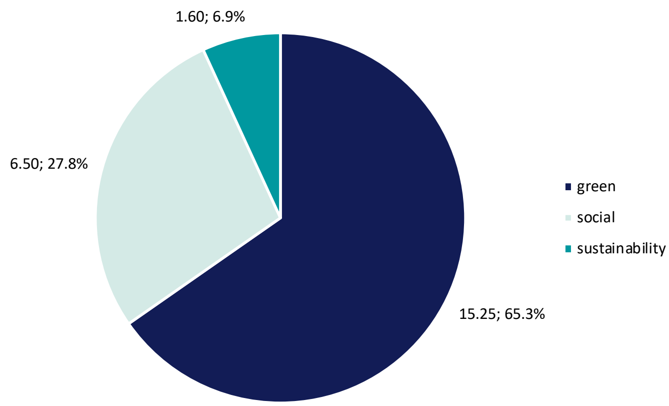
Rating distribution (volume weighted)



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

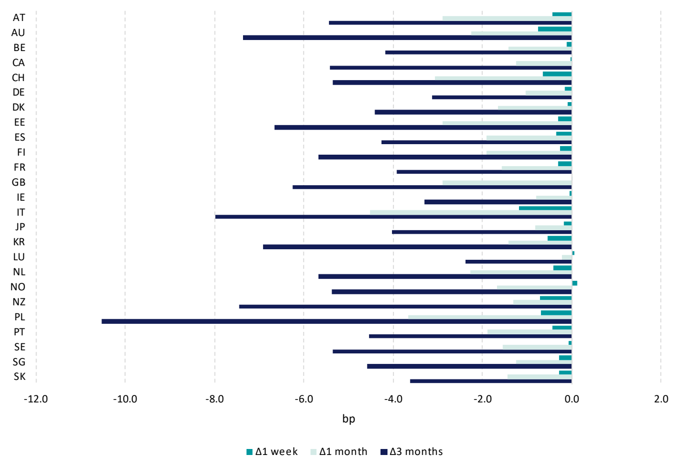


EUR benchmark volume (ESG) by type (in EURbn)

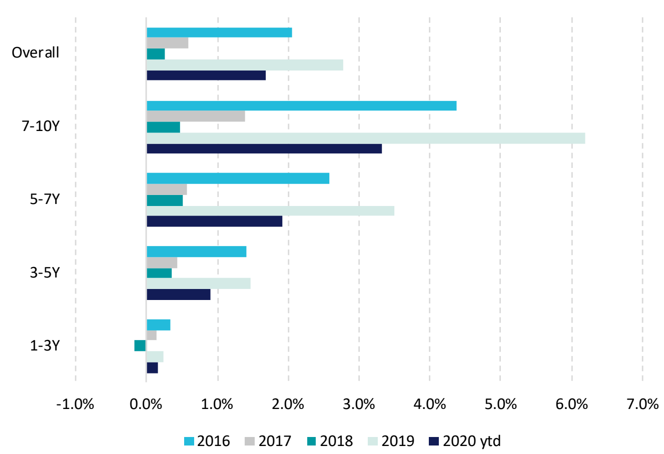


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

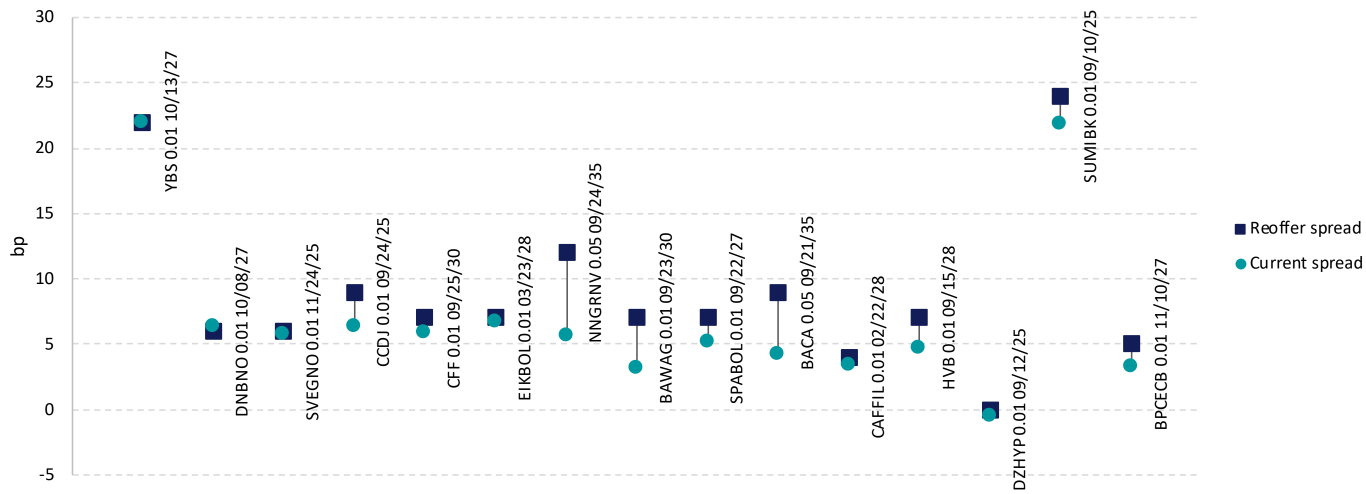
Spread development by country



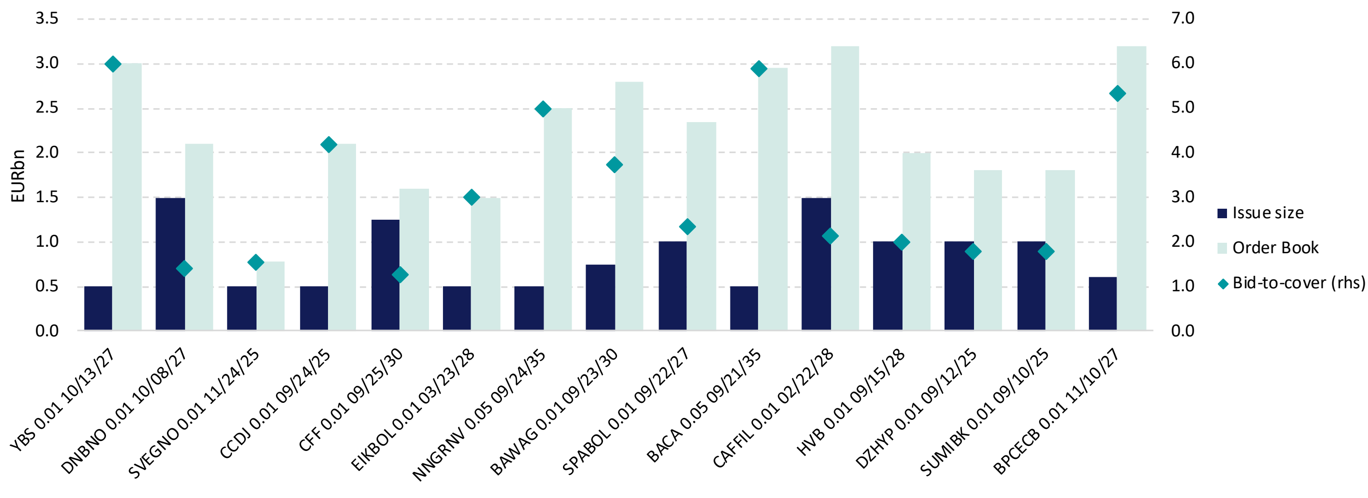
Covered bond performance (Total return)



Spread development (last 15 issues)



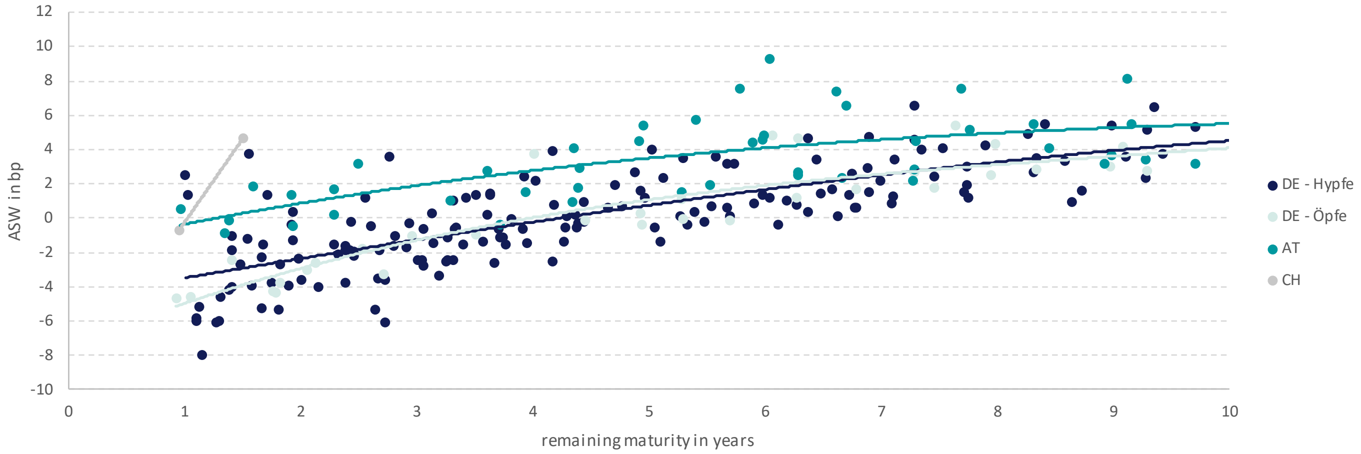
Order books (last 15 issues)



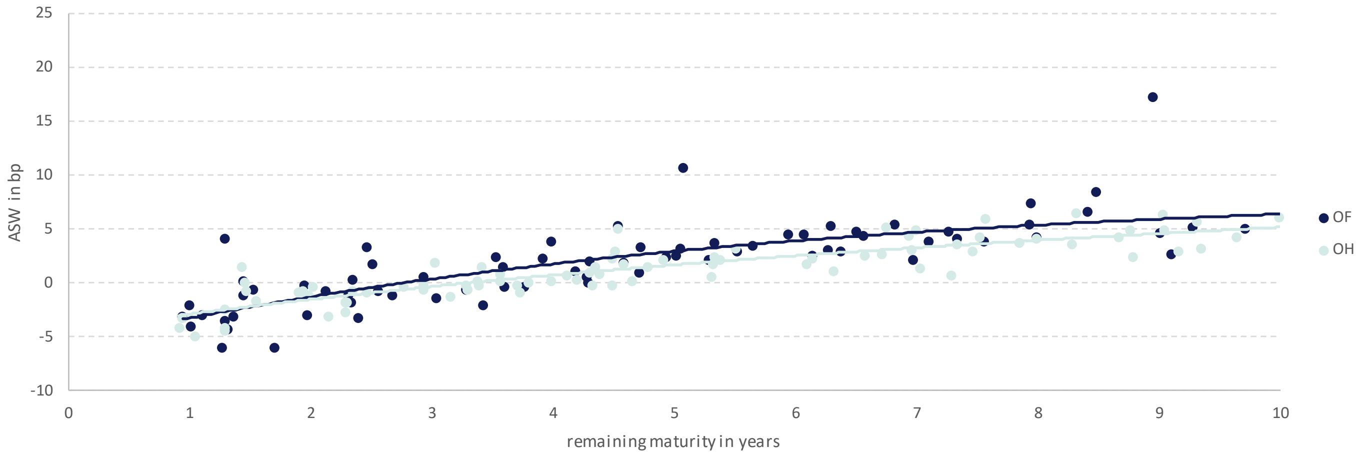
Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread overview[1]

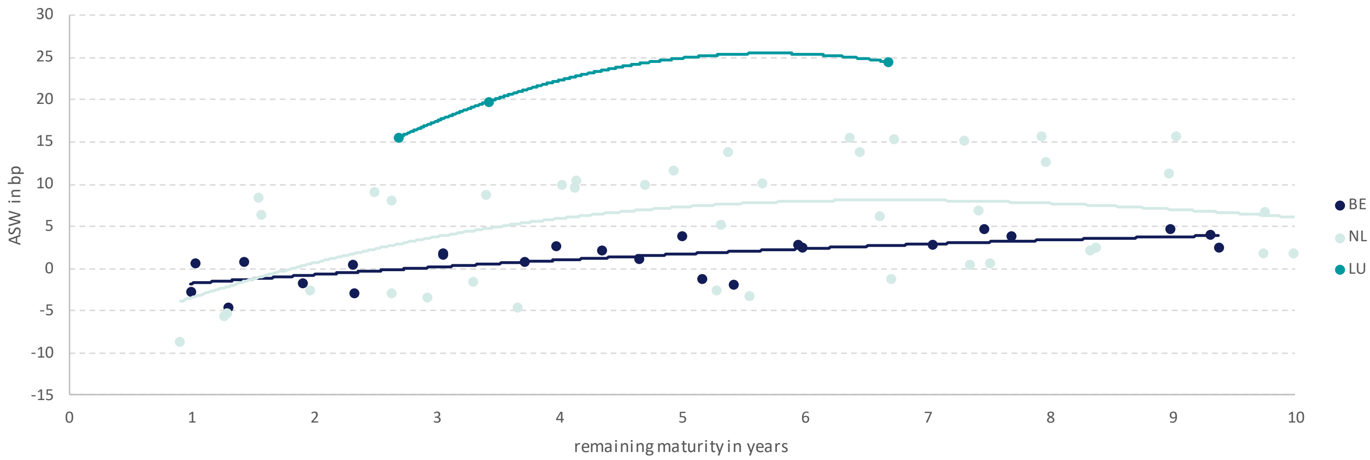
DACH



France

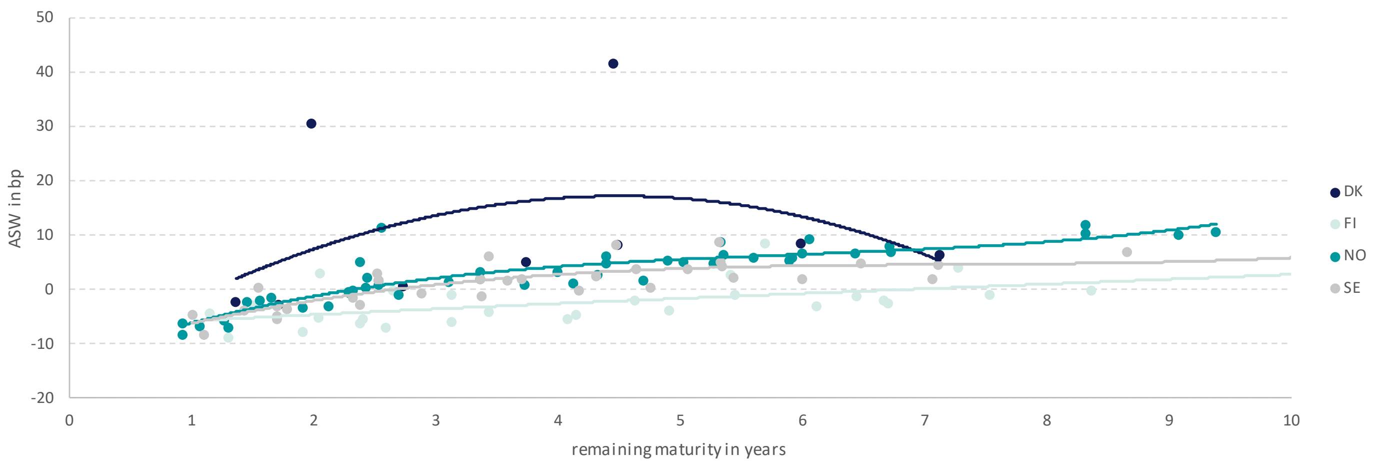


Benelux

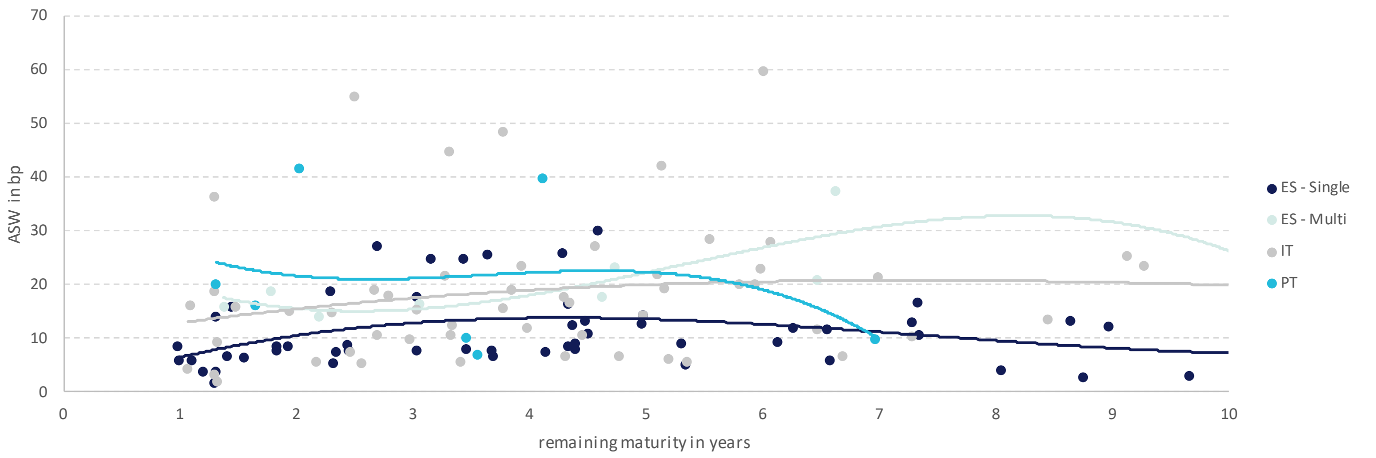


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity >1y

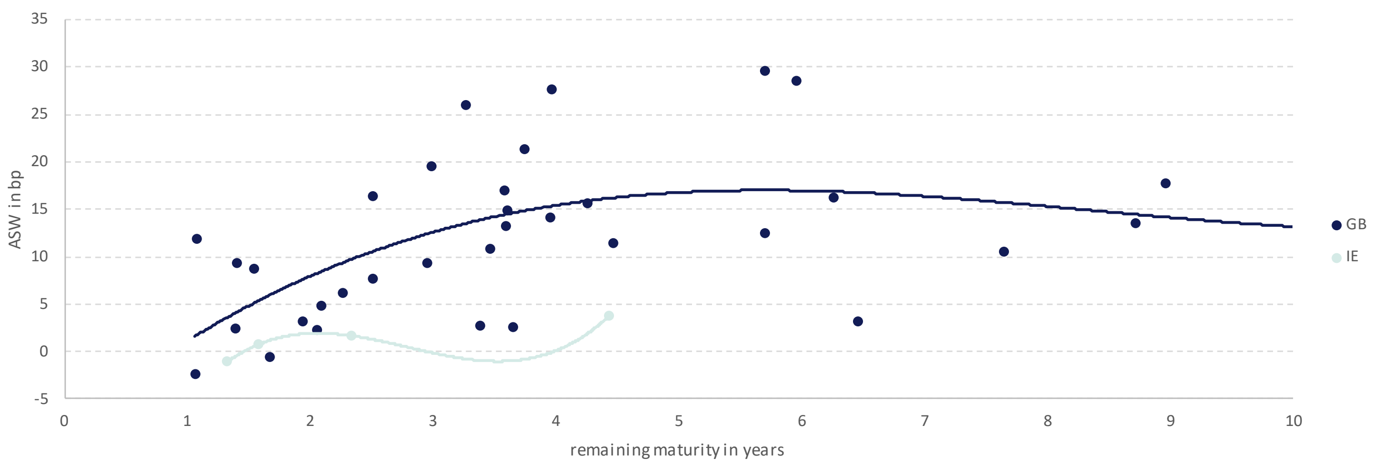
Nordics



Southern Europe

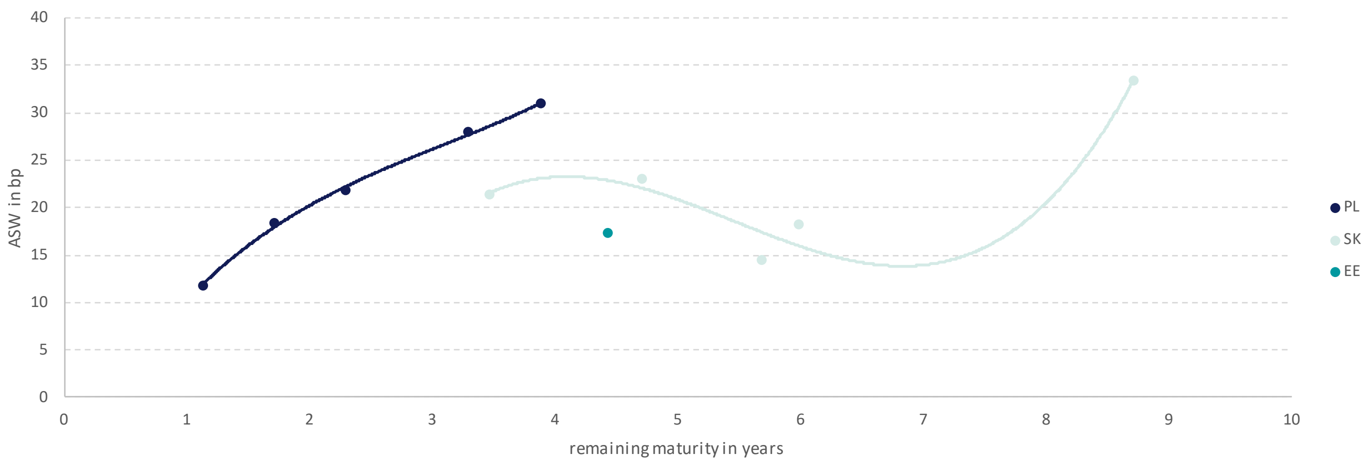


UK/IE

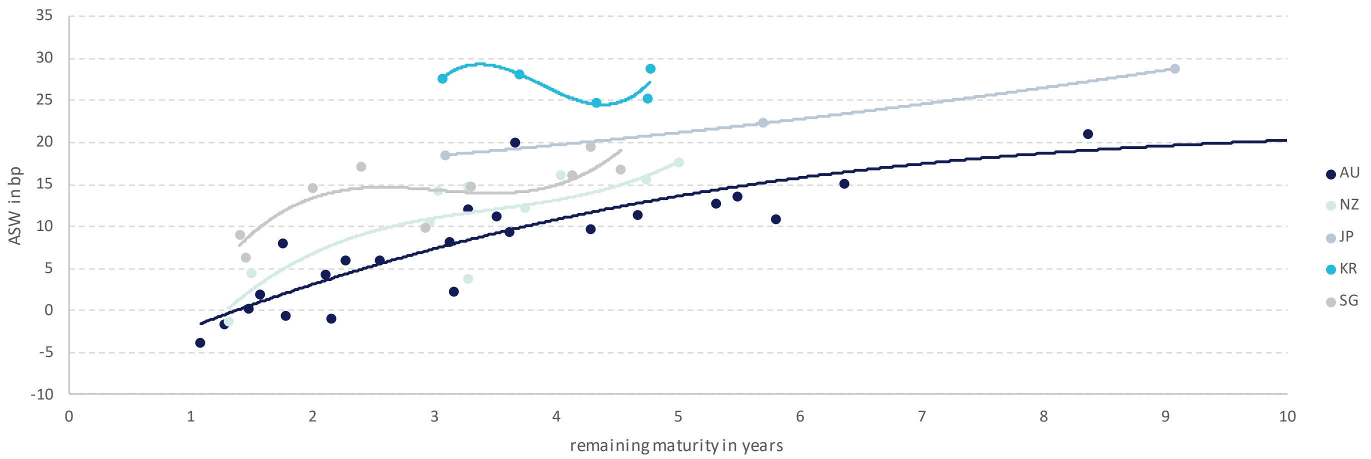


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

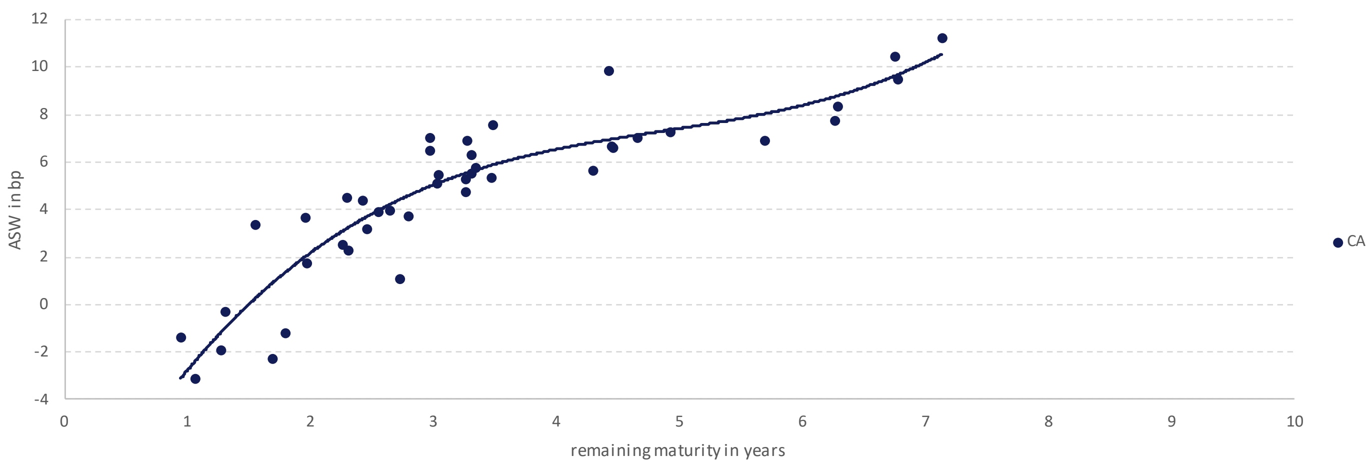
CEE



APAC



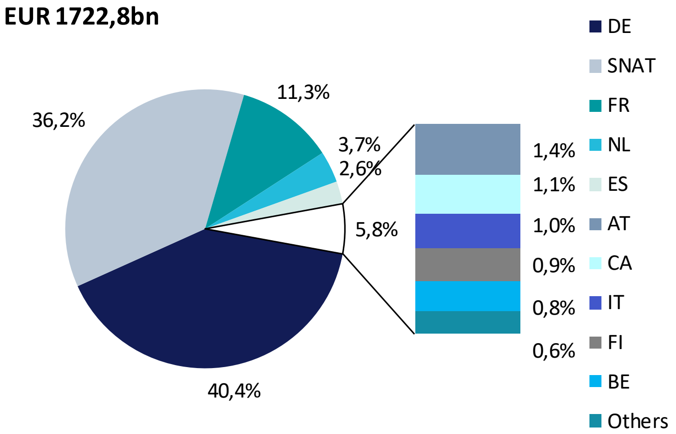
North America



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

Charts & Figures
SSA/Public Issuers

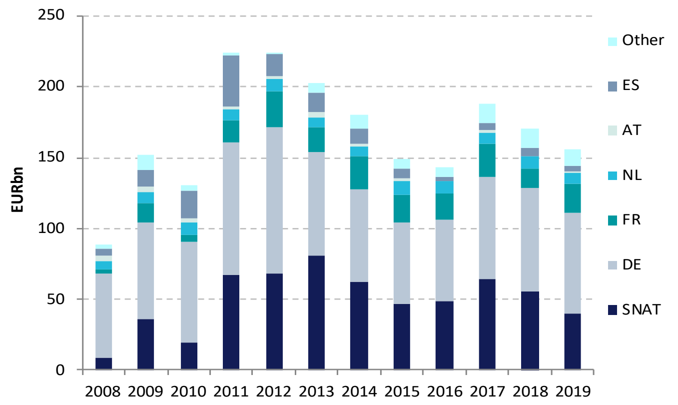
Outstanding volume (bmk)



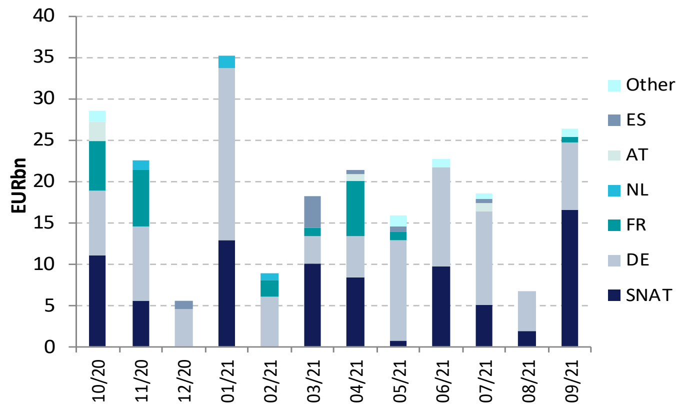
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
DE	695,5	538	1,3	6,2
SNAT	624,3	168	3,7	6,7
FR	195,5	134	1,5	5,0
NL	63,0	66	1,0	6,3
ES	45,0	52	0,9	4,5
AT	24,3	25	1,0	4,9
CA	18,2	14	1,3	4,9
IT	16,5	21	0,8	5,9
FI	15,5	20	0,8	6,2
BE	14,4	17	0,8	13,9

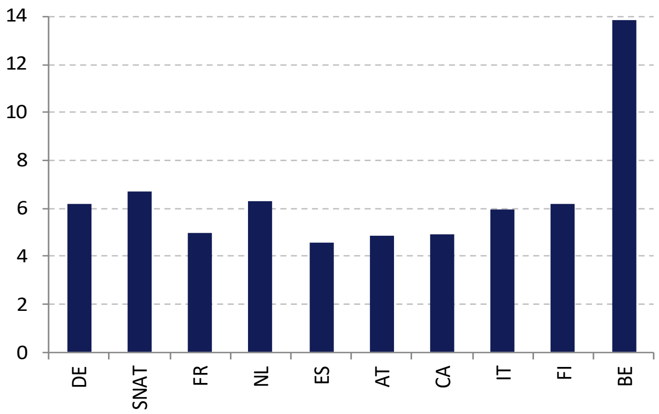
Issue volume by year (bmk)



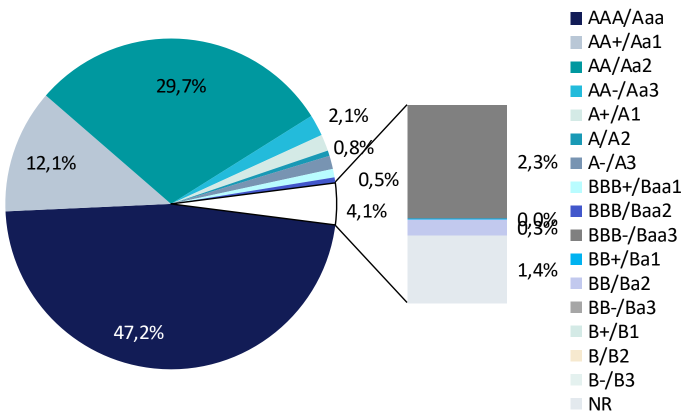
Maturities next 12 months (bmk)



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

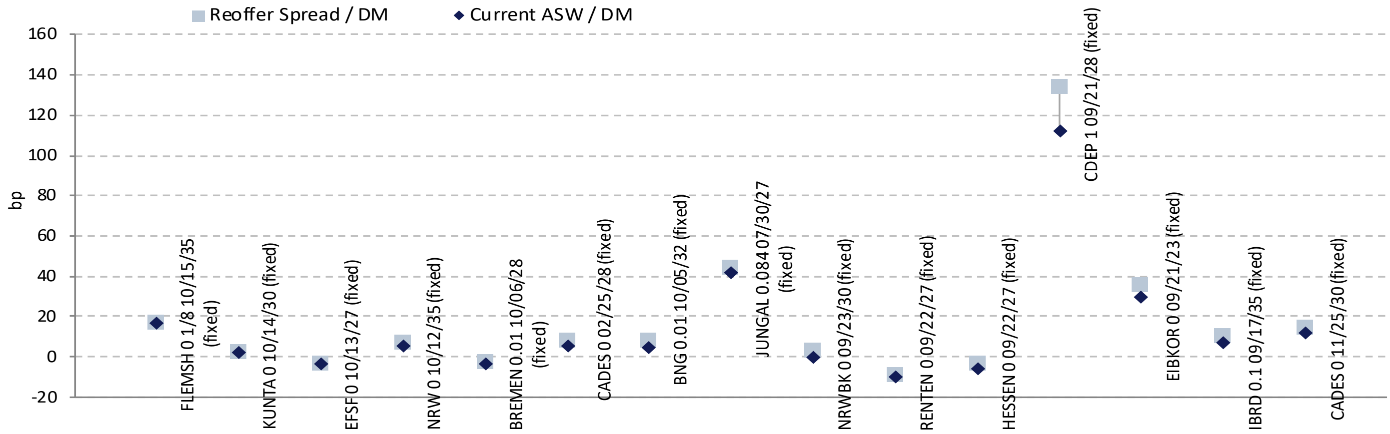


Rating distribution (vol. weighted)

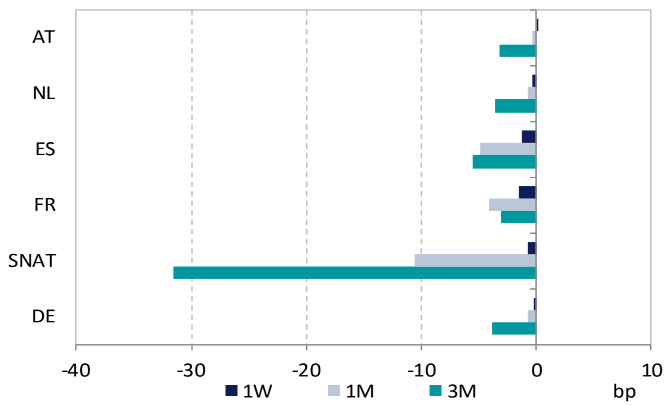


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

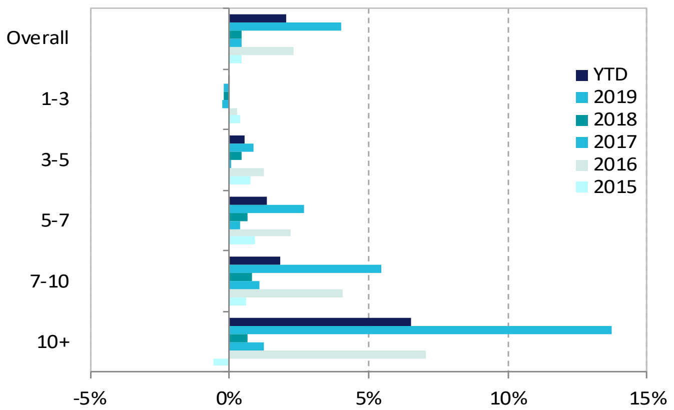
Spread development (last 15 issues)



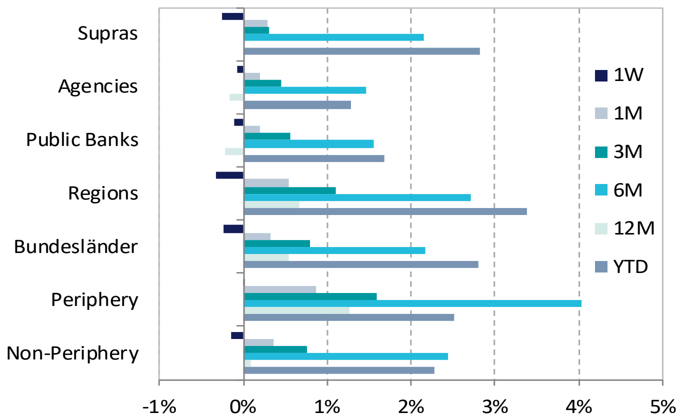
Spread development by country



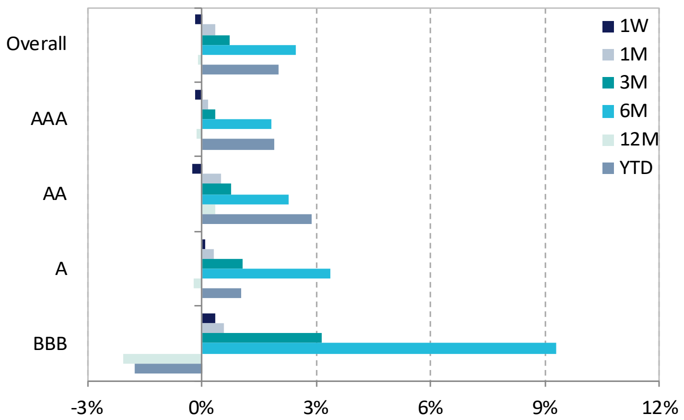
Performance (total return)



Performance (total return) by regions

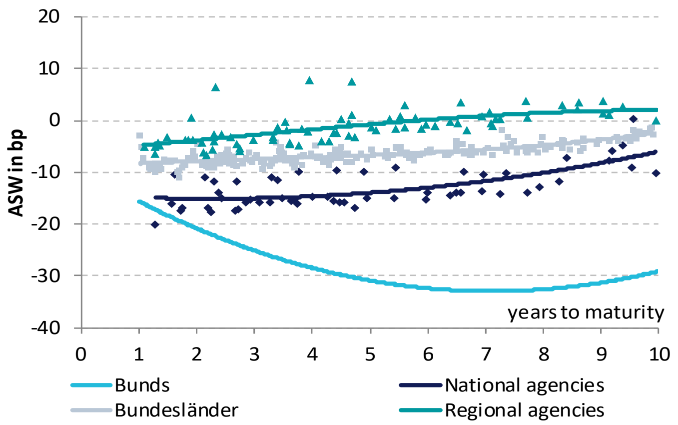


Performance (total return) by rating

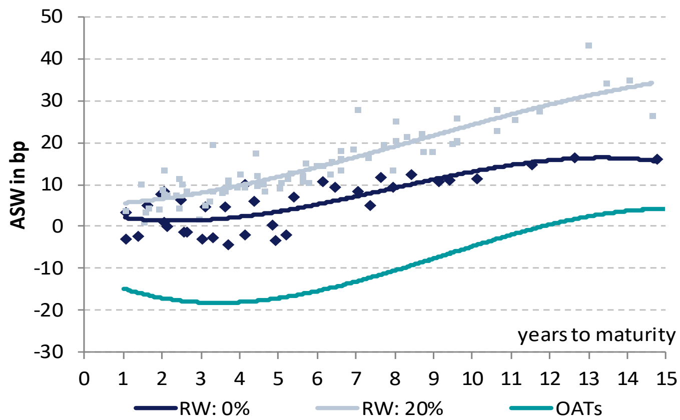


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

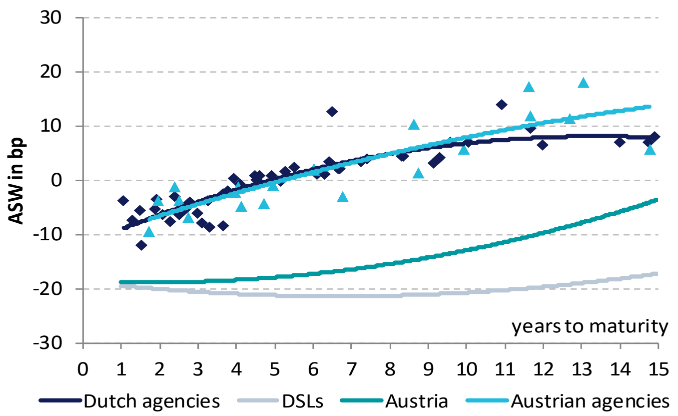
Germany (by segments)



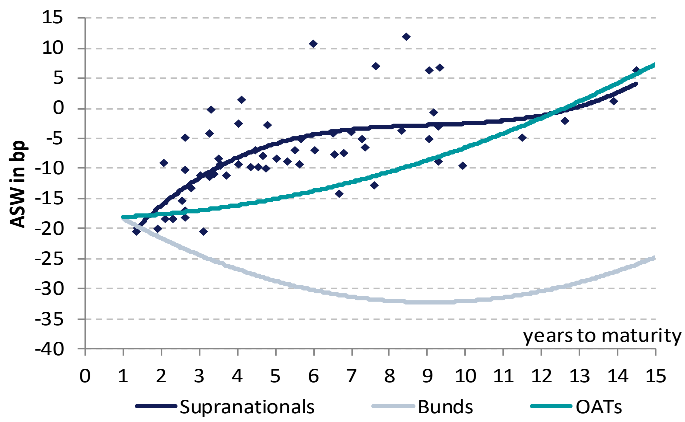
France (by risk weight)



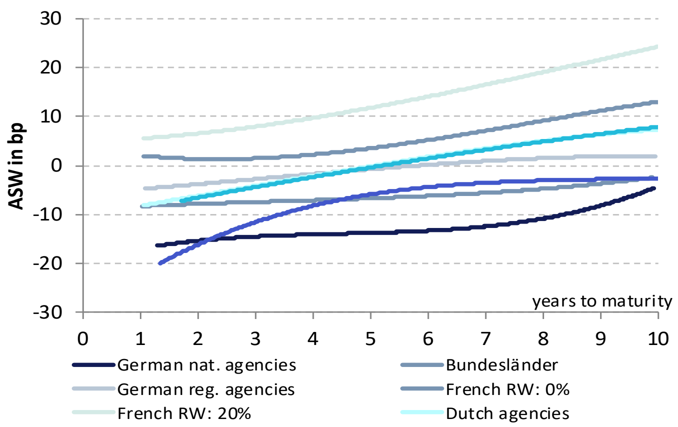
Netherlands & Austria



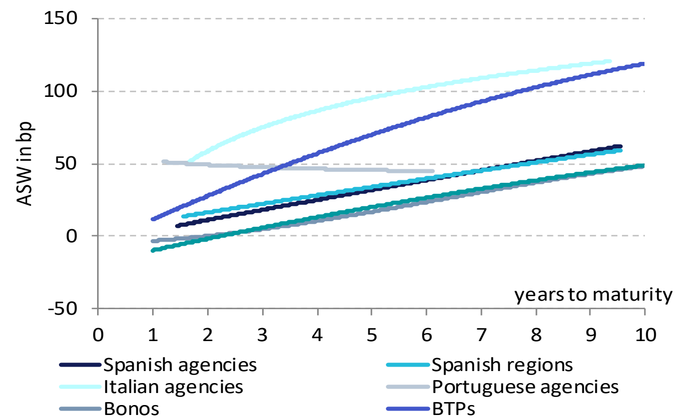
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
37/2020 ♦ 30 September	▪ Cover pool characteristics – international comparison
36/2020 ♦ 23 September	▪ Bausparkasse Schwäbisch Hall plans inaugural EUR benchmark ▪ Update: Auckland Council – Investment alternative in Down Under
35/2020 ♦ 16 September	▪ Moody's covered bond universe: an overview ▪ Update Down Under: Victoria (TCV)
34/2020 ♦ 26 August	▪ Covered bonds as central bank-eligible collateral – European Central Bank presents Q2 2020 figures ▪ Update: New South Wales (NSWTC)
33/2020 ♦ 19 August	▪ German Pfandbrief savings banks in Q2 2020 ▪ ECBC publishes annual statistics for 2019
32/2020 ♦ 12 August	▪ Transparency requirements §28 PfandBG in Q2 2020 ▪ Development of the German property market ▪ European Atomic Energy Community (Euratom)
31/2020 ♦ 05 August	▪ PEPP: Second round of reporting again provides valuable insights
30/2020 ♦ 29 July	▪ LCR levels and risk weights of EUR benchmarks ▪ Update: Funding of German Bundeslaender (ytd)
29/2020 ♦ 22 July	▪ iBoxx Covered indices: current status and criteria ▪ Update: Joint Laender jumbos (LANDER)
28/2020 ♦ 15 July	▪ Repayment structures on the covered bond market ▪ 21st meeting of the Stability Council
27/2020 ♦ 08 July	▪ Sparebanken Vest issues first EUR benchmark in ESG format ▪ Second issuer from South Korea: Kookmin Bank to shortly make its debut in the EUR benchmark segment ▪ KfW reduces 2020 funding target to EUR 65bn
26/2020 ♦ 01 July	▪ Half-year review and outlook for the second half of 2020 ▪ The German debt brake in 2020
25/2020 ♦ 24 June	▪ EUR benchmark covered bonds in ESG format – an overview ▪ BULABO falling due – R.I.P.
24/2020 ♦ 17 June	▪ TLTRO-III.4 vs. covered bonds: are bond repurchases worth it? ▪ TLTRO-III now of increased interest for promotional banks too?
23/2020 ♦ 10 June	▪ The adjustment follows the reporting: insights into the PEPP
22/2020 ♦ 03 June	▪ Moody's covered bond universe – an overview
21/2020 ♦ 27 May	▪ BPCE issues inaugural green covered bond ▪ France: retained issuances and benchmark deals ▪ The federal financial equalisation system (LFA)
20/2020 ♦ 20 May	▪ German Pfandbrief savings banks in Q1 2020 ▪ EIOPA and BaFin see insurers as prepared for the coronavirus crisis: SCR calculation for covered bonds under Solvency II

NORD/LB: Markets Strategy & Floor Research
NORD/LB: Covered Bond Research
NORD/LB: SSA/Public Issuer Research
Bloomberg: RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2020

Risk weights and LCR levels of covered bonds

Transparency requirements §28 PfandBG

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

SSA/Public Issuers:

Issuer Guide – Supranationals & Agencies 2019

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – German Bundeslaender 2020

Issuer Guide – Down Under 2019

Fixed Income:

ESG update

Analysis of ESG reporting

ECB launches corona pandemic emergency

ECB responds to corona risks

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Origination Corporates	+49 511 361-2911

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Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

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

Corporate Sales

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Immobilien/Strukturierte Finanzierung	+49 511 9818-8150
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Firmenkunden 2	+49 511 9818-4003

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Additional information
Time of going to press: 07 October 2020 08:45h (CET)

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Issuer / security	Date	Recommendation	Bond type	Cause

Distribution: 07.10.2020 15:37