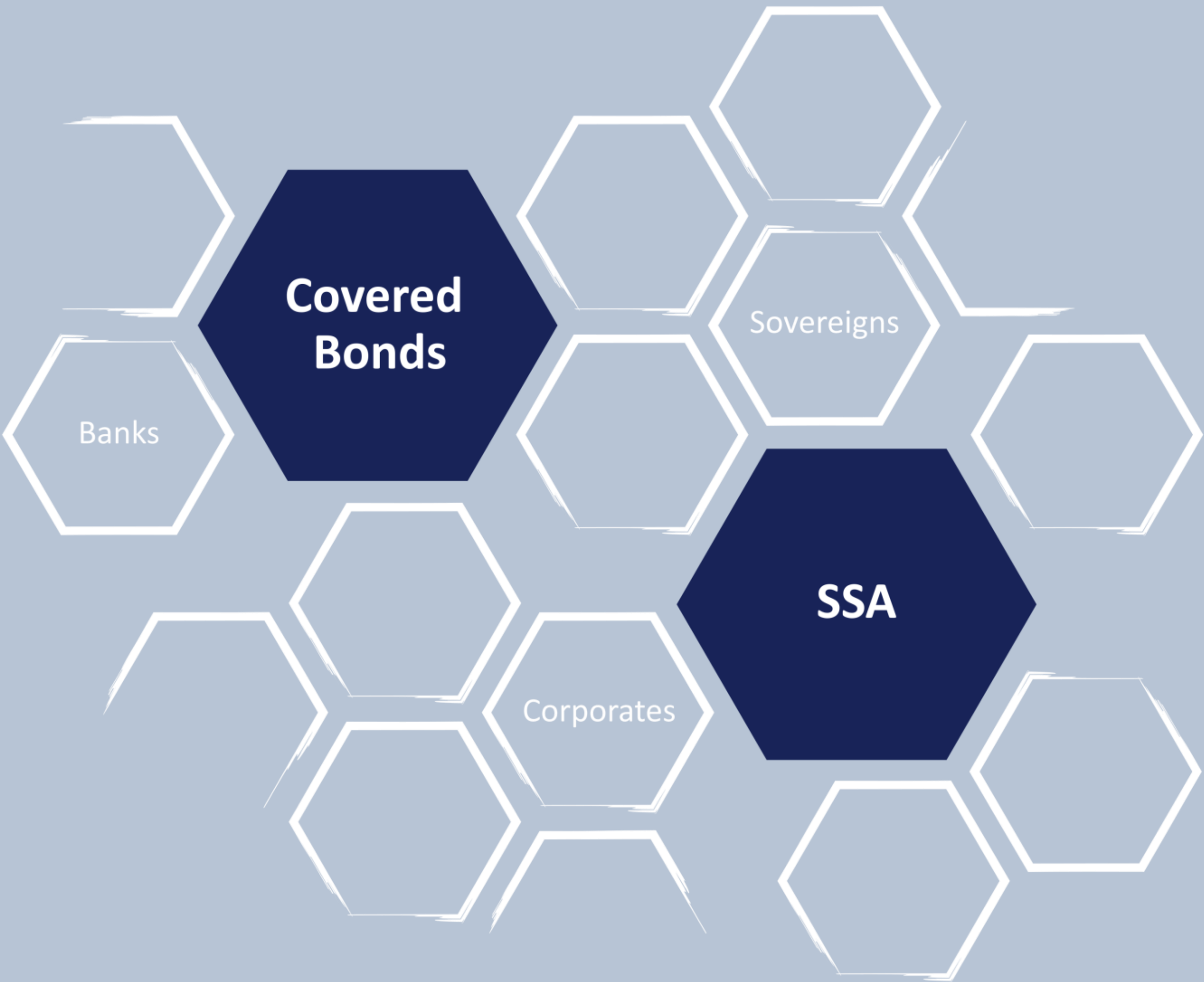

Covered Bond & SSA View

NORD/LB Markets Strategy & Floor Research

8 September 2021 ♦ 29/2021

Investment strategy recommendation and marketing communication

(see disclaimer on the last pages)

Agenda

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Market overview Covered Bonds

Author: Dr Frederik Kunze

Covered bond market: six deals placed across five trading days

Over the past five trading days, the dynamics of the covered bond primary market can be described as more than lively. This applies in particular – albeit not exclusively – to the benchmark segment. Since last Wednesday, a total of six benchmark-sized deals were placed with an aggregated issuance volume of EUR 3.75bn. With a bond for EUR 500m (7y), SR-Boligkreditt from Norway kicked things off in this trading week with a deal that also marked the first activity in the new month of September. Following initial guidance in the area of ms +7bp, the re-offer spread eventually tightened to ms +3bp. The greatest share of the allocation for this deal went to German and Austrian investors, although at 41% the share attributable to the German-speaking DACH region of Germany, Austria and Switzerland can actually be described as relatively low. In contrast, the 25% allocation attributable to investors from the UK/Ireland is on the high side. This value is certainly in line with the share of 26% that went to the investor group of Asset Managers. The allocation to banks, at 59%, is also at a high level. This covered bond deal was also twice oversubscribed. The next day saw the issuance of a mortgage-backed covered bond from Austria. HYPO NOE Landesbank für Niederösterreich und Wien (HYPO NOE) also kicked off the marketing phase for its EUR 500m (WNG) covered bond in the area of ms +7bp before the final re-offer spread eventually settled at ms +3bp. The bid-to-cover ratio here came in at 2.7x. Unsurprisingly, investors from Germany and Austria claimed 68% of the bond volume. This was followed by the Nordics (15%) and the Benelux countries (9%). In terms of investor type, Banks accounted for the largest share (61%) of the allocation, followed by Central Banks/OI (24%). Yesterday, the primary market picked up further speed in the run-up to the ECB meeting scheduled for Thursday. In this context, Aareal Bank approached investors with a covered bond for EUR 500m (WNG; 7y) and placed this deal at ms -1bp (guidance: ms +3bp area), with the order book eventually totalling EUR 900m. The Slovakian issuer Prima Banka Slovensko also chose a no-grow deal worth EUR 500m and a term of six years. The re-offer spread for this covered bond, awarded Moody's top rating of Aaa, stood at ms +13bp, which was four basis points below the initial guidance of ms +17bp area. The order books for this deal amounted to an impressive EUR 1.95bn. Prima Banka was last active on the market in 2019 (inaugural benchmark deal; EUR 500m; 7y). The past five trading days also saw a newcomer to the EUR benchmark segment in the form of HSBC Bank Canada (see also article on Canada in this edition). The Canadian bank announced a covered bond worth a maximum of EUR 750m with a term to maturity of six years. Initial guidance was in the area of ms +12bp, which also indicated scope for tightening. In this regard, the maximum volume of EUR 750m was eventually placed as ms +6bp. The order book for this bond, which received top ratings from Moody's (Aaa) and Fitch (AAA), came in at EUR 2.6bn. Looking ahead, there are a handful of issuances in the pipeline. For example, a South Korean issuer, namely Kookmin Bank, mandated for a bond issuance in EUR benchmark format during the current trading week. This will mark the Asian country's third appearance on the market so far this year.

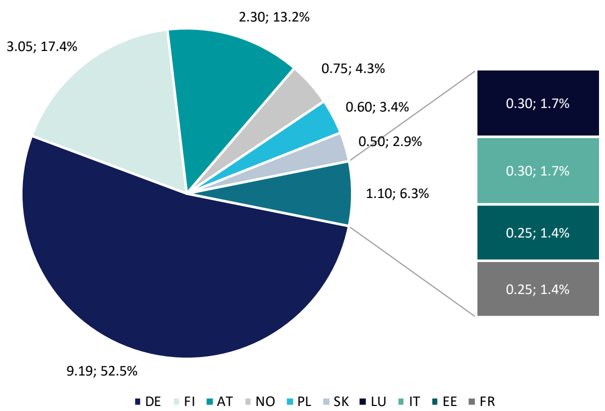
Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
HSBC Bank Canada	CA	07.09.	XS2386287762	5.0y	0.75bn	ms +6bp	AAA / Aaa / -	-
Prima Banka	SK	07.09.	SK4000019634	6.0y	0.50bn	ms +13bp	- / Aaa / -	-
Aareal Bank	DE	07.09.	DE000AAR0306	7.0y	0.50bn	ms -1bp	- / Aaa / -	-
BPCE SFH	FR	06.09.	FR0014005E35	7.1y	1.00bn	ms +1bp	- / Aaa / AAA	-
HYPO NOE	AT	02.09.	AT0000A2STT8	7.0y	0.50bn	ms +3bp	- / Aa1 / -	-
SR-Boligkreditt	NO	01.09.	XS2384580218	7.0y	0.50bn	ms +3bp	- / AaA / -	-

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

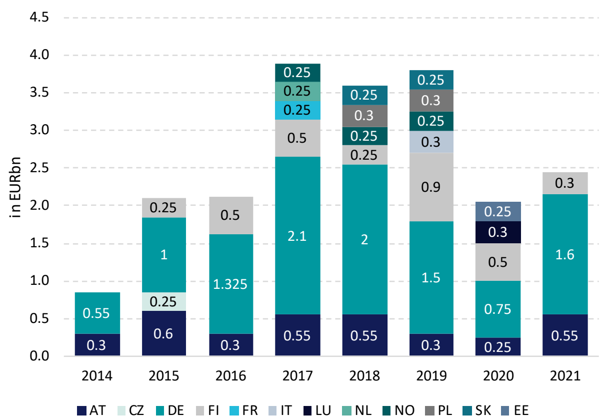
Growth impulses recorded on the EUR sub-benchmark segment

The increasing primary market activity is clearly reflected in the EUR sub-benchmark segment. While the last activity in this sub-segment dates back to the mortgage Pfandbrief deal placed by DekaBank (EUR 250m; 5y; order book: EUR 650m) in July – and therefore shortly before the summer break – the segment has now received a growth boost from the direction of Austria and Canada. Oberösterreichische Landesbank AG (HYPO Oberösterreich), which can already be regarded as an active sub-benchmark issuer, announced its green debut with a transaction for EUR 250m (WNG). Investor calls for the green covered bonds (cf. HYPO Oberösterreich Framework) were conducted over the course of the current trading week. We expect pricing information for this deal to be available promptly. The circle of active jurisdictions in the EUR sub-benchmark segment was extended in the form of Equitable Bank from Canada. Again, we expect this deal to enter the marketing phase without delay. The newcomer to the Canadian covered bond market opted for a term to maturity of three years for its inaugural deal. As at the reference date of 07 September 2021, which is prior to the issuance of the two above-mentioned new deals, the covered bond sub-market for EUR sub-benchmarks totalled EUR 17.5bn (spread across 64 bond deals). At 52.5% or EUR 9.19bn (35 deals), the largest share of this volume is attributable to Germany. Finland accounts for a share of 17.4% or EUR 3.05bn (10 deals), while Austria is responsible for a total of EUR 2.3bn (8 deals), or 13.2%. The newcomer from Canada increases the number of jurisdictions to ten, meaning that we can certainly describe the EUR sub-benchmark as gaining in importance. For newcomers in particular, this segment opens up the possibility of approaching investors and at the same time offering a credible prospect of regular market activity even with a smaller loan portfolio.

EUR sub-benchmark segment: distribution (EUR bn)



EUR sub-benchmark segment: deals (EUR bn)



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

Statement from vdp on BaFin proposals for the Regulation on the Determination of the Mortgage Lending Value: "Gap between market and reality set to widen further"

From the perspective of the Association of German Pfandbrief Banks (vdp), the proposals outlined by BaFin with regard to the amendment of the Regulation on the Determination of the Mortgage Lending Value (BelWertV) fall short of the target of aligning this with the realities of the market. In a press release issued by vdp on 06 September 2021, five main points of criticism are highlighted. These relate to minimum capitalisation rates, the statistical valuation method, small loan limits, management costs and the administrative expenses incurred in connection with the amended legislation. For Pfandbrief issuers and the market for mortgage-backed Pfandbriefe, one potentially threatening consequence would be a decline in the portion of loans eligible for Pfandbrief cover. After all, of the already low mortgage lending values (measured by the market value of the property), only 60% of the mortgage lending value would be used for Pfandbrief cover. The revised legislation would even increase the spread if the unreasonably high interest rates of the past were to be maintained. Particularly in the context of the current interest rates and yield levels (which have also been in evidence on the market for some years now), the criticisms levied by the vdp are in our view understandable. Likewise, the objection put forward by the vdp managing director, according to which the impression is created "[...] that one and the same risk – falling property prices – is being addressed from many different directions" forces us to consider that overregulation also regularly entails the risk of a competitive disadvantage in an international context. This is not to be confused with an appeal that risks (e.g. pronounced setbacks in real estate market prices) should be ignored. In our view, it makes sense at this point to refer to the approach pursued by the rating agencies in relation to this issue. For example, Moody's takes into account the "stringency" of the BelWertV in Germany in terms of required overcollateralisation, which subsequently results in lower OC requirements, among other aspects. This is a circumstance that is particularly relevant for cover assets in the Commercial Real Estate category. This week's edition of our weekly publication also includes an article dedicated to the developments on the German property market on the basis of the vdp Property Price Index.

Fitch assessment of the adjustments to Austrian covered bond legislation

The rating agency Fitch recently provided a risk assessment of the new covered bond legislation in Austria. In the opinion of the rating experts, the legislative amendment, which should be seen in the context of the EU covered bond harmonisation project, increases protection for investors in terms of the liquidity risks in the event of insolvency. The gradual introduction envisaged by the country's legislative body is rated by Fitch as somewhat less ambitious than equivalent proposals in other jurisdictions. Nevertheless, the new legislation, which is expected to be formally adopted by the end of this year before taking effect from July 2022, does give rise to the possibility of an improvement in credit quality for Austrian covered bonds. As a result, Fitch also sees potential for additional rating uplifts. On balance, the rating agency takes the view that the new legislation will promote growth within the Austrian covered bond market.

Market overview
SSA/Public Issuers

Author: Dr Norman Rudschuck, CIIA

EU Green Bond Framework

We had been expecting the EU's Green Bond Framework to be presented at the end of August, and yesterday finally saw its publication. The European Commission announced that the first green deals will be issued as early as October. Once again, it has selected syndication as the route for this, while otherwise 'auctions' seem to be the buzzword for the EU. Green bonds are set to be used to fund 30%, or EUR 250bn, of the total target figure of EUR 806bn for the NGEU programme (NextGenerationEU – see article in this issue) by the end of 2026. In this timeframe, the EU would therefore become the world's biggest issuer of green bonds. Up to now, EUR 45bn had been refinanced before the summer break, but no green bonds were possible before the framework was in place. The framework for green NGEU bonds presented yesterday was drawn up in line with the Green Bond Principles of the International Capital Market Association (ICMA), which constitute the market standard for green bonds. As usual, the Framework was checked by a second party (Second Party Opinion), which is of the view that the Framework complies with ICMA Principles, fits with the EU's more extensive Environmental, Social and Governance (ESG) strategy and will make a sound contribution to sustainability. The Framework was aligned with the European standard for green bonds as far as possible. The proposal for the EU standard for green bonds was presented by the European Commission in July 2021, which is followed by the co-decision procedure in the European Parliament and Council, which is then followed by an implementation period before the standard comes into force. The harmonisation is reflected for example in the fact that some of the eligible investment under the Recovery and Resilience Facility (RRF) – the most important instrument to promote Europe's recovery – has integrated the EU taxonomy's technical checklist criteria. Specifically, the proceeds from the NGEU green bonds will fund the climate-relevant expenditure in the RRF. Each Member State must spend at least 37% of its national economic recovery and resilience plan, the roadmap for utilising funds from the RRF, on climate-relevant investments and reforms, with many Member States already planning to spend more than required. According to RRF rules, the Member States are to report their green expenditure to the European Commission, which in turn will use this information to show its investors how the proceeds from the green bonds have been used to fund the green transformation. The reporting will be based on nine categories, which are specified in the NGEU Framework for Green Bonds, with clean energy, energy efficiency and clean transport making up the largest share. It is normal practice for the Framework to specify that reporting covers both the allocation of funds as well as the (positive) impact. The Commission uses the data from the Member States on expenditure for green projects for its reporting on fund allocation. An independent external auditor will review these allocation reports. Impact reporting will be carried out for the European Commission as a whole.

Auctions for EU bills start on 15 September

In addition to the total volume cited above (EUR 806bn by the end of 2026), there are tens of billions in EU bills slated for the rest of this year and beyond. The volume has not been specified in any further detail. The Commission will offer the bills exclusively via auction. The auction programme is set to start on 15 September. The European Commission will generally hold two auctions per month for EU bills on the first and third Wednesday of the month. The auction programme will also be used for bonds alongside syndication. As with the issuance calendar published yesterday, the European Commission will generally carry out one auction and one syndication per month for bond issues. We also look at this topic in our NGEU article. The bills will be available in 3M and 6M formats and will amount to EUR 2-3bn in each case, with taps totalling EUR 1.5-2bn.

Questionable rule of law – Poland, Hungary and now Georgia as well

Georgia has neglected to comply with the conditions agreed with the EU for the provision of EUR 75m. This refers in particular to improving the independence and quality of the justice system, explained the EU's High Representative Julien Crampes. With regard to the selection of Supreme Court judges especially, equal treatment for all candidates has not been guaranteed and there have been no legal changes that have improved transparency. The EU has also called on the Georgian authorities to adhere to its promises of reform. The European Commission will monitor the situation here very closely.

Coronavirus-related financial assistance

According to the Berlin Senate, 36,468 recipients of coronavirus-related financial assistance have repaid funds. The total amount here is EUR 256m. Since the start of the pandemic 18 months ago, the Berlin Senate has set up various financial assistance programmes aimed particularly at sole traders and small businesses. The process was straightforward and carried out via Investitionsbank Berlin (IBB). Various regional development banks were confronted at the time with instances of fraud, identity theft and rerouting to fictitious websites. Given the volume of applications, there were also allegations that insufficient checks were carried out. According to Radio Berlin-Brandenburg (rbb), the Berlin Public Prosecutor's Office has now completed 949 criminal proceedings against debtors of corona-related financial assistance. This information came from a Senate response to a parliamentary question by an MP from the FDP obtained by the rbb. This showed that 912 proceedings were halted, most due to insufficient evidence. In 16 cases, no crime was deemed to have been committed. In 11 further cases, a penalty order was issued but no prison sentences imposed. Only in one case was a financial penalty imposed.

No end to coronavirus in sight

Although the European Commission's NGEU Programme is now emerging from the summer break with even more momentum and questions will be asked of the ECB tomorrow about what is happening with the PEPP and when the purchasing tempo will slow down, the Commission is nevertheless celebrating small successes on the road to herd immunity: 70% of the adult population in the EU is now fully vaccinated against COVID-19. The goal set at the start of the year has therefore been met, according to EU President Ursula von der Leyen on Twitter. In the east of the EMU, Bulgaria has only fully vaccinated one fifth of its adult population, while Romania has vaccinated around 30% of adults. Croatia, Latvia, Slovenia and Slovakia have vaccinated around half of the over-18s. There is therefore still plenty to do.

Vaccination rates more important for tapering than inflation?

Various market players are currently thinking out loud about what tomorrow's ECB Council meeting may bring. The positive vaccination rates will certainly be put into perspective as they do appear to be higher than in the USA, where there is also much speculation about tapering. Canada has already got its act together in this regard and curbed its bond purchasing several months ago. However, reducing purchasing also means there is still fresh money in the market, just less of it. We can already see a reduction by the ECB in the weekly data anyway, which requires no explicit communication. However, on multiple occasions Christine Lagarde has requested explicitly that we do not look at the weekly data as this could fluctuate considerably. Robert Holzmann, Klaas Knot and Jens Weidmann also called for a slowdown in the pace, which given the PEPP's flexibility seems to already be the case. It remains to be seen how united a front the ECB Council will put on at the press conference. Inflation is likely to continue to be seen as temporary, which is a view that we share.

Primary market

The first of various noteworthy deals came from the Development Bank of Japan, which had been in the starting blocks for some time. The 4-year EUR 600m sustainability bond was issued at ms +11bp under the rarely seen ticker of DBJJP. The IPT started at ms +16bp area and the order books reached a total volume of over EUR 2.2bn. This was swiftly followed by a fresh 5-year bond issued by HESSEN at ms -10bp. The bond was announced at EUR 500m (WNG) with well-filled order books of EUR 1.1bn enabling leeway of one basis point in the pricing process. Rentenbank made things look very quick and easy when its almost done deal hit the screens just after 9am with guidance of ms -11bp for the EUR 500m bond maturing in 2028. Final pricing then followed that same afternoon. Mainz-based ISB successfully placed a sub-benchmark deal. Announced as a 7-year EUR 250m (WNG) bond, the guidance was ms +1bp area. Under the ticker ISBRLP, the order books reached EUR 662m, and the final spread was set at ms flat. This is the biggest bond in the recent issuance series from the Rhineland-Palatinate development bank. All eyes are also on the EU, which yesterday not only presented its Green Bond Framework (see above) but also announced it will issue a new NGEU bond as early as next week. A total of EUR 35bn is set to be funded in three syndications (set to take place around 13 September, 11 October and 8 November) before the end of the year. An RfP has now also been sent out. For the auctions, the concrete dates refer to the fourth Mondays of the relevant month (see article for details). By the end of 2026, EUR 806bn will have been raised, of which EUR 250bn will be green bonds. It is fitting that Spain has just issued its first green bond (EUR 5bn) and that the British DMO responsible for GILTs has announced its first green deal. More and more countries are therefore entering the ESG market. ESG is also the topic rounding off this section as CADES has mandated a syndicate for a 10-year social bond.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
RENTEN	DE	06.09.	XS2386139732	7.3y	0.50bn	ms -11bp	AAA / Aaa / AAA	-
HESSEN	DE	01.09.	DE000A1RQD76	5.0y	0.50bn	ms -10bp	- / - / AA+	-
DBJJP	Other	01.09.	XS2382951148	4.0y	0.60bn	ms +11bp	- / A1 / A	X

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

Covered Bonds
New dynamic on the Canadian covered bond market: Two debut EUR issuers

Author: Dr Frederik Kunze

Canadian covered bond market: we welcome new EUR issuers

Activity in the primary market for EUR benchmarks has also returned after the summer break. It has been over 3 months since issuers from Canada went to investors in the EUR benchmark segment. But now the EUR segment is welcoming two new issuers from Canada. HSBC Bank Canada has mandated a syndicate for a EUR benchmark bond with an initial maturity of five years, while Equitable Bank has announced a placement in the EUR sub-benchmark segment (3y). Both inaugural deals were preceded by the corresponding investor presentations. The deals not only increase the group of Canadian issuers active in euros by a further two institutions (the successful placements from HSBC Bank Canada and Equitable Bank mean that nine of the country's ten active issuers are EUR issuers), but also adds another jurisdiction to the EUR sub-benchmark segment. In this article we provide a current overview of the Canadian covered bond market. Our focus here is on the new composition of the EUR benchmark segment, as well as on the newcomer in the EUR sub-benchmark segment.

EUR debut deal from HSBC Bank Canada - EUR 750m at ms +6bp

HSBC Bank Canada started the marketing phase yesterday (Tuesday) with its benchmark bond at +12bp area. The maximum issuance volume for the 5y deal was specified as EUR 750m. The bond was also issued in soft bullet format in accordance with current market practice in Canada. The final volume was set at the maximum (EUR 750m) with the order book totalling EUR 2.6bn, indicating strong demand for this debut deal.

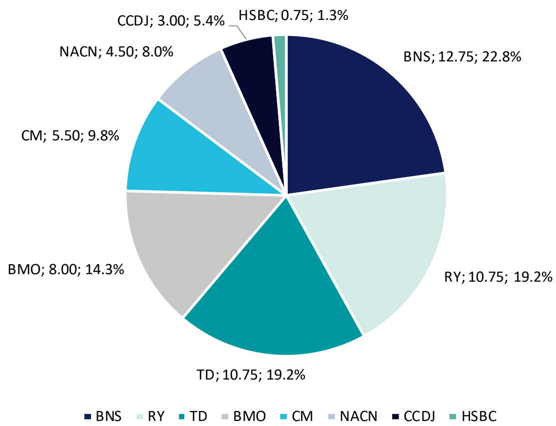
HSBC Bank Canada and Equitable Bank: rating and regulatory assessment

While HSBC Bank Canada had already been successfully active in the USD segment and in light of the coronavirus crisis also carried out CAD issues (CAD 1.5bn; repaid in July 2021), Equitable Bank is a newcomer to the covered bond scene. Bonds issued by Equitable Bank are likely to have a rating of AA from both Fitch and DBRS. Its covered bond programme currently has a framework volume of CAD 2bn. HSBC Bank Canada's programme stands at CAD 10bn and the corresponding bonds carry the top ratings from Moody's (Aaa) and Fitch (AAA). In terms of the risk weighting for the covered bonds, the figure for both issuers is 20% and we believe an LCR classification of Level-2A will apply. The EUR bonds can be lodged as collateral with the ECB but are not eligible for purchase in the context of the Eurosystem's purchase programmes.

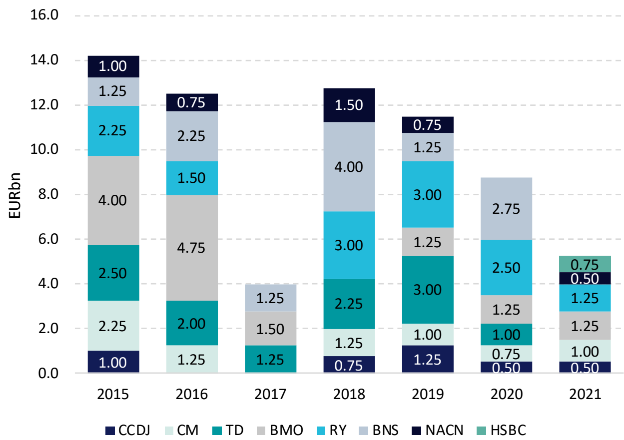
EUR benchmarks from Canada: outstanding volume of EUR 56bn

The Canadian EUR benchmark segment currently has an outstanding volume of EUR 56bn spread across 49 bonds. Alongside HSBC Bank Canada, the active issuers comprise Scotiabank (BNS), Royal Bank of Scotland (RY), Toronto Dominion (TD), Bank of Montreal (BMO), Canadian Imperial Bank of Commerce (CIBC), National Bank of Canada and the Federation des Caisses Desjardins du Quebec (CCDJ). Before the HSBC deal, the last issuer in the market was CIBC with a EUR 1.25bn covered bond (8y) on 1 June. In the year to date, EUR 5.25bn has been placed and we expect supply to stand at EUR 6.5bn for 2021 as a whole. Yesterday's announcement of an 8y EUR benchmark by BNS pushes the issuance volume in the direction of our projected figure. An issuance volume of EUR 6.5bn would produce a negative net supply for 2021 of EUR 1bn (maturities: EUR 7.5bn).

CA: Outstanding volume by issuer (BMK)



CA: Issues by year (BMK)



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

Overview of issuers

According to the CMHC Registry, the active universe of covered bond issuers comprises a total of 11 institutions. In addition to the eight EUR benchmark issuers, the CMHC Registry also lists Laurentian Bank (LB) and Equitable Bank (EQB). Laurentian Bank has only utilised the market for publicly placed issues in Canadian dollars so far. HSBC has previously carried out public issues in USD and, like the longer established covered bond issuers, has in the past utilised the option of securing central bank liquidity via retained CAD bonds, as mentioned earlier. Permission to do this was directly related to the onset of the coronavirus crisis and has already been revoked again by the Bank of Canada. In our opinion, the expiry of this special rule is one variable explaining both the fall in covered bond volumes at some issuers, as well as the decline in the share attributable to CAD in the currency breakdown. Canada is one of those jurisdictions which ensure limitation of the issuance volume of individual issuers via an asset encumbrance ratio. The OSFI limit stands at 5.5% and is complied with by all active issuers. Overall, we see notable issuance potential on the part of Canadian issuers, even excluding imminent maturities.

Overview: Canadian Covered Bond issuers according to the CMHC Registry

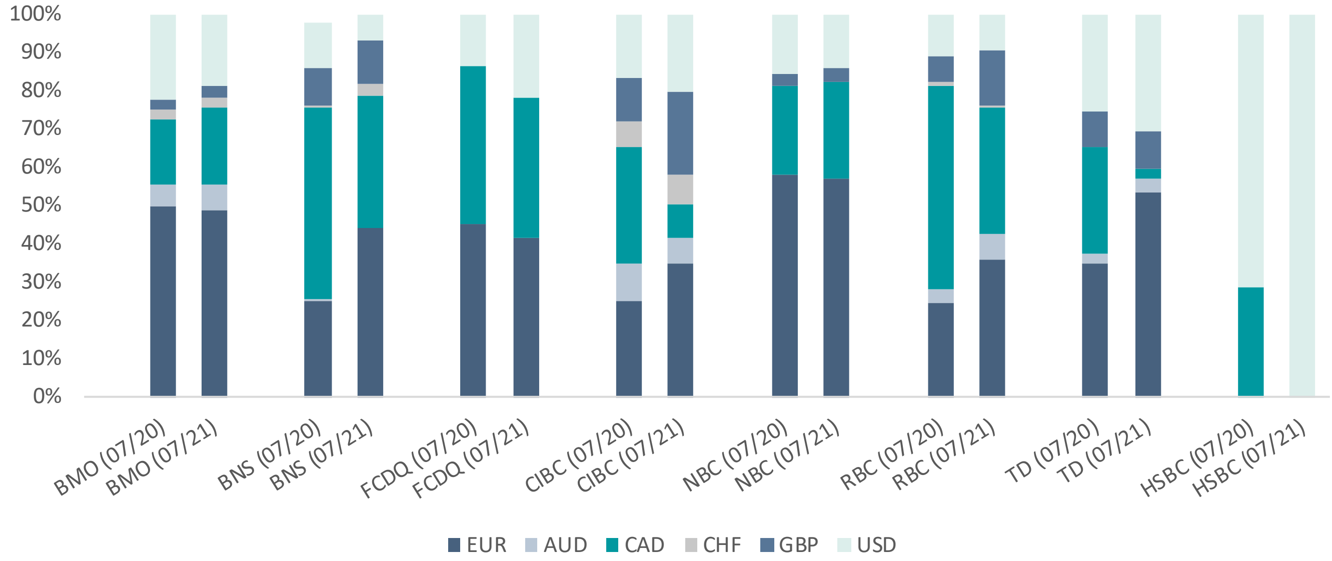
Issuer[1]	Cover pool volume (CAD m)		Total outstanding (CAD m)		OC		OC[1] CMHC Guide		OSFI Limit[3]		Segment	
	July 2021	July 2020	July 2021	July 2020	July 2021	July 2020	July 2021	July 2020	CB ratio	CB ratio limit	EUR BMK	EUR SBMK
BMO	35.454	35.135	25.011	29.407	41.8%	19.5%	7.00%	7.00%	2.82%	5.5%	X	
BNS	60.014	77.397	43.620	59.556	37.6%	30.0%	6.2%	6.40%	4.12%	5.5%	X	
CCDJ	11.731	10.552	10.849	9.757	8.1%	8.1%	4.15%	4.26%	3.40%	5.5%	X	
CIBC	29.928	39.177	23.604	27.155	26.8%	44.3%	7.31%	7.39%	3.24%	5.5%	X	
NBC	16.478	17.711	11.754	12.906	40.2%	37.2%	9.13%	9.14%	3.66%	5.5%	X	
RBC	85.526	112.059	43.880	75.327	94.9%	48.8%	7.63%	7.64%	2.26%	5.5%	X	
TD	64.620	71.788	29.571	49.280	118.5%	45.7%	5.26%	5.26%	1.86%	5.5%	X	
HSBC	10.120	12.025	3.730	5.230	171.3%	129.9%	10.27%	10.39%	3.61%	5.5%	(X)	
LB	0.300	NA	0.250	NA	20.1%	NA	15.50%	NA	0.64%	5.5%	-	-
EQB	0.628	NA	NA	NA	NA	NA	NA	NA	0.00%	5.5%		(X)

Source: Issuers, rating agencies, NORD/LB Markets Strategy & Floor Research; [1] OC as basis for OSFI Limit; [3] OSFI covered bond ratio shows the total assets used as cover for the covered bonds issued in the market in relation to the total balance sheet assets.

Canada: covered bonds by currency

The following chart shows the breakdown by currency of outstanding covered bonds in Canada. In each case it is based on data from the Harmonized Transparency Template (HTT) of the Covered Bond Label, which is completed by the issuers themselves. The comparison with the previous year shows a decline in the share of issues denominated in Canadian dollars at BNS, CIBC, RBC, TD and HSBC in particular, which can be explained by expiry of the special regulation regarding eligibility of retained CAD issues as central bank collateral mentioned earlier. The declines benefited the shares attributable to covered bonds denominated in euros and US dollars in particular, although this by no means indicates inactivity on the part of Canadian issuers outside these two currencies. While Canadian issuers account for 6.3% of the iBoxx EUR Covered index, the weighting for Canadian issuers in the much smaller USD market is considerably higher at USD 9.4bn, or 35% (1st place). The latest placement in the USD segment was yesterday (Tuesday). RBC went to the market with a 5y USD benchmark (USD 2.5bn). The bond, which was priced at ms +18bp, is not yet included in the iBoxx USD Covered index. The most recent addition to the index is a CIBC bond (EUR 2bn) from June 2021. The role of CIBC as an active issuer in foreign currencies is also reflected in its recently placed covered bond denominated in Australian dollars. The AUD 1.5bn bond was successfully marketed yesterday. The latest non-euro deal is a 3-year GBP bond from BNS. The issuer also went to the market this trading week with its GBP benchmark on the basis of SONIA (final pricing: SONIA +23bp). This deal was followed by yesterday's mandate from BMO, also for a GBP deal which will be placed shortly. Overall, it can be said that covered bond issuers from Canada are among those credit institutions which regularly use non-euro covered debt securities as funding vehicles as well. This is not always necessarily due to a funding requirement from direct business operations. Conversely, however, this does not point to a high degree of relevance for the country's own currency with regard to publicly placed covered bonds. In this context, the CAD debut bond from Laurentian Bank in April 2021 can be seen as the exception that proves the rule for the market as a whole.

Covered bond issuers in Canada: outstanding volumes by currency (as at July 2020 and July 2021)



Source: Issuers, NORD/LB Markets Strategy & Floor Research; Laurentian Bank has a publicly placed outstanding covered bond in the amount of CAD 500m. (Currency share of outstanding volume as at end July 2021: 100% CAD)

Conclusion

The Canadian covered bond market in particular has been characterised recently by a high level of primary market activity. This momentum is by no means limited to the EUR benchmark segment. HSBC Bank Canada has joined the circle of EUR benchmark issuers, while Equitable Bank has added Canada to the jurisdictions in the sub-benchmark segment. However, the recent issuance pattern also reveals a certain amount of variety with regard to issue currencies. Following the summer break we have seen USD deals as well as covered bond placements from Canada denominated in both AUD and GBP.

Covered Bonds
Development of the German property market

Author: Dr Frederik Kunze

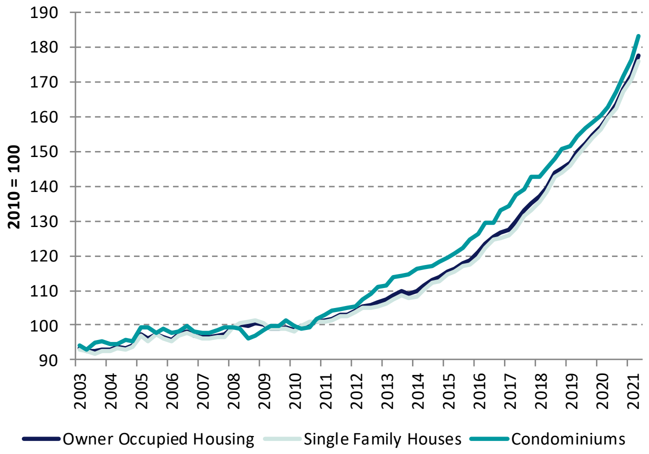
vdp property price index climbs to 179.7 points in the Q2 2021 reporting period

The Association of German Pfandbrief Banks (Verband Deutscher Pfandbriefbanken; vdp) has published details of the performance of its real estate price index. The latest reporting period refers to Q2 2021. Here, the figures continue to reflect the differences between the sub-segments of the closely monitored index that have been apparent over recent quarters. While the "housing" sub-index, in particular, continued its sharp upward trend compared with the previous year, rising by 10.7%, the "commercial" index declined by -1.1% year on year. Consequently, the overall index for real estate price development increased by 8.0%. The Top 7 index for residential properties, which depicts trends in prices in the cities Berlin, Hamburg, Frankfurt am Main, Munich, Stuttgart, Düsseldorf and Cologne, increased sharply in the last twelve months (by +7.5%). For vdp Chief Executive Jens Tolckmitt, the increase in residential property is attributable to the combination of consistently strong demand and lagging supply. We shall look at the price changes in detail across the following sections.

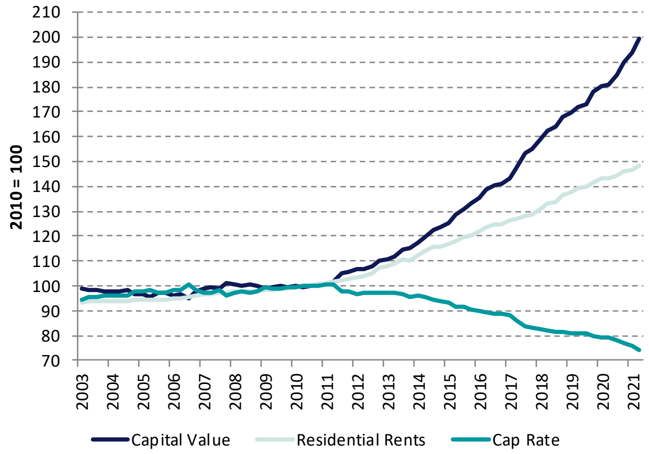
Prices for owner-occupied apartments have risen most

For the real estate market, in particular, changes to private households' preferences are seen as a direct consequence of the pandemic and experiences of lockdown. This is far from being a phenomenon that is restricted to the German economy but is seen as a key factor driving prices here too, in particular. Prices for owner-occupied housing have risen by +10.9% since Q2 2020, with prices for single family houses increasing by +10.4% and those for owner-occupied apartments by as much as +12.5%. Looking at growth in the index since it was introduced in 2003, the current database once again sets new records. In this connection, the fact that all three growth rates are currently in double-digits is also remarkable. Compared with the previous period, figures of +3.2% Q/Q (owner-occupied housing), +3.0% Q/Q (single family houses) and +4.0% Q/Q (owner-occupied apartments) also reflect the current dynamism. Key factors influencing this growth are still, firstly, favourable financing conditions and – as mentioned initially – the fact that new construction activity is still limited in some cases. In this connection, supply on the market for existing properties must also be cited as an additional factor determining prices in our opinion. The lack of alternative investments and anticipated price increases depress supply and/or result in (potential) property vendors setting higher asking prices.

Owner-occupied housing



Apartment buildings



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

Rents and prices for apartment buildings

The impact on the market trend for apartment buildings is comparatively clear here. Having increased by +10.5% over the last twelve months (previous quarter: +7.6%), prices not only continued their significant upward trend but headed towards the previous record figure of +10.9% Y/Y set in Q1 2018. The reasons here are the same as those for owner-occupied housing: favourable financing conditions and significant excess demand. Despite prices continuing to rise sharply, apartment buildings are very popular among German and foreign investors. The increase in rents for new contracts, of +3.3% year on year, was even more impressive. With a fall of -6.5% Y/Y, the property rate, which compares the net yield with the purchase price (excluding ancillary purchase costs), reflects the fact that the increase in the rents is being more than offset by the increase in prices.

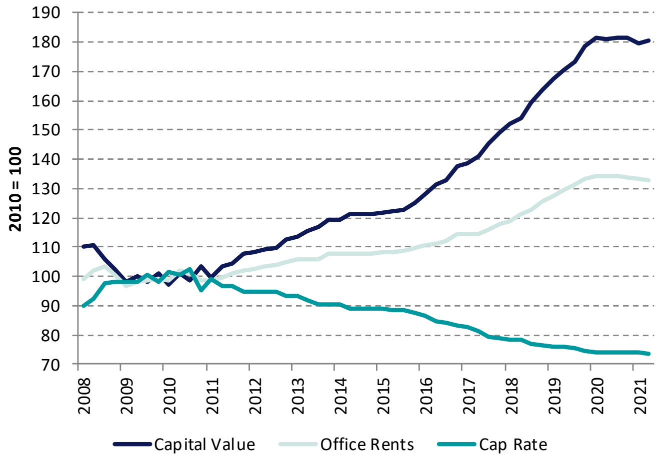
Prices for office property are falling

Unlike the market for residential properties, the impact of the pandemic and its side effects is clearly apparent in the commercial sector. Accordingly, prices for office properties have fallen by -0.4% since Q2 2020, meaning that compared with the previous year, prices have fallen for the second quarter in succession. At -1.0% on the back of -0.9% in the previous quarter, office rentals have again fallen compared with the previous year.

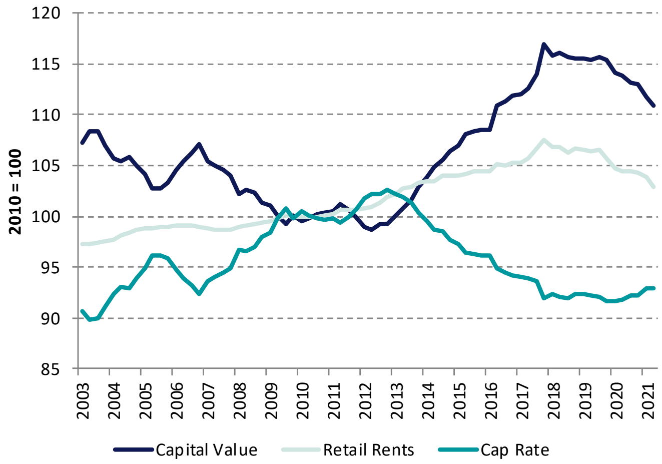
Prices for retail properties: major negative effects

As we have already noted frequently at this point, the retail sector has also been exposed to numerous challenges for some time. The coronavirus pandemic acted and continues to act as an additional catalyst here – also as far as changes to consumers' shopping habits are concerned. Here, prices fell by -2.6% over the year, which is another sharp fall. It is also the seventh fall in succession. The income component is also continuing the negative trend. Rents for new contracts have also been falling for seven quarters in succession (fall in Q2 2021: -1.5 Y/Y). For the vdp, non-food retail remains the hardest hit sub-sector in the retail sector. The association refers to new usage concepts that should stabilise demand as a glimmer of hope.

Office properties



Retail properties



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

Top 7 residential market: another quarter featuring significantly higher prices!

The separate index for the performance of the residential property market in the above mentioned top 7 cities continues its upward trend. In actual fact, it is clear that the index is rising particularly sharply at present. Accordingly, prices for owner-occupied housing rose by +9.0% in total in the past twelve months, which is the sharpest increase seen in the past twelve quarterly reports. Again, the sub-index for owner-occupied apartments in the top 7 cities recorded the sharpest growth (+9.7% Y/Y). As in the national consideration of the housing market, strong demand and the comparatively inflexible supply must be cited as the key factors driving prices.

Conclusion

As indicated by the movements on the closely monitored vdp Property Price Index, prices on the German property market are still trending higher by and large. Here, it is prices for housing that are more than offsetting reverses on the indices for commercial buildings. In our opinion, the pandemic is acting as a catalyst in different ways on the sub-markets. Changes in private households' preferences and/or behaviour patterns are crucial. Monetary policy but also the lack of alternatives for investing capital are also among the factors making an impression on the German property market.

SSA/Public Issuers
NGEU in the starting blocks: 3, 2, 1 … EU auctions!

Autor: Dr. Norman Rudschuck, CIIA

Introduction
Following the SURE transactions (Support to mitigate Unemployment Risks in an Emergency), the European Union is about to start its next big project: NGEU as auctions! According to an EU statement, NextGenerationEU is a once in a lifetime opportunity to emerge stronger from the pandemic, transform economies and create new opportunities and jobs for the Europe of tomorrow. It has a vision, a plan and has agreed to invest EUR 806.9bn together with the aim of making Europe greener, more digital and more resistant to crises. The refinancing amount is quoted in the respective prices. It was originally announced at EUR 750bn, but that was in 2018 prices. Today, we shall make an attempt to respond to the EU's auctions with ideas and to deduce the path by which the German Finance Agency and the Agence France Trésor (AFT) could shortly launch this new instrument for the EU smoothly. In this context, we shall look at bids with and without prices, retained amounts set aside for secondary market operations and the bid-to-cover ratio.

Issuance planning
Thanks to its credible issuance and information policy, which aims to ensure continuity, the German government and its federal securities (Bunds) have been regarded as the benchmark for sovereign bonds in the Eurozone for years. We expect the EU, as an issuer, to be guided by the major players such as Germany and France, but also the ESM/EFSF and the EIB. The German government publishes the planned issuance programme for the upcoming calendar year (e.g., 2021) in the second half of the previous December (e.g., 2020) as a press release and by newsletter. The forecast for the year clearly shows the type of Bund to be issued, the target nominal volume, the type and date of the issue as well as the maturity date for (non-interest bearing) treasury bills, federal treasury obligations (Bundesschatzanweisungen), federal notes (Bundesobligationen) and federal bonds (Bundesanleihen). By publishing such a detailed issuance calendar for the entire calendar year in good time, the German government has since emphasised its global reputation as a transparent, extremely reliable issuer. It therefore gives its investors the opportunity to prepare for the issuance rhythm for Bunds even earlier, offering even better information for their investment decisions in the process. Over the course of the year, the individual quarters of the issuance calendar are again published separately at the end of the respective previous quarter. There is still no detailed planning provided for the German government's newer funding instruments, such as inflation-linked Bunds, foreign currency bonds and Schuldscheindarlehen (SSD) issuances. Although the German government always intends to carry out the specified issuance plans as far as possible, issuance planning is subject to the proviso that the amounts and dates specified may change depending on the German government's funding requirement and liquidity situation and depending on the capital market situation. In this context, the upcoming auctions will make a clear distinction according to capital market or money market instruments. The EU will also tap both markets whereby the capital market is more relevant for us. New issues will be clearly indicated with an "N", whereas increases/taps will be denoted by way of an "A".

Tender process

The home page of the “Bundesrepublik Deutschland Finanzagentur GmbH” – to use its full legal name – demonstrates German thoroughness with regard to transparency: federal bonds, federal notes, inflation-linked federal bonds and notes, federal treasury obligations and (non-interest bearing) treasury bills are usually issued by the German government through the tender process (auction process). Only members of the ‘Bietergruppe Bundesemissionen’ (Auction Group Bund Issues) can acquire Bunds directly within this tender process. The Bund Bietungs-System (Bund Bidding System; BBS) operated by the Bundesbank serves as the technical platforms for the tender. During the auctions, bids for Bunds must be expressed in a nominal amount of at least EUR 1m or a whole multiple of this figure. The bids are also expected to contain the price as a percentage of the nominal amount, at which the bidders are prepared to acquire the Bunds offered. In principle, several bids at different prices and bids where no price has been specified (referred to as “non-comps”, see below) are possible. The prices offered (ergo: nominal prices) must be expressed in whole 0.01 percentage points for federal bonds and federal notes (including inflation-linked securities), in whole 0.005 percentage points for federal treasury bills and in 0.00005 percentage points for (non-interest bearing) treasury bills.

Allocation and amount set aside for secondary market operations

The Germans use a multi-price auction process, i.e., bids accepted will be allocated at the price specified in the respective bid and not settled at a standard price. Bids that are above the lowest accepted price will be allocated in full, while bids below the lowest accepted price will not receive an allocation. Bids where no price was specified will be allocated at the weighted average price of the accepted price bids. The Finanzagentur reserves the right to reject all bids and to re-allot both the bids at the lowest accepted price and the bids where no price was specified, i.e., only to allocate at a certain percentage rate. Generally speaking, the Finanzagentur retains a certain nominal volume (amount set aside for secondary market operations) at each auction, which can subsequently be released into the market little by little as part of secondary market operations following the tender. Only members of the Auction Group Bund Issues can acquire Bunds directly through this tender process.

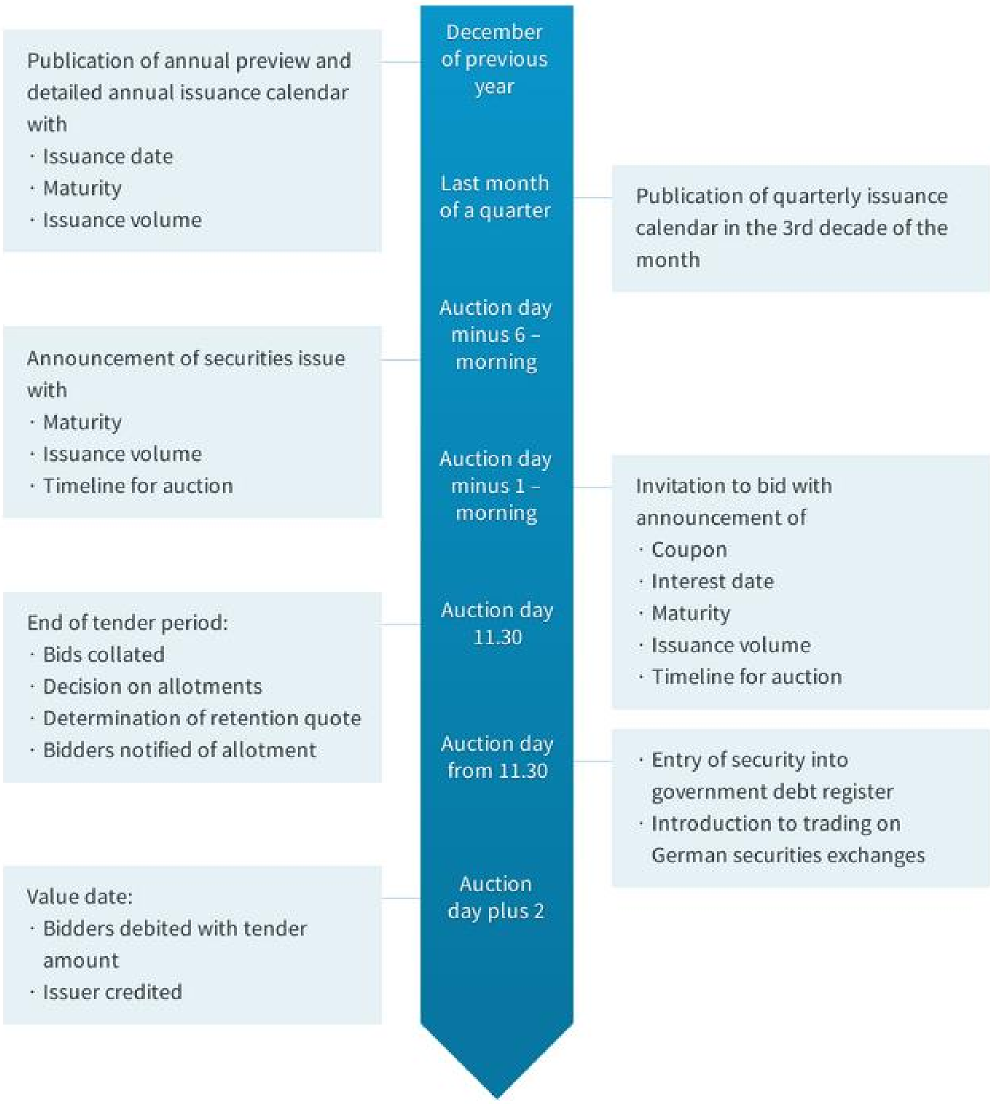
Auction Group Bund Issues

In principle, all banks and securities companies based in the EU, the EEA, Switzerland or the United Kingdom may become a member of the Auction Group. The Auction Group Bund Issues consists of banks that have been admitted by the German Finance Agency as participants for auctions of Bunds. They must also – in addition to their registered office – comply with the requirements of the tender process rules and accept the conditions of the BBS: “Procedural rules for tenders as part of the Bund issuance process” and “Special conditions by the German Bundesbank for auctions of Bunds via the Bund Bidding System”. According to the German Finance Agency, the German government (by and large) pursues a very liberal approach vis-à-vis the bidding banks in the design of its issuance process. Accordingly, to remain a member of the Auction Group, a bank must only accept at least 0.05% of the overall maturity-dependent weighted issuance amounts allocated in the tenders over the course of a given calendar year. Members that do not achieve this minimum acceptance will leave the Auction Group at the end of the year. The Auction Group currently comprises 33 banks, including NORD/LB.

Auction dates

Each of the securities mentioned will be auctioned on different dates, with the tenders for Federal notes and nominal Federal bonds with a maturity of ten years or more accordingly scheduled to take place on a Wednesday in each case. Other exactly specified placements are carried out on Mondays or Tuesdays. Six working days before the tender date, the German Bundesbank will issue a press release announcing the auction of a Bund including the issuance volume and maturity. One day before the tender, the coupon and the interest payment date will be announced in the invitation to tender, which is also published as a press release. On the auction date itself, members of the Auction Group can submit their bids for the tender online via the BBS from 8.00 a.m. to 11.30 a.m. (CET). The allocation decision will be made by the German Finance Agency immediately after the bidding period ends and will be conveyed to the bidders via the BBS.

Standardised process for issuing Federal Government securities



Source: German Finance Agency, NORD/LB Markets Strategy & Floor Research

Auction results

On the day a Bund is auctioned, the amounts to be allocated for members of the Auction Group Bund Issues will be transmitted in the BBS immediately after the allocation decision is made. This will immediately be followed by publication of the results of the auction in the usual capital market information systems and on the German Finance Agency's website. Besides "N" and "A" for new issues and taps, the results include other key parameters.

- **(Weighted) average price:** price weighted by the allocated amount
- **Average yield:** yield of the average price
- **Amount set aside for secondary market operations:** retained part of the issuance volume
- **Bid-to-cover ratio:** ratio of the amount of bids received to the amount allocated
- **Bid-to-offer ratio:** ratio of the amount of bids received to the issue volume

Analysis

In the following analysis, we have used these parameters applied by the German Finance Agency and those of its French equivalent, the Agence France Trésor, to assess how future auctions by the European Union might work. In this context, it will be particularly interesting to see how the "auctions" topic will be accepted and implemented generally speaking. The amounts issued by the EU are likely to be comparable with those of Germany and France – or even larger. Once the new procedure has been established successfully, EU bonds might, depending on the circumstances, even exceed the issues of the previous European heavyweights over time.

Agence France Trésor

The French government's funding agency (AFT) uses a similar multi-price auction process to the German Finance Agency, which is a variant of a simple Dutch auction. In short, all bids are serviced at their respective bids. The highest bids are serviced in full down to the lowest accepted price. Bids at the lowest accepted price may be re-allotted and only receive a certain percentage of their respective amount so that the AFT achieves its target issue amount. The official announcement of the invitation to tender is issued the day before the auction. Bids by primary dealers are accepted until the official cut-off time. The AFT may grant the relevant primary dealers the right to submit non-competitive bids after the auction and tends to do this for shorter OAT bonds with a maturity of less than ten years. With an annual, quarterly and monthly auction calendar, information about the AFT's and the French government's debt management becomes ever more detailed over the course of the year.

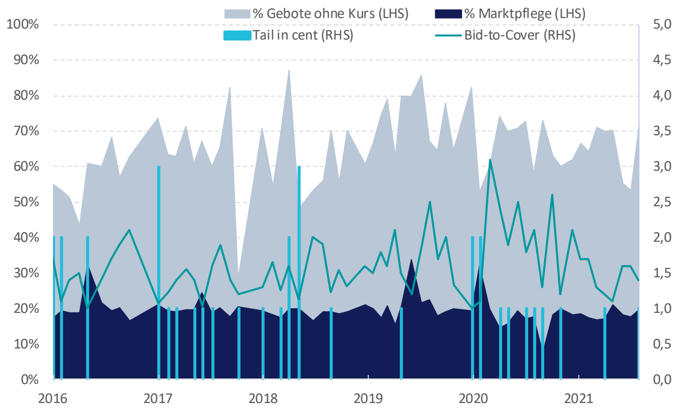
ESM/EFSF

The ESM and EFSF indicate the calendar weeks in which one of the two will approach the market in their quarterly newsletters. Usually, more dates are specified than there are transactions. Likewise, the entire issue volume per issuer and per quarter is announced at the end of the previous year. As far as ESM bills are concerned, the issuer is more flexible regarding volumes. There are various dates per month but only one per maturity (3M, 6M and 12M). We would also expect this for the EU's money market-adjacent funding operations. Auctions are rare for ESM and EFSF issues but have been used, depending on circumstances, for longer dated bonds in the past.

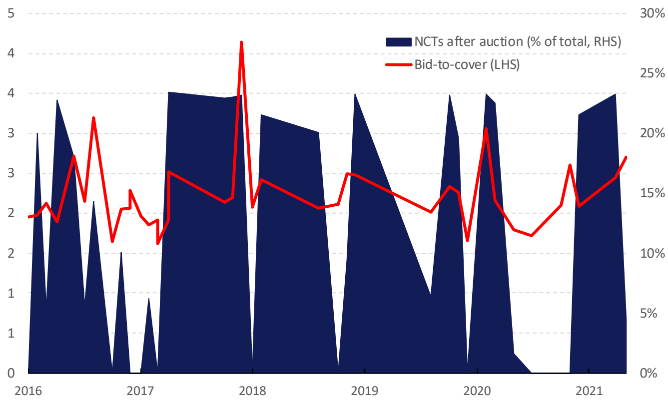
A look at the data

Both funding agencies in Germany and in France make available information on past auctions online in a highly transparent manner. We therefore know that for German five-year federal notes (OBL) an average bid-to-cover ratio of 1.6x was achieved in the period from 2016 to today (62 transactions). The greatest oversubscription ratio was 3.1x, while the lowest figure was 1.0x. This does not compare with an oversubscription in the order book, such as that seen for SURE: here, the lowest figure was 11.7x and the highest was 14.5x in 2020. However, in this context, there was also a considerable new issue premium on the deals initially. In 2021, the mean was 8.3x and the lowest figure 5.8x. The average bid-to-cover ratio achieved in auctions of French OATs with a five-year maturity was 2.2x across 39 transactions in the period under consideration. Here, the lowest figure was 1.6x and the highest was 4.2x. It will therefore be very interesting to see what happens here with the first auctions held by the EU. For comparative purposes: in mid-May 2021, the EFSF increased its 0% bond, which will mature on 15 October 2025, by EUR 998.30m as part of an auction process. "In today's auction, we successfully raised just under EUR 1bn for the EFSF's funding requirements in the second quarter. The auction was met with very strong demand, as the bid-to-cover ratio of 7.1x shows," said Silke Weiss, acting Head of Funding and Investor Relations at the EFSF. The weighted average price of that auction was 101.35%, while the average yield came in at -0.30%. Bids for the auction were transmitted via the EFSF Bidding System (EBS) operated by the German Bundesbank.

Germany: 5y OBL



France: 5y OATs



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

Additional data analysis

The amount retained by the German Finance Agency for secondary market operations for 5y OBL transactions is also of interest from an analytical point of view: from 2016 up to the present time (the period we have chosen for analysis), this was 19% with 62 issues examined. The lowest figure was around 8%, while the highest was 34%. On 1 April 2020, in particular, the issuer retained 32%, which we would attribute to the tensions arising as a result of the onset of the coronavirus pandemic. At the time, the market was virtually dead. Bids where no price was specified have averaged 65% since 2016. Here, too, the range of 28% to 82% is considerable. The weighted average price and the lowest accepted price are not always identical. If the prices differ, the tail is calculated from the difference in cents. In 35 of the 62 transactions, the prices matched, in 27 times, the weighted average price was higher. On two occasions, the difference was 3 cents or 0.03 places, as on 25 July 2018 with prices of 100.94 and 100.97 respectively.

Considerations regarding upcoming EU transactions

The EU will soon issue both money market securities and bonds via auction, with the entirely new EU bills being issued solely via auction. For EU bonds, one syndication and one auction per month are planned. The auction system will also be used for taps. The EU aims to establish a liquid NGEU benchmark curve. It will therefore always try to top up each bond in future. The investor call scheduled for today (Wednesday, 9am, shortly after this publication goes to press) will likely clarify the final outstanding questions. The aim is to become as reliable as established players.

Time window for...

… syndications		**… auctions (fourth Monday of the month)**	
CW 37	September 13-17	**CW 37**	September 13-17
CW 41	October 11-15	**CW 41**	October 11-15
CW 45	November 08-12	**CW 45**	November 08-12

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

Non-competitive bids likely to be excluded (for the time being at least)

The German government/German Finance Agency has – as described – the option of retaining parts of the auction amount, which helps offset any possible lack of interest. In recent times, there has, generally speaking, been a higher percentage of tenders in OBL auctions from "non-comps" (or non-competitive bids). These are allocated at the weighted average of the bids accepted. The German Finance Agency retains the right to reject all bids or to reduce bids with the highest accepted yield and/or the non-comps. In the event of the bids being reduced, there is no minimum allocation. Bids submitted in good time, which can only be considered after allocation for technical reasons, have no impact on the allocation. The fact that the German Finance Agency retains part of the quantity issued means that both the weighted average price and the lowest accepted price are identical. Of course, this is not the case with every auction, but it is still interesting to observe. We surmise that the EU will only allow competitive bids – at least initially – and non-comps will only play a role later over time.

Conclusion

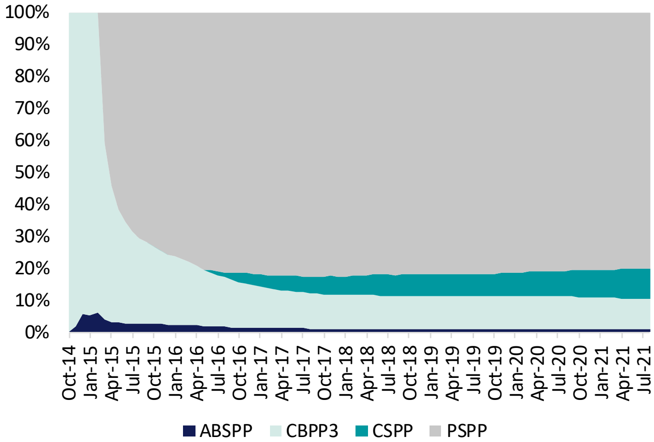
Today's article is an attempt to delve into the specifics of bond auctions. It is not easy to draw any firm conclusions as to how the market will react to the first auctions by the EU. On the one hand, we have the technical factors described above, although on the other, the most important factors are the amount of real money orders that primary dealers can secure and how they will behave. By omitting non-comps and an amount set aside for secondary market operations, we would expect increased volatility. Defined rules, such as a minimum purchase at auctions and the potential size of the auctions will not make pricing easy and the tails could be quite significant – to begin with, at least. The bid-to-cover ratio could certainly be very high compared with the established OBL auctions. Today's investor call is likely to provide the final details to help us understand the process. The NGEU transactions were successful before the summer break but there will be at least three further transaction windows each before the end of the year. In total EUR 35bn is to be refinanced in six tranches before the end of the year. Consequently, the EU will start to raise these funds from next week. The European Commission also published its Green Bond Framework yesterday. The EU will (have to) find a means to communicate all this.

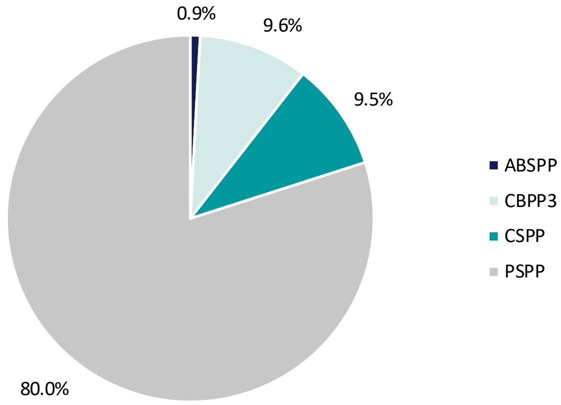
ECB tracker

Asset Purchase Programme (APP)

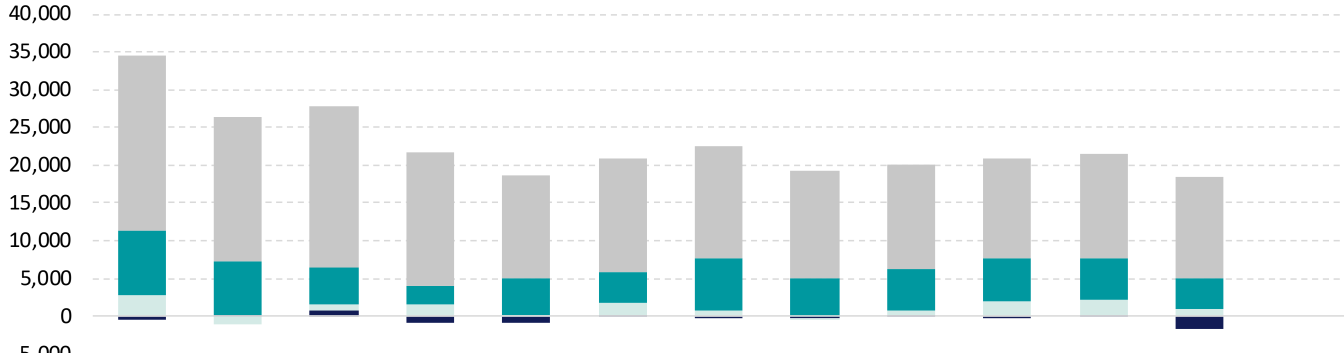
	ABSPP	CBPP3	CSPP	PSPP	APP
Jul-21	28,331	293,776	287,233	2,429,274	3,038,614
Aug-21	26,582	294,775	291,169	2,442,837	3,055,363
Δ	-1,749	+999	+3,936	+13,563	+16,749

Portfolio structure





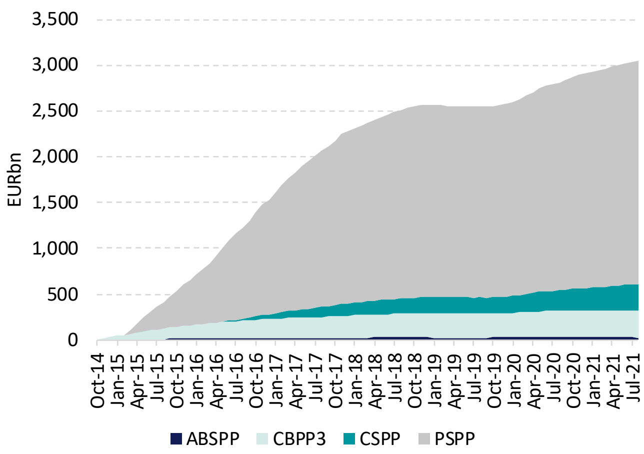
Monthly net purchases (in EURm)



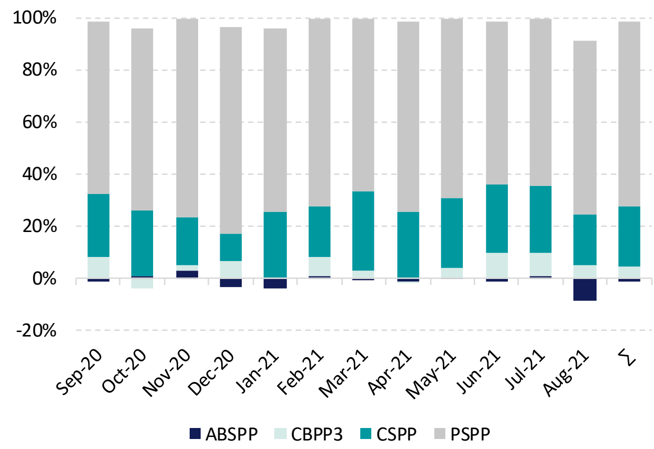
	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	∑
APP	34,014	25,349	27,720	20,929	17,846	20,915	22,561	18,918	20,141	20,640	21,597	16,749	267,379
PSPP	23,102	19,182	21,241	17,822	13,655	15,129	14,955	14,186	13,973	13,320	13,943	13,563	194,071
CSPP	8,496	6,983	5,009	2,378	4,924	4,064	6,929	5,015	5,394	5,602	5,502	3,936	64,232
CBPP3	2,839	-1,041	646	1,529	74	1,539	684	-5	686	2,037	2,011	999	11,998
ABSPP	-423	225	824	-800	-807	183	-7	-278	88	-319	141	-1,749	-2,922

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

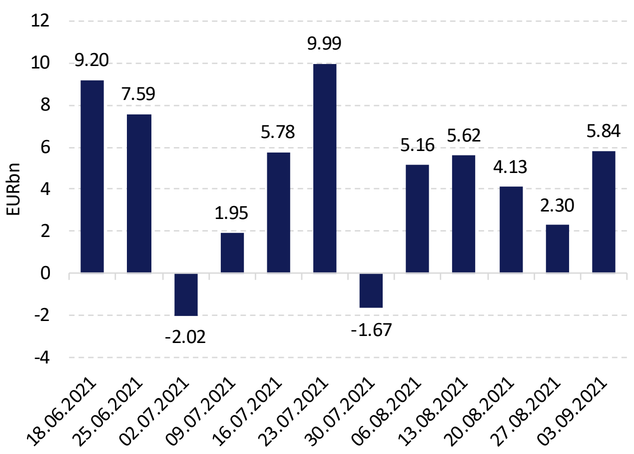
Portfolio development



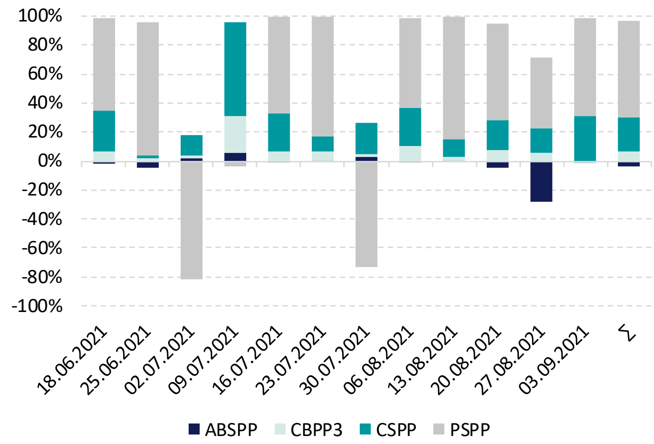
Distribution of monthly purchases



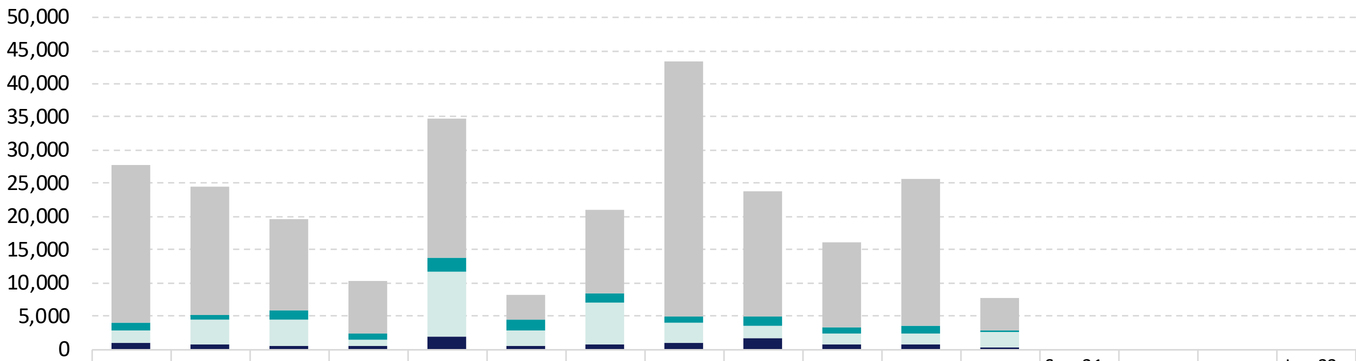
Weekly purchases



Distribution of weekly purchases



Expected monthly redemptions (in EURm)

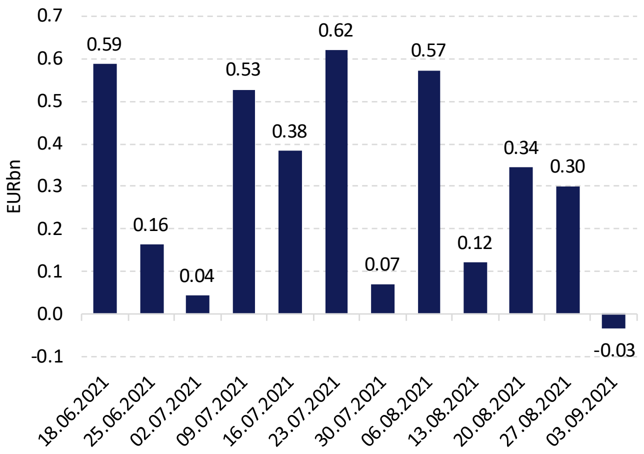


	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-21 - Aug-22	2020	2021	Jan-22 - Aug-22
APP	27,710	24,480	19,661	10,201	34,662	8,146	21,133	43,496	23,851	16,063	25,694	7,726	262,823	262,253	245,841	180,771
PSPP	23,667	19,224	13,802	7,811	20,906	3,625	12,603	38,442	18,998	12,714	22,123	4,841	198,756	201,482	188,484	134,252
CSPP	1,102	800	1,269	826	1,946	1,590	1,416	1,125	1,341	1,017	1,191	280	13,903	18,267	16,288	9,906
CBPP3	1,920	3,775	4,048	937	9,797	2,524	6,380	2,997	1,866	1,522	1,558	2,226	39,550	33,236	30,143	28,870
ABSPP	1,021	681	542	627	2,013	407	734	932	1,646	810	822	379	10,614	9,268	10,926	7,743

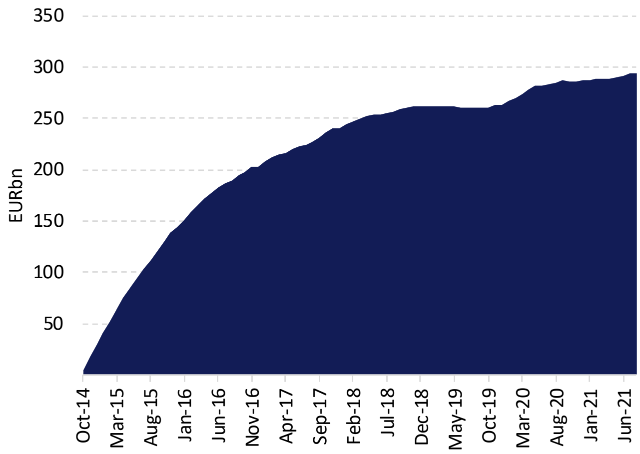
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Covered Bond Purchase Programme 3 (CBPP3)

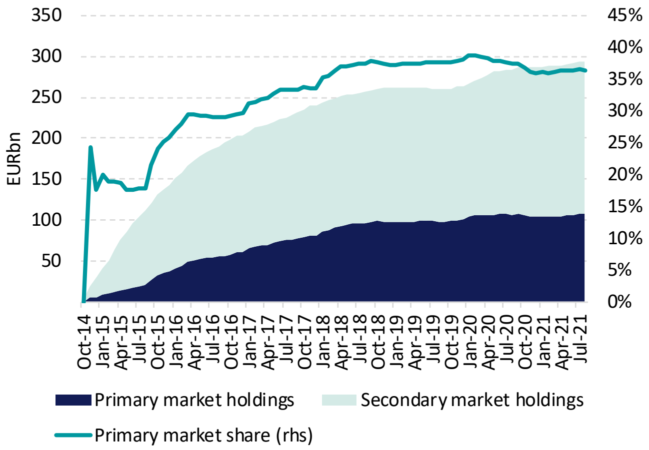
Weekly purchases



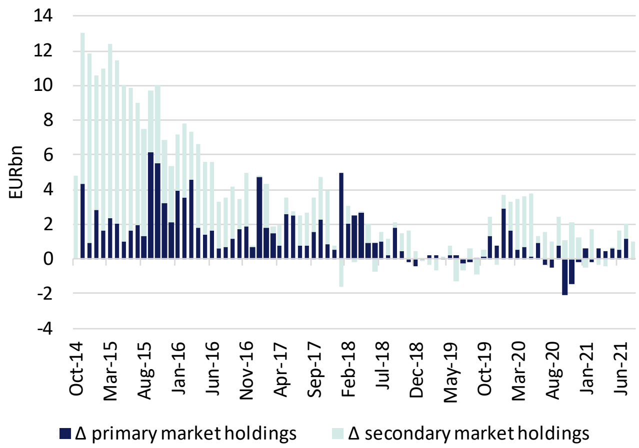
Development of CBPP3 volume



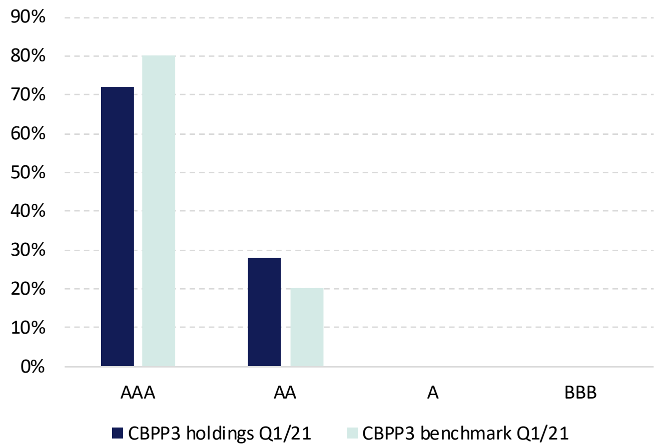
Primary and secondary market holdings



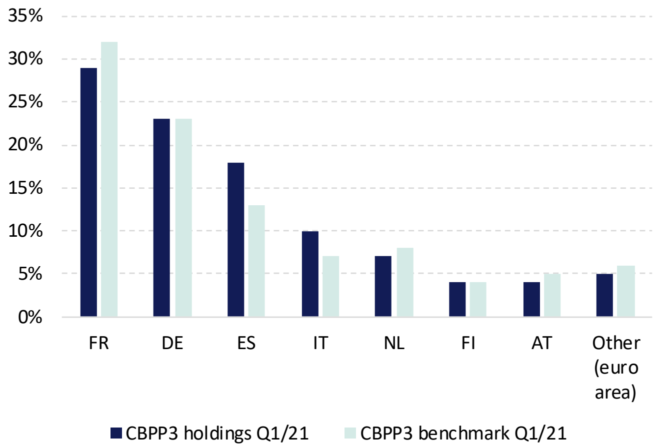
Change of primary and secondary market holdings



Distribution of CBPP3 by credit rating



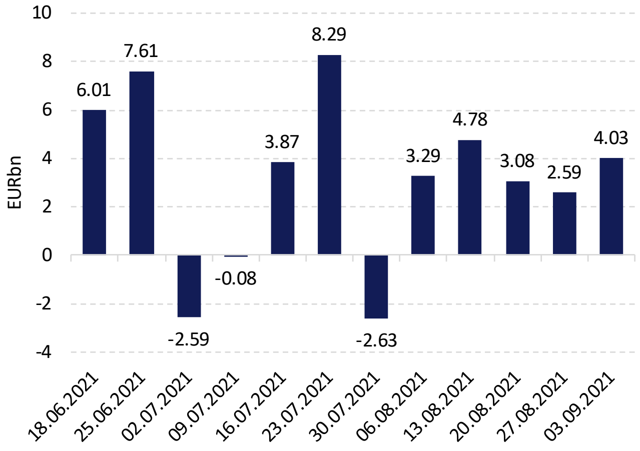
Distribution of CBPP3 by country of risk



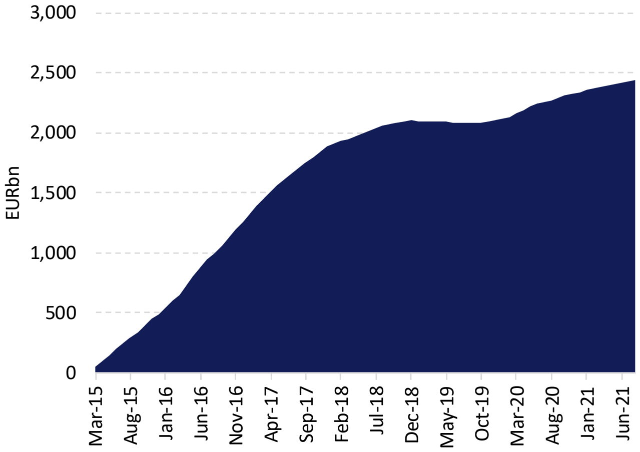
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Public Sector Purchase Programme (PSPP)

Weekly purchases



Development of PSPP volume



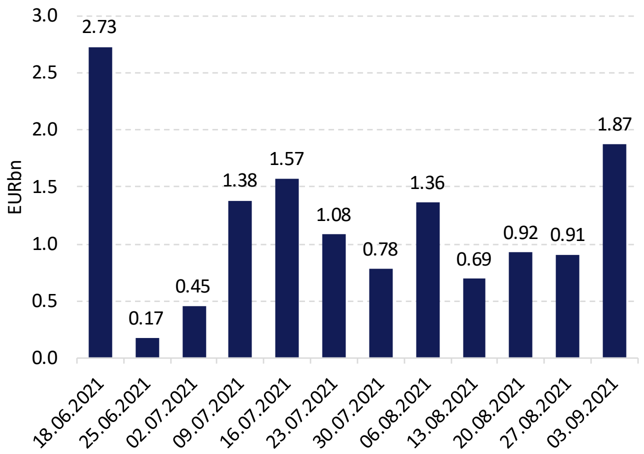
Overall distribution of PSPP buying at month-end

Jurisdiction	Adjusted distribution key[1]	Purchases (EURm)	Expected purchases (EURm)[2]	Difference (EURm)	Avg. time to maturity[3] (in years)	Market average[3] (in years)[3]	Difference (in years)
AT	2.7%	0	0	0	7.5	7.6	-0.1
BE	3.4%	0	0	0	8.0	10.2	-2.2
CY	0.2%	0	0	0	9.9	8.8	1.1
DE	24.3%	0	0	0	6.6	7.6	-1.0
EE	0.3%	0	0	0	9.2	7.5	1.7
ES	11.0%	0	0	0	8.0	8.4	-0.4
FI	1.7%	0	0	0	6.9	7.7	-0.8
FR	18.8%	0	0	0	7.2	8.1	-0.9
GR	0.0%	0	0	0	0.0	0.0	0.0
IE	1.6%	0	0	0	8.5	10.1	-1.6
IT	15.7%	0	0	0	7.1	7.9	-0.8
LT	0.5%	0	0	0	10.2	10.6	-0.4
LU	0.3%	0	0	0	5.6	7.2	-1.7
LV	0.4%	0	0	0	11.3	10.4	0.9
MT	0.1%	0	0	0	9.5	9.2	0.3
NL	5.4%	0	0	0	7.7	9.0	-1.4
PT	2.2%	0	0	0	7.0	7.2	-0.2
SI	0.4%	0	0	0	9.9	10.2	-0.3
SK	1.1%	0	0	0	8.2	8.3	-0.1
SNAT	10.0%	0	0	0	7.7	8.9	-1.2
Total / Avg.	**100.0%**	**0**	**0**	**0**	**7.3**	**8.2**	**-0.9**

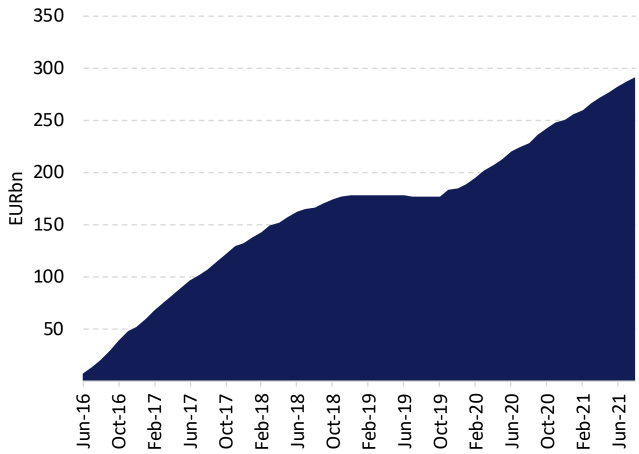
[1] Based on the ECB capital key, adjusted to include supras and the disqualification of Greece
[2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PSPP (semi-annual data, Q1/2021)
Source: ECB, NORD/LB Markets Strategy & Floor Research

Corporate Sector Purchase Programme (CSPP)

Weekly purchases

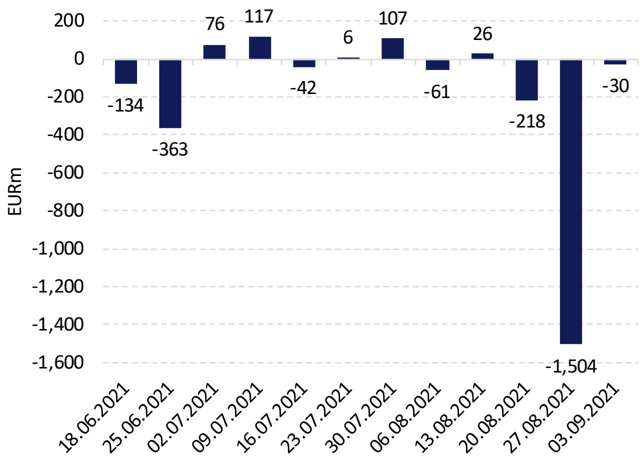


Development of CSPP volume

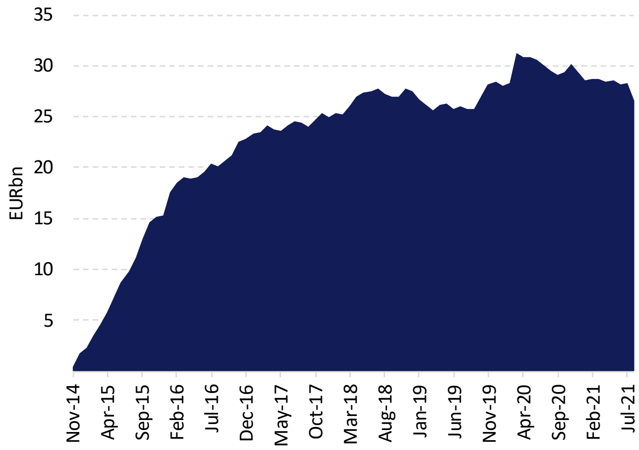


Asset-Backed Securities Purchase Programme (ABSPP)

Weekly purchases



Development of ABSPP volume



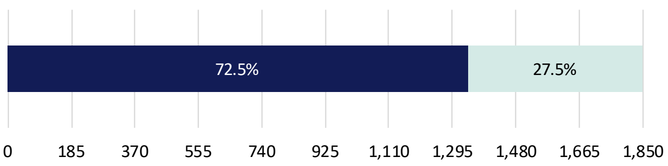
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Holdings (in EURm)

	PEPP
Jul-21	1,272,190
Aug-21	1,337,240
Δ	+65,050

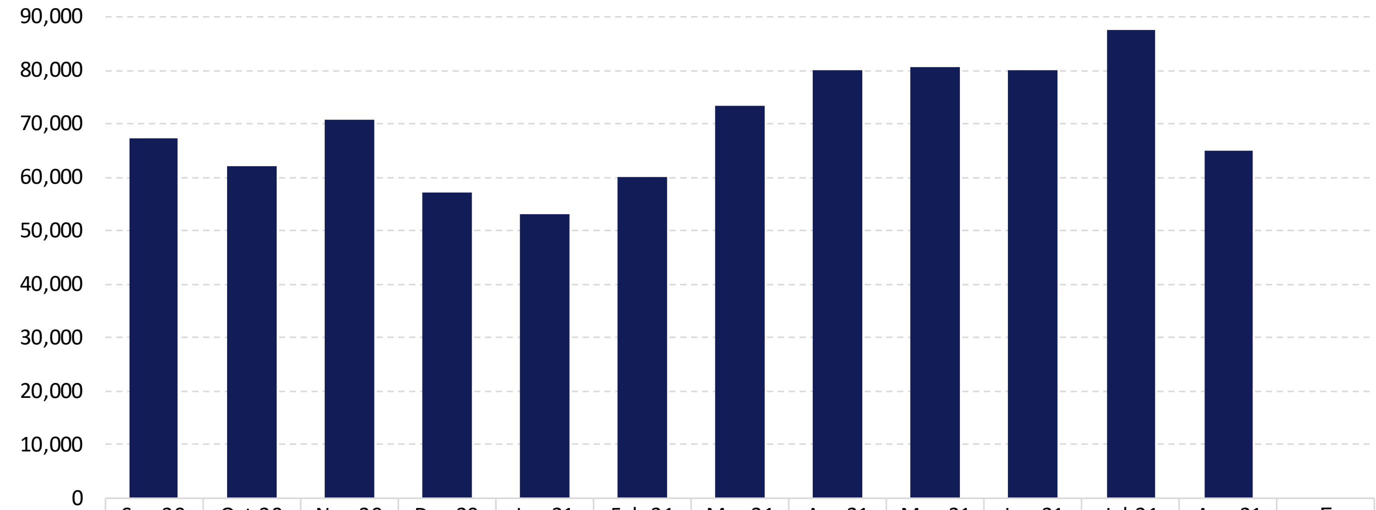
Volume already invested (in EURbn)



Estimated portfolio development

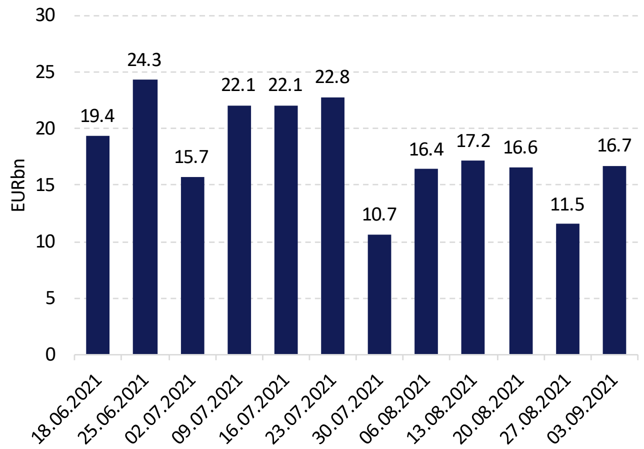
Assumed pace of purchases	Weekly net purchase volume	PEPP limit hit in ...
Average weekly net purchase volume so far	EUR 17.9bn	28 weeks (18.03.2022)

Monthly net purchases (in EURm)

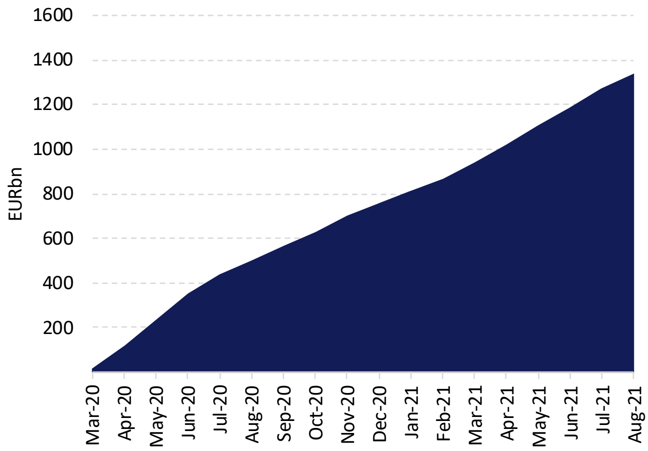


	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	∑
PEPP	67,308	61,985	70,835	57,163	53,046	59,914	73,521	80,118	80,700	80,168	87,577	65,050	837,385

Weekly purchases



Development of PEPP volume

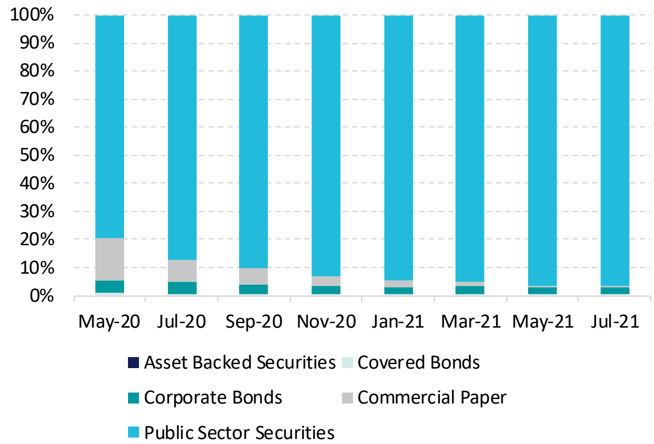


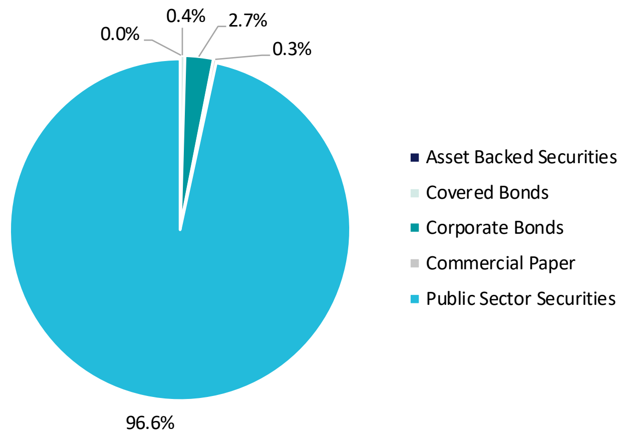
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Holdings under the PEPP (in EURm)

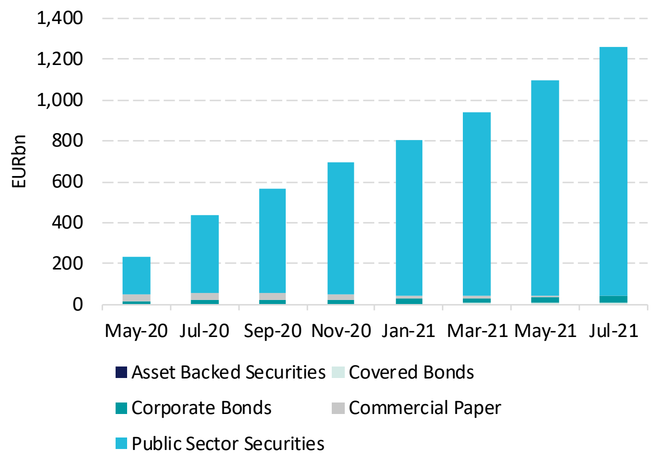
	Asset-backed Securities	Covered Bonds	Corporate Bonds	Commercial Paper	Public Sector Securities	PEPP
May-21	0	4,055	31,014	4,590	1,058,882	1,098,541
Jul-21	0	5,379	33,684	3,861	1,220,424	1,263,348
Δ	0	+1,328	+2,695	-730	+164,430	+167,724

Portfolio structure

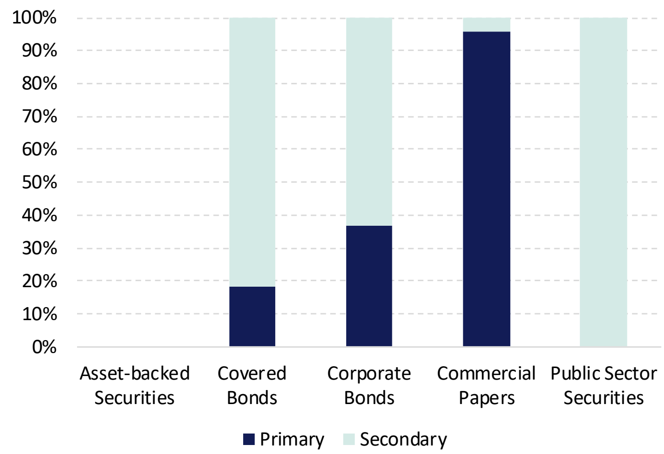




Portfolio development



Share of primary and secondary market holdings



Breakdown of private sector securities under the PEPP

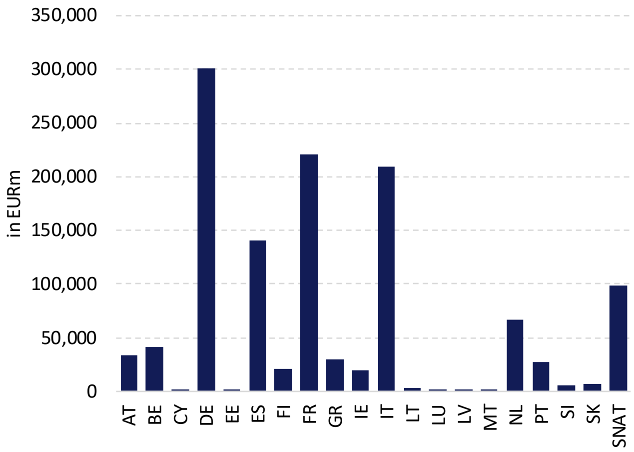
May-21	Asset-backed securities		Covered bonds		Corporate bonds		Commercial paper	
	Primary	Secondary	Primary	Secondary	Primary	Secondary	Primary	Secondary
Holdings in EURm	0	0	745	3,310	11,431	19,583	4,397	193
Share	0.0%	0.0%	18.4%	81.6%	36.9%	63.1%	95.8%	4.2%

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

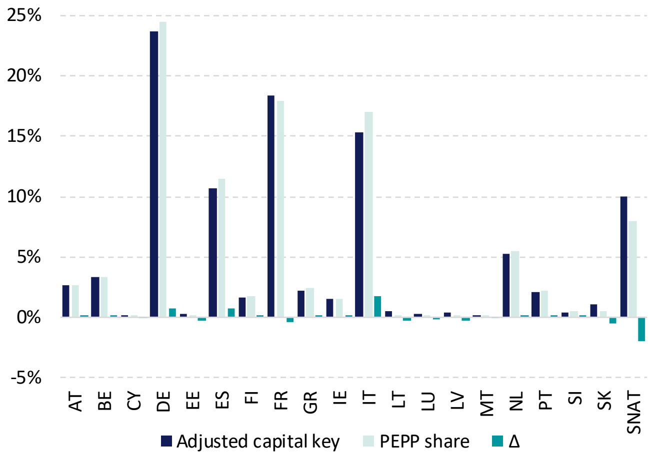
Breakdown of public sector securities under the PEPP

Jurisdiction	Holdings (in EURm)	Adj. distribution key[1]	PEPP share	Deviations from the adj. distribution key[2]	ø time to maturity (in years)	Market average[3] (in years)	Difference (in years)
AT	33,219	2.6%	2.7%	0.1%	9.0	7.1	1.9
BE	41,621	3.3%	3.4%	0.1%	6.8	9.3	-2.5
CY	2,201	0.2%	0.2%	0.0%	9.3	8.1	1.2
DE	301,191	23.7%	24.5%	0.8%	6.2	6.8	-0.6
EE	255	0.3%	0.0%	-0.2%	8.9	7.1	1.7
ES	140,702	10.7%	11.4%	0.7%	8.3	7.5	0.8
FI	20,955	1.7%	1.7%	0.1%	7.4	7.5	-0.1
FR	220,705	18.4%	18.0%	-0.4%	8.4	7.6	0.8
GR	29,397	2.2%	2.4%	0.2%	9.4	9.6	-0.2
IE	19,346	1.5%	1.6%	0.0%	9.1	9.4	-0.3
IT	208,774	15.3%	17.0%	1.7%	6.9	6.9	-0.1
LT	2,597	0.5%	0.2%	-0.3%	11.1	10.7	0.4
LU	1,847	0.3%	0.2%	-0.1%	7.0	6.4	0.5
LV	1,403	0.4%	0.1%	-0.2%	9.5	9.4	0.1
MT	323	0.1%	0.0%	-0.1%	8.5	8.7	-0.2
NL	66,946	5.3%	5.4%	0.2%	7.0	8.3	-1.3
PT	27,288	2.1%	2.2%	0.1%	7.3	7.2	0.1
SI	5,556	0.4%	0.5%	0.0%	9.5	9.2	0.3
SK	6,707	1.0%	0.5%	-0.5%	9.3	8.3	1.0
SNAT	98,170	10.0%	8.0%	-2.0%	10.8	8.8	2.1
Total / Avg.	**1,229,199**	**100.0%**	**100.0%**	**0.0%**	**7.7**	**7.5**	**0.2**

Distribution of public sector assets by jurisdiction



Deviations from the adjusted distribution key



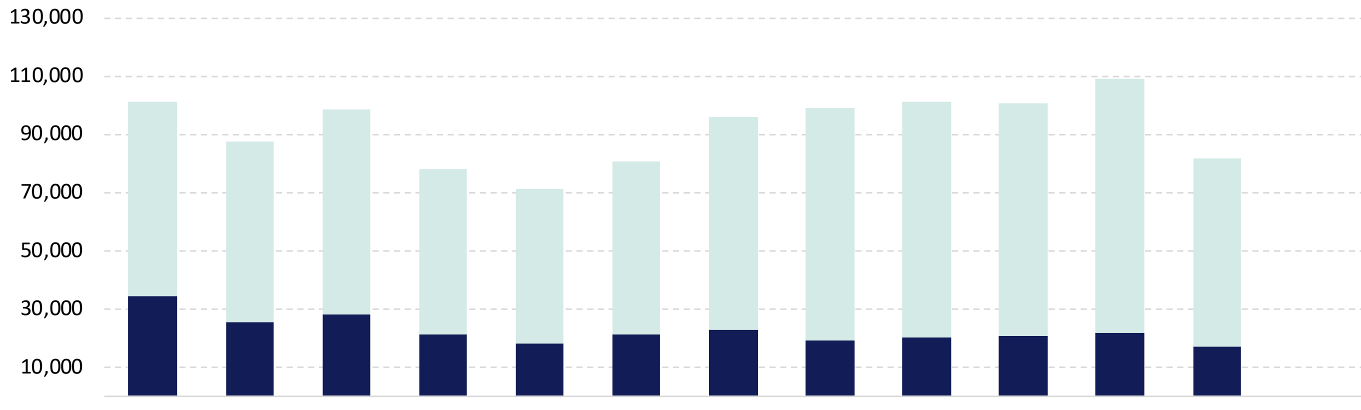
[1] Based on the ECB capital key, adjusted to include supras [2] Based on the adjusted distribution key
[3] Weighted average time to maturity of the bonds eligible for purchasing under the PEPP
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Aggregated purchase activity under APP and PEPP

Holdings (in EURm)

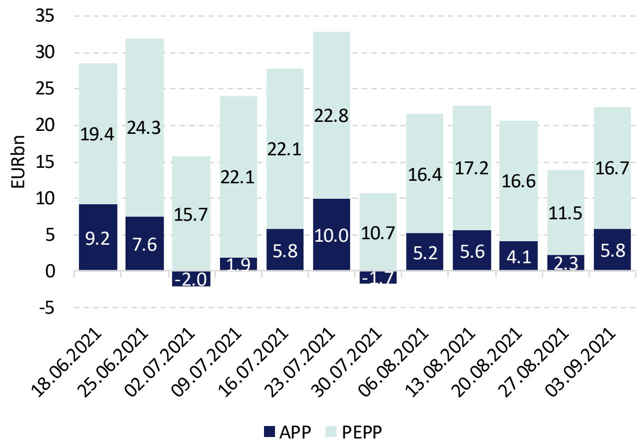
	APP	PEPP	APP & PEPP
Jul-21	3,038,614	1,272,190	4,310,804
Aug-21	3,055,363	1,337,240	4,392,603
Δ	+16,749	+65,050	+81,799

Monthly net purchases (in EURm)

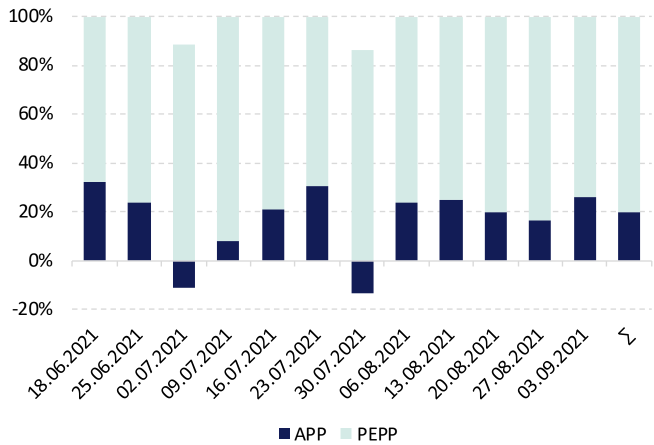


	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	∑
∑	101,322	87,334	98,555	78,092	70,892	80,829	96,082	99,036	100,841	100,808	109,174	81,799	1,104,76
PEPP	67,308	61,985	70,835	57,163	53,046	59,914	73,521	80,118	80,700	80,168	87,577	65,050	837,385
APP	34,014	25,349	27,720	20,929	17,846	20,915	22,561	18,918	20,141	20,640	21,597	16,749	267,379

Weekly purchases



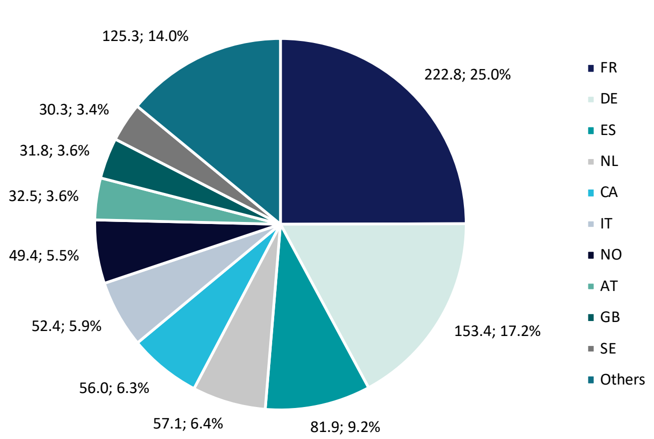
Distribution of weekly purchases



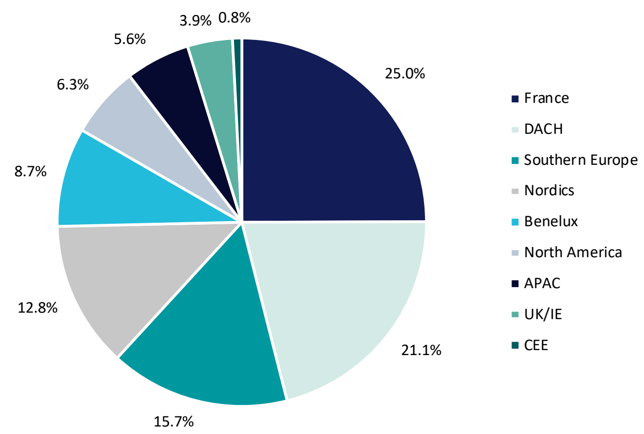
Source: ECB, Bloomberg, NORD/LB Markets Strategy & Floor Research

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



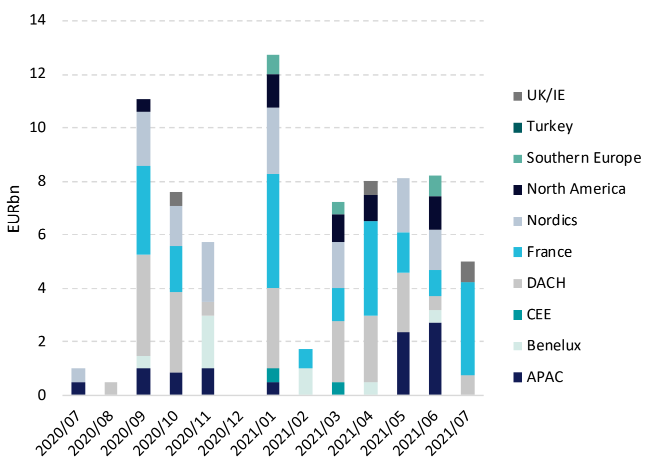
EUR benchmark volume by region (in EURbn)



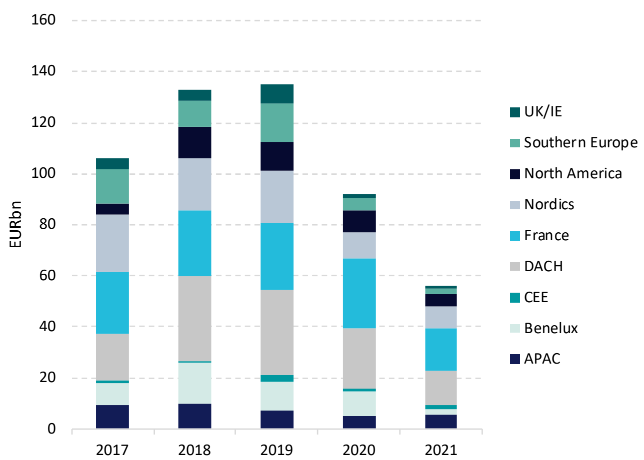
Top-10 jurisdictions

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	222.8	208	10	0.95	10.1	5.4	1.02
2	DE	153.4	229	13	0.61	8.4	4.6	0.42
3	ES	81.9	67	3	1.13	11.4	3.7	1.79
4	NL	57.1	59	0	0.91	11.3	7.3	0.85
5	CA	56.0	49	0	1.11	6.1	3.0	0.26
6	IT	52.4	61	1	0.83	9.1	4.0	1.38
7	NO	49.4	56	8	0.88	7.3	4.0	0.40
8	AT	32.5	60	2	0.54	9.9	6.4	0.61
9	GB	31.8	38	0	0.86	8.4	3.6	0.92
10	SE	30.3	36	0	0.84	7.5	3.4	0.44

EUR benchmark issue volume by month

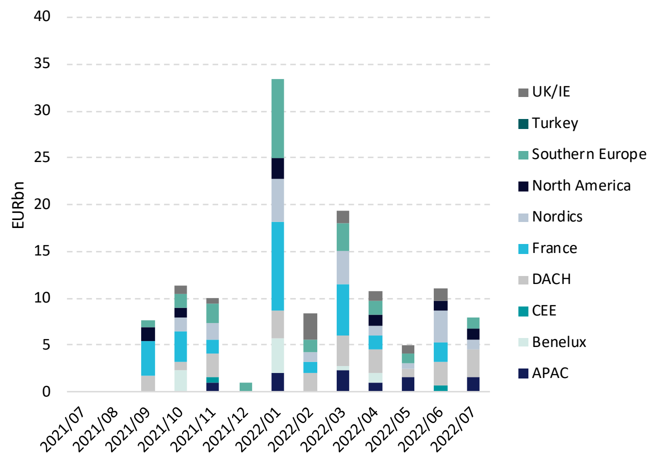


EUR benchmark issue volume by year

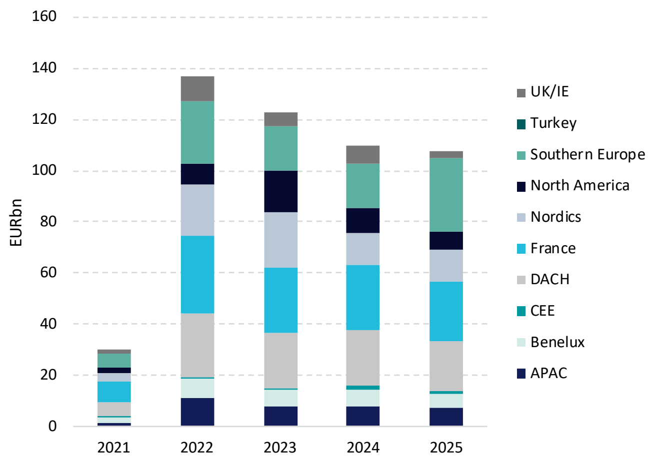


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

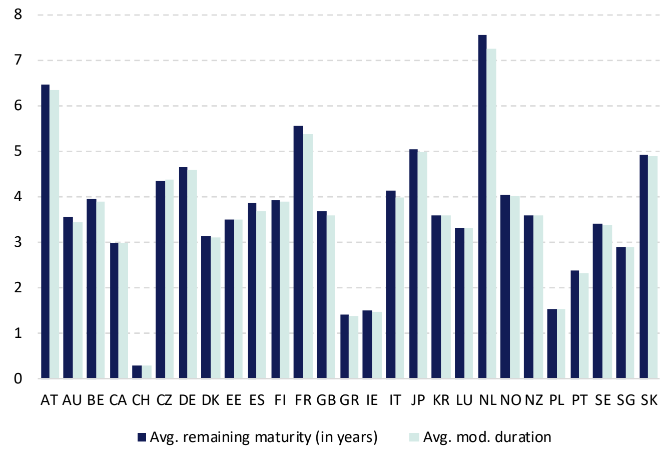
EUR benchmark maturities by month



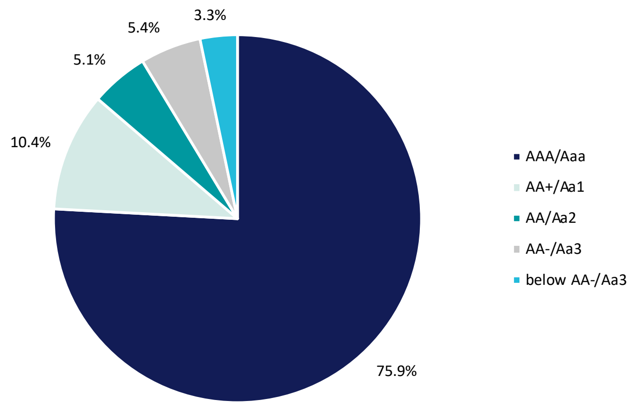
EUR benchmark maturities by year



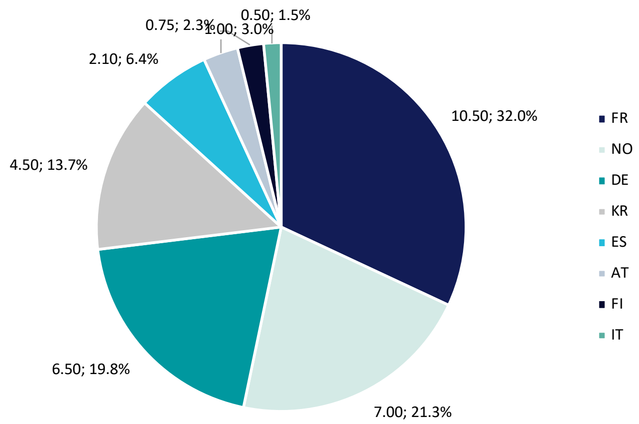
Modified duration and time to maturity by country



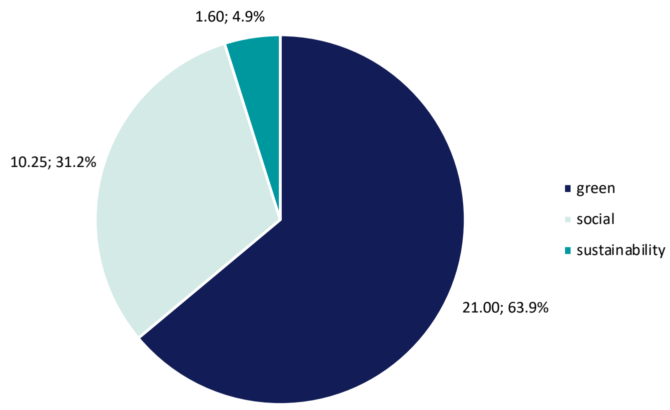
Rating distribution (volume weighted)



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

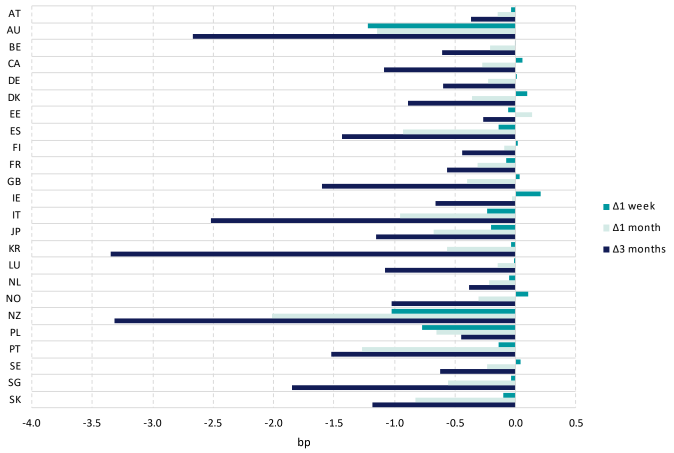


EUR benchmark volume (ESG) by type (in EURbn)

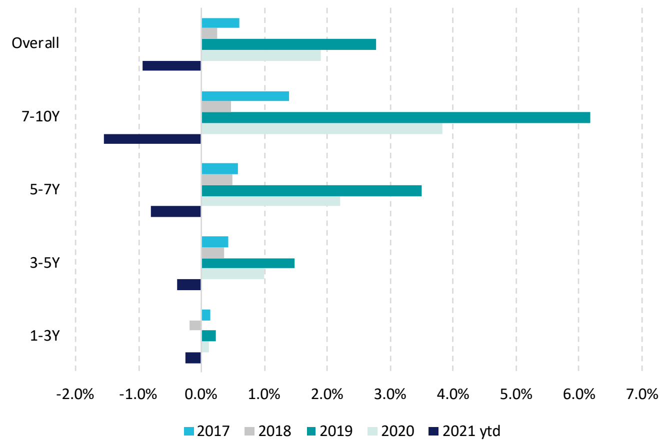


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

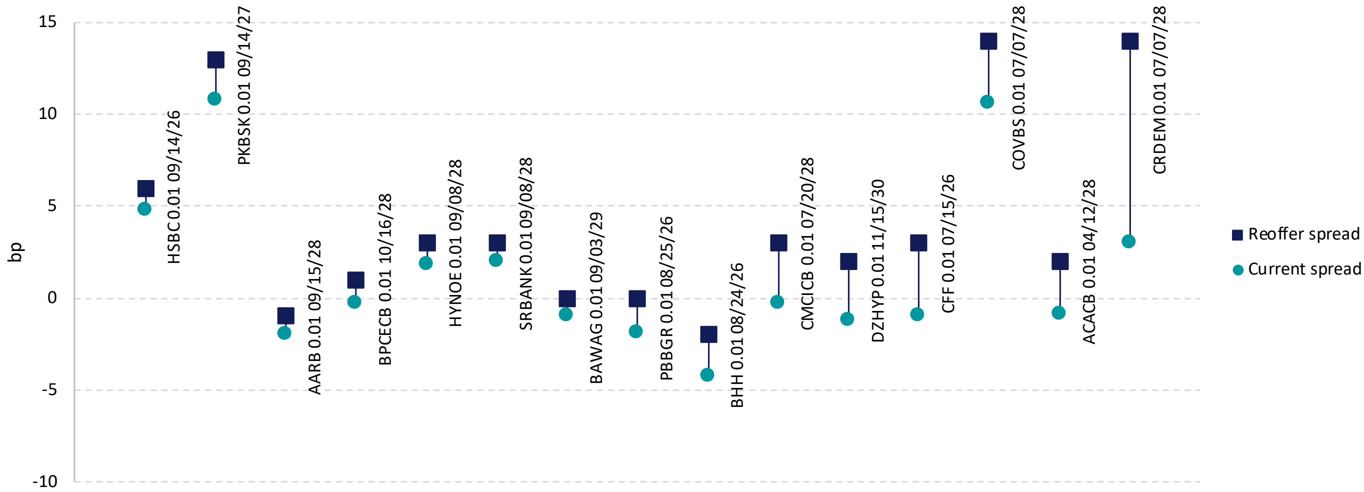
Spread development by country



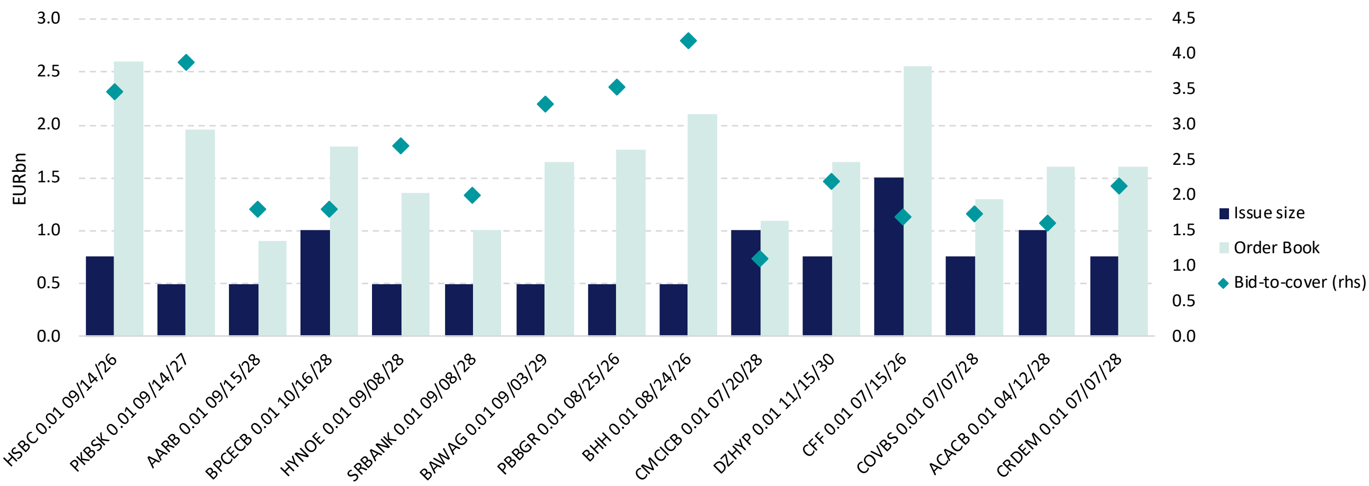
Covered bond performance (Total return)



Spread development (last 15 issues)



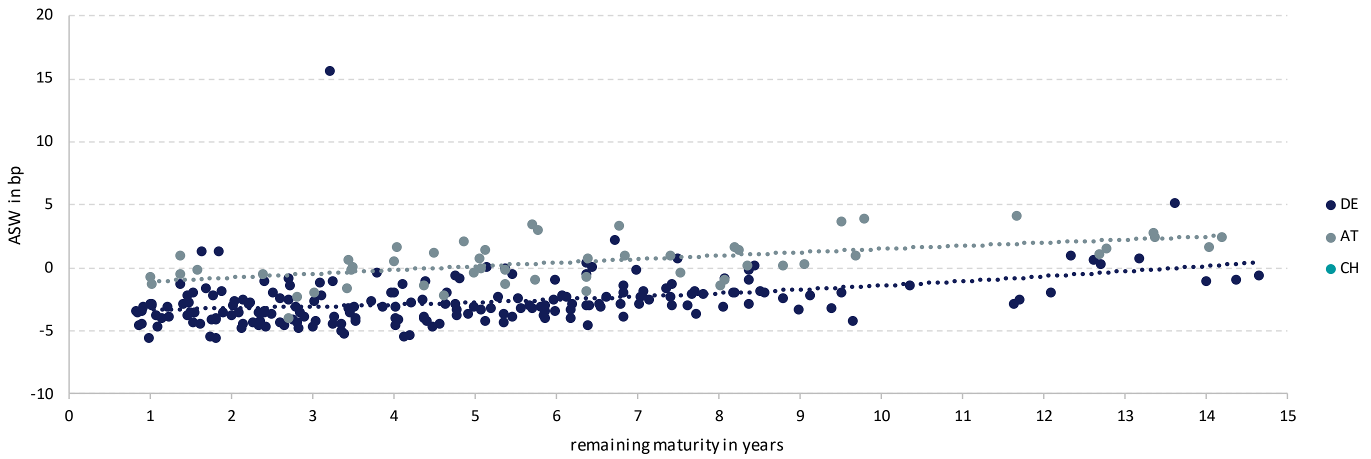
Order books (last 15 issues)



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

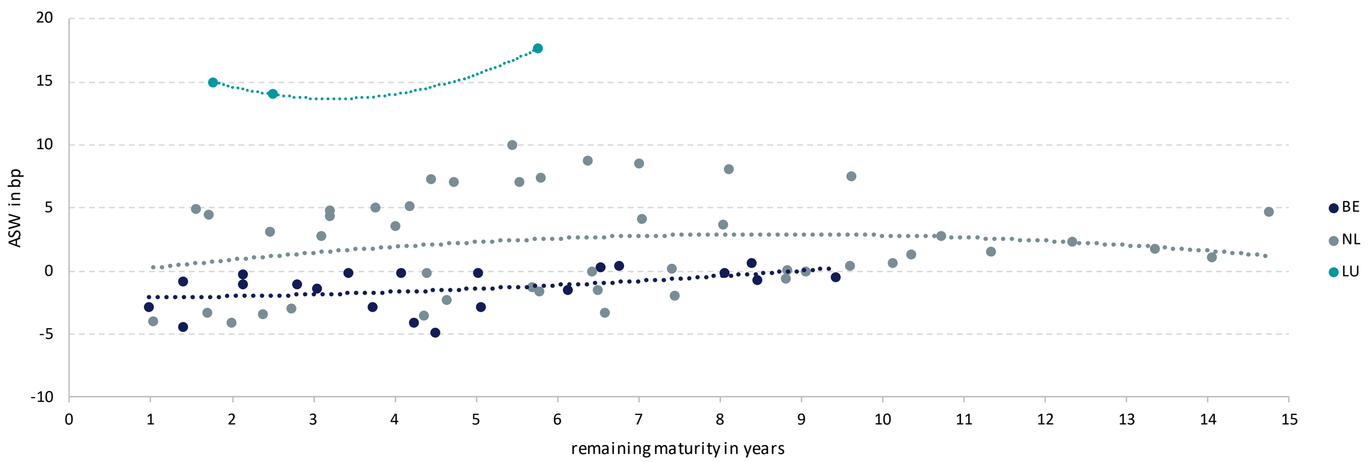
Spread overview[1]

DACH



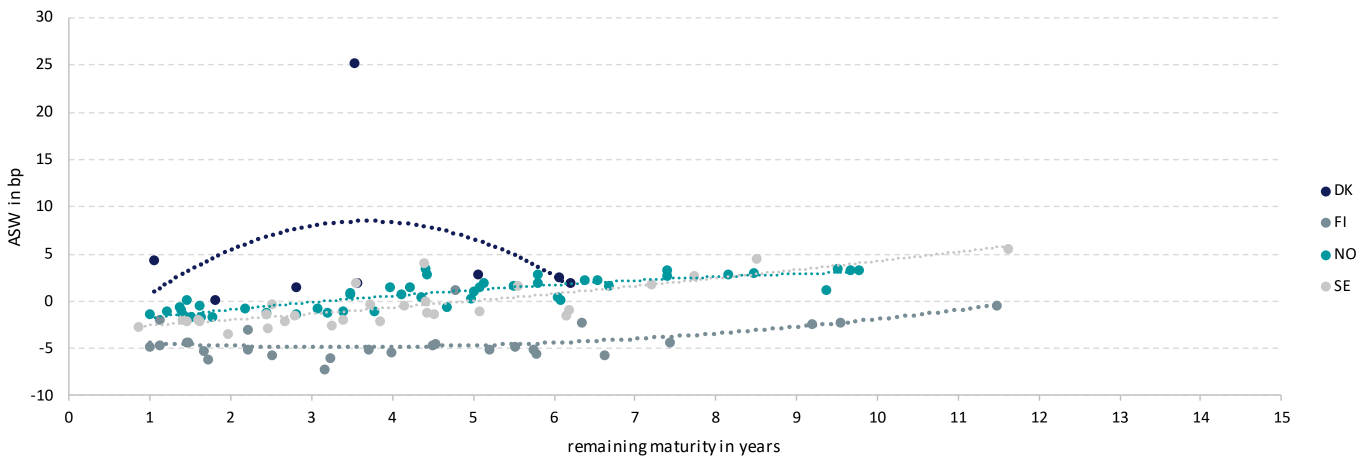
France

Benelux

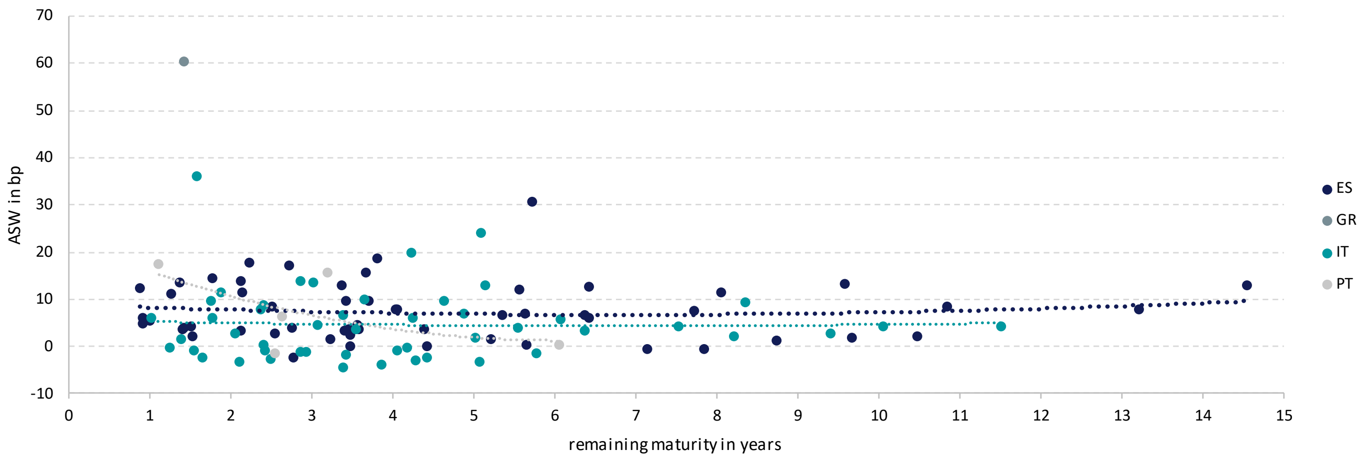


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research [1]Time to maturity 1 ≤ y ≤ 15

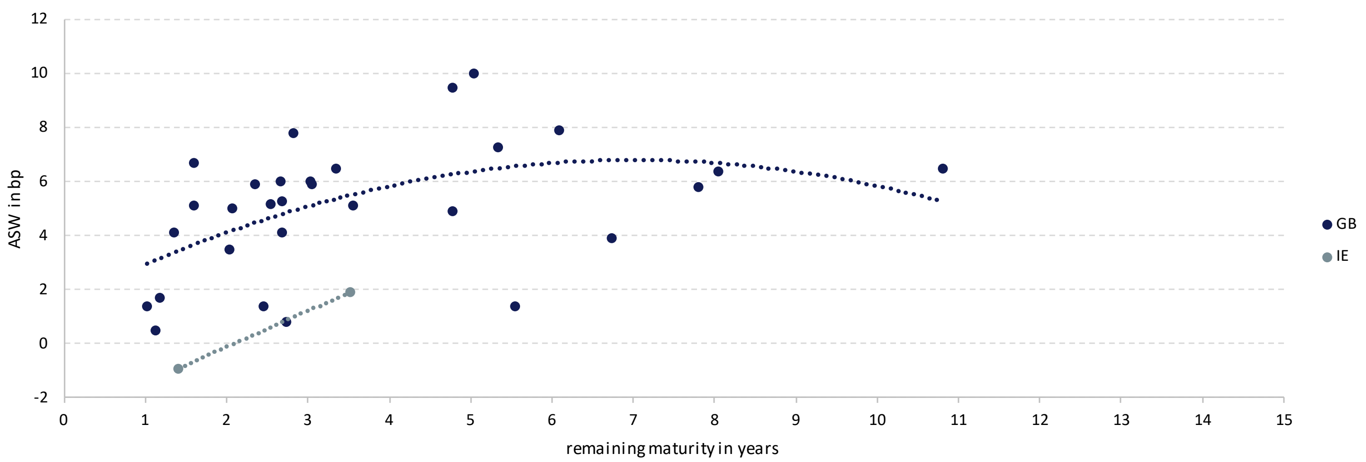
Nordics



Southern Europe

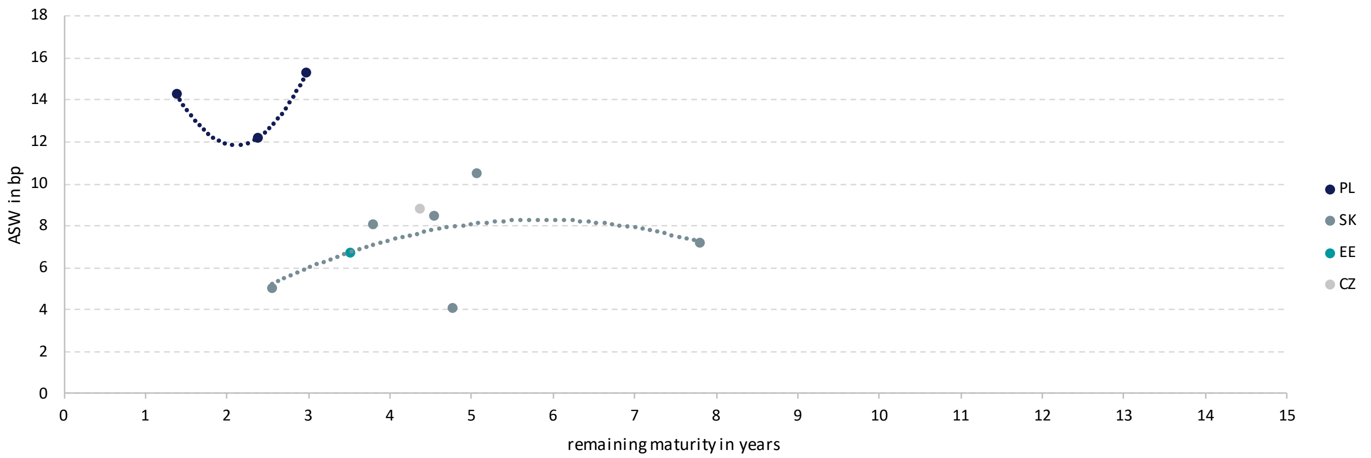


UK/IE

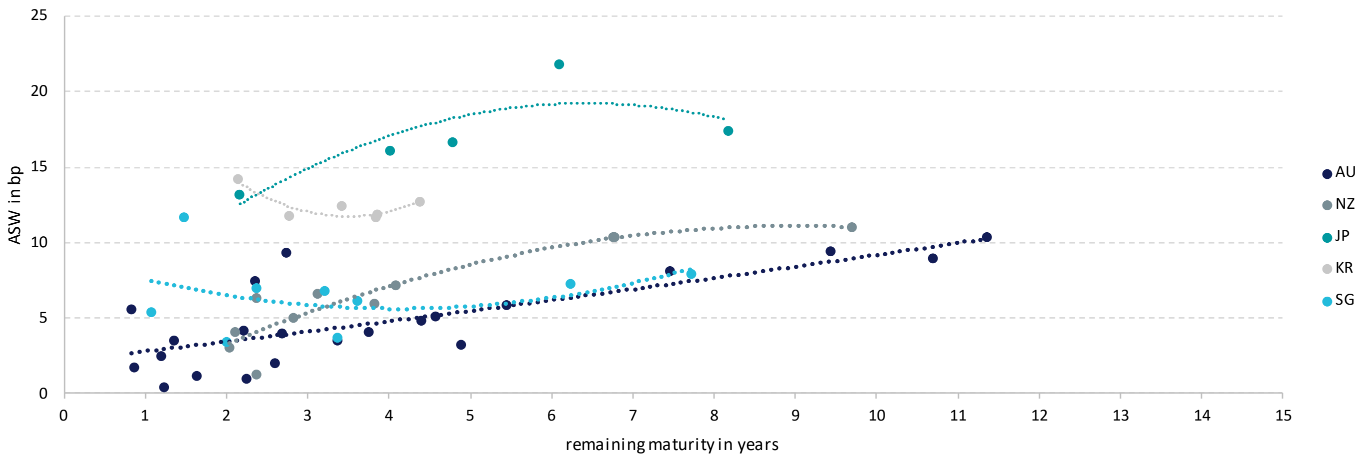


Source: Market data, Bloomberg, NORD/LB Markets Strategy & Floor Research

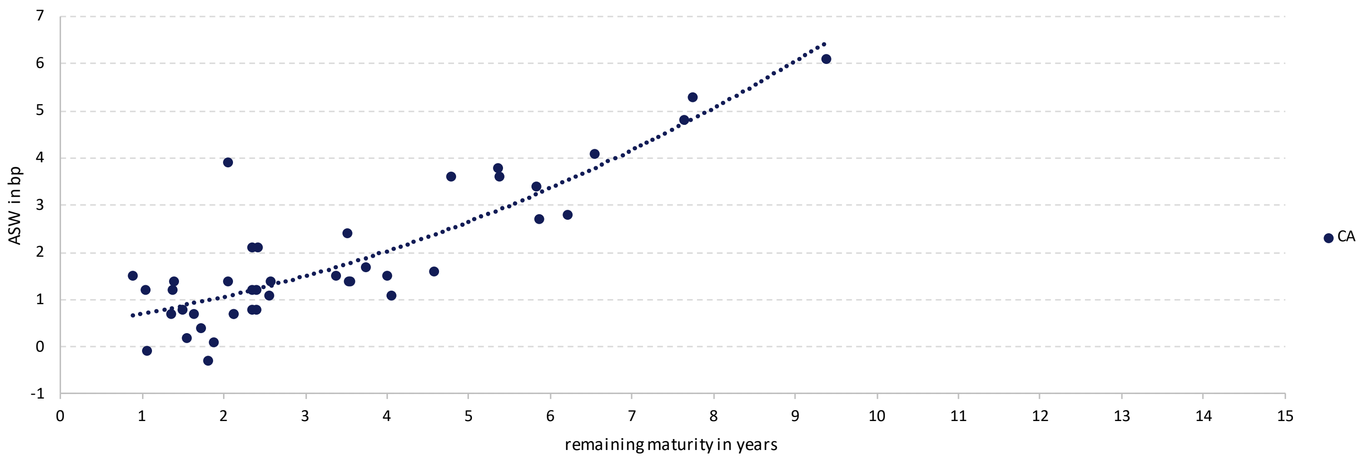
CEE



APAC



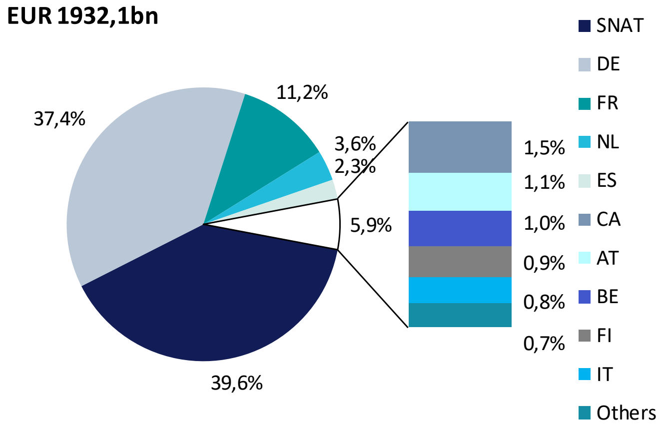
North America



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

Charts & Figures
SSA/Public Issuers

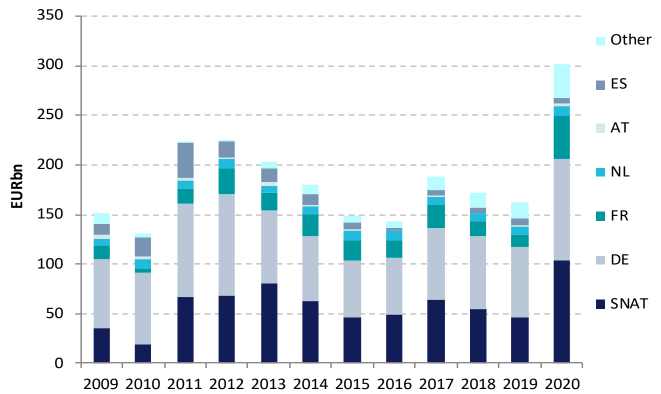
Outstanding volume (bmk)



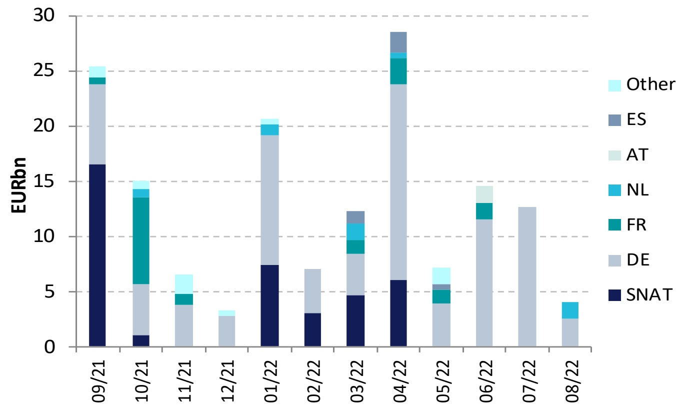
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	764,6	193	4,0	8,5
DE	722,6	565	1,3	6,8
FR	216,5	146	1,5	5,4
NL	68,9	67	1,0	6,4
ES	44,7	55	0,8	5,3
CA	28,5	20	1,4	5,6
AT	21,2	23	0,9	5,3
BE	20,2	24	0,8	14,4
FI	17,0	22	0,8	5,6
IT	15,0	19	0,8	5,9

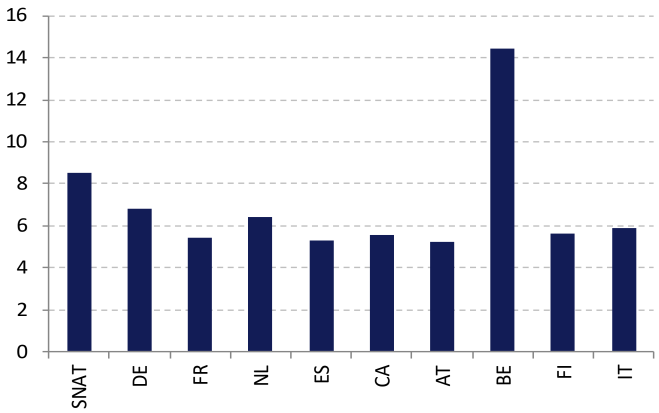
Issue volume by year (bmk)



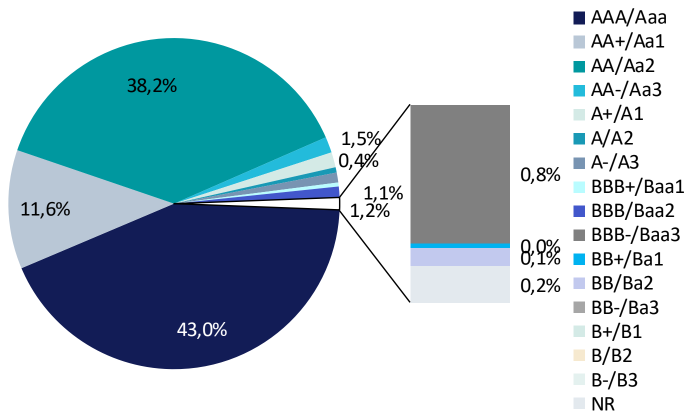
Maturities next 12 months (bmk)



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

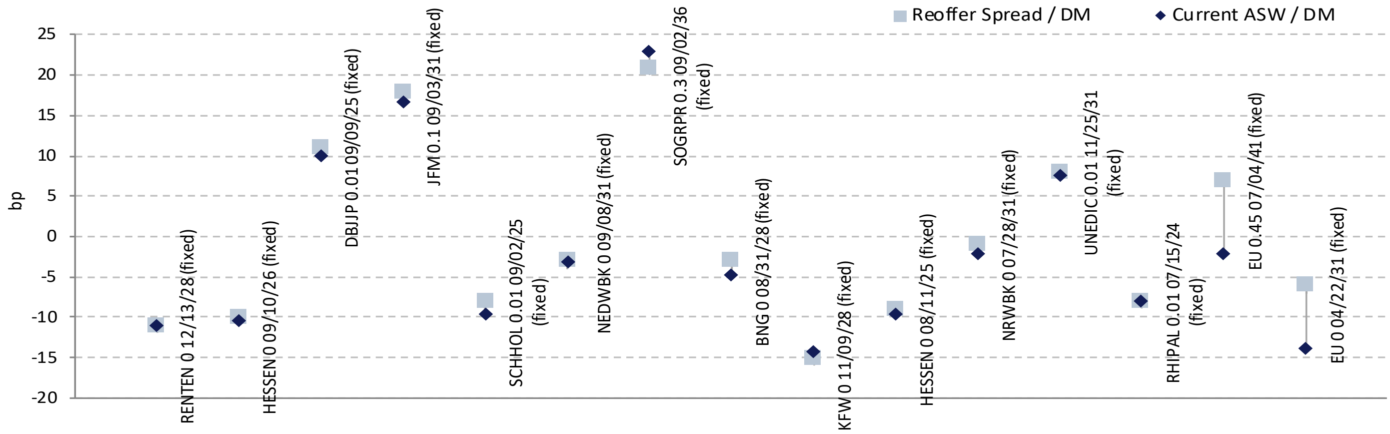


Rating distribution (vol. weighted)

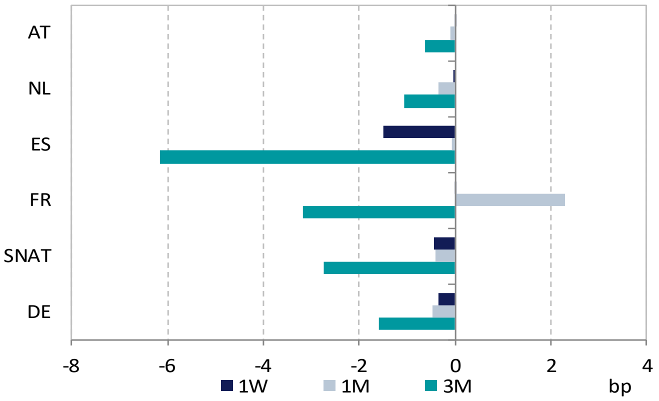


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

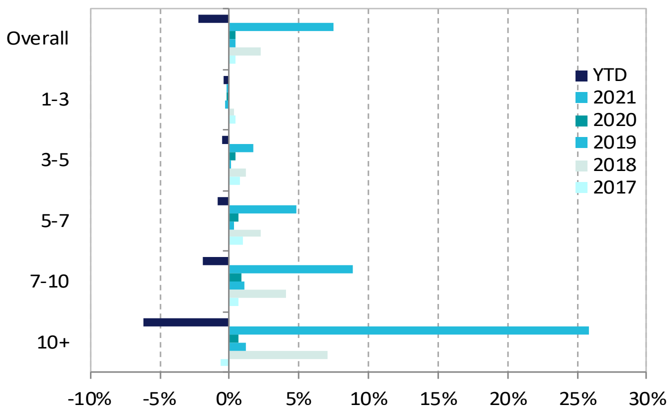
Spread development (last 15 issues)



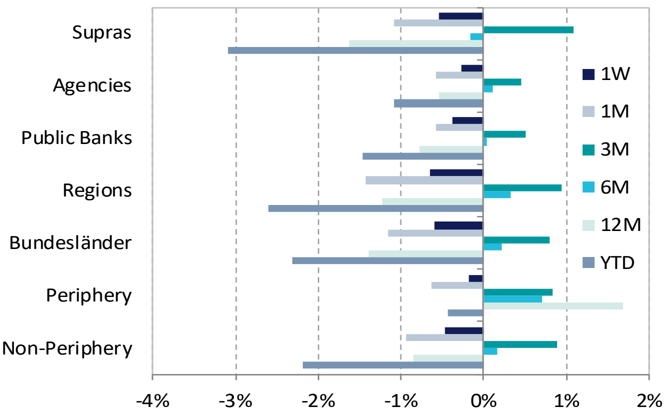
Spread development by country



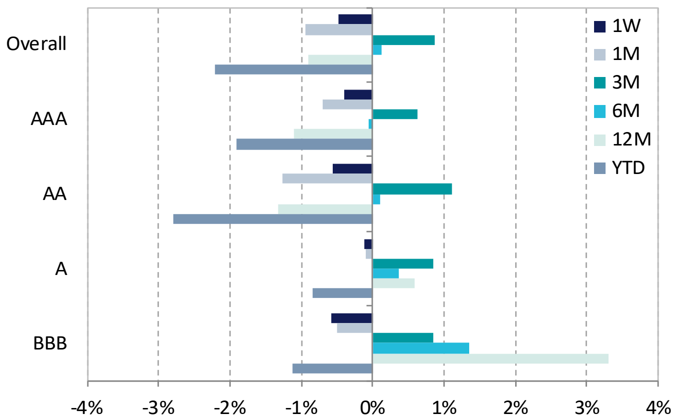
Performance (total return)



Performance (total return) by regions

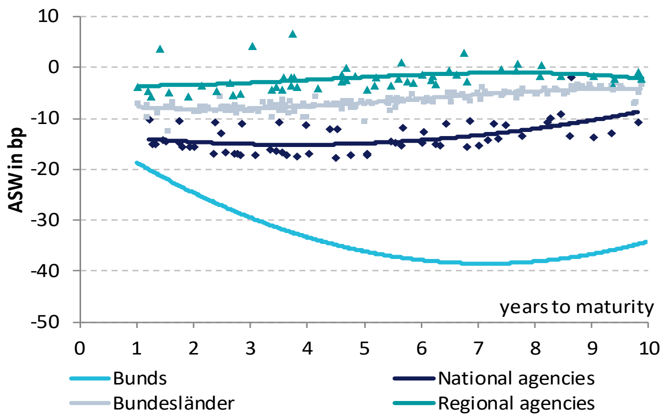


Performance (total return) by rating

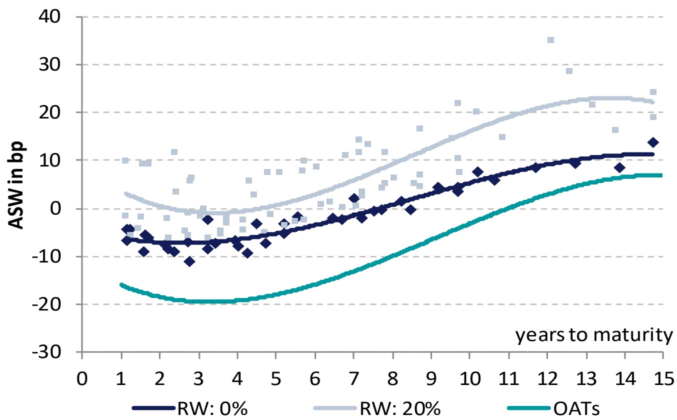


Source: Bloomberg, NORD/LB Markets Strategy & Floor Research

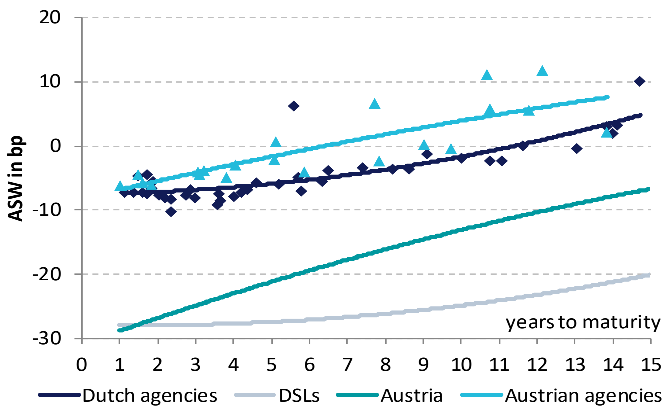
Germany (by segments)



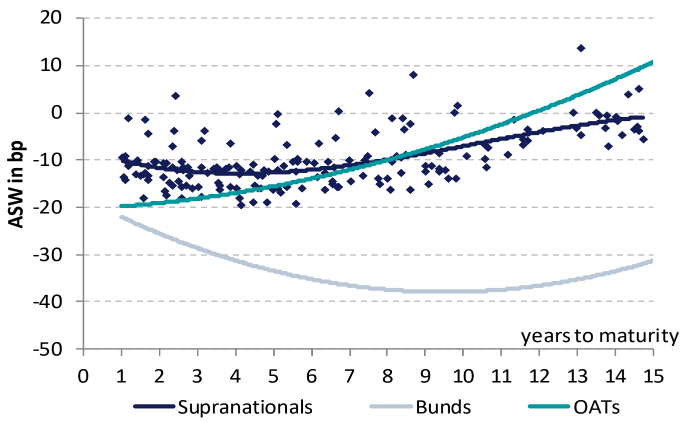
France (by risk weight)



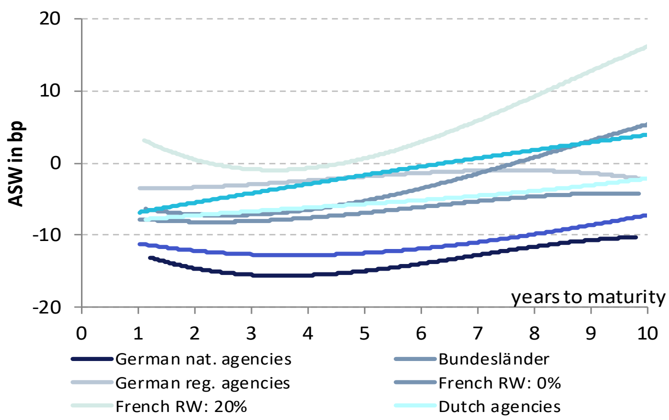
Netherlands & Austria



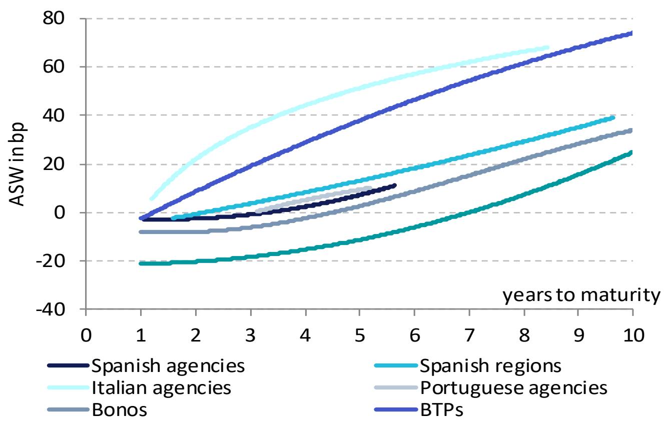
Supranationals



Core



Periphery



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

Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
28/2021 ♦ 01 September	▪ ECB preview: focus on the pace of PEPP purchases? ▪ France – largest jurisdiction in EUR benchmark bond segment: a covered bond overview of the "Grande Nation"
27/2021 ♦ 28 July	▪ NORD/LB Issuer Guide Covered Bonds 2021: A constant during turbulent times ▪ Beyond Bundeslaender: Madeira and the Azores break just around the corner – a glance at covered bonds in USD and GBP
26/2021 ♦ 21 July	▪ Summer break just around the corner – a glance at covered bonds in USD and GBP
25/2021 ♦ 14 July	▪ New ECB strategy – communication remains the be-all and end-all ▪ ECB preview: the first meeting under the "new" regime
24/2021 ♦ 07 July	▪ Covered Bonds: Review of H1 and outlook for H2 2021 ▪ Half-time report 2021 – how will the SSA segment fare in the second half?
23/2021 ♦ 30 June	▪ Return of the Australian covered bond market: National Australia Bank issues first EUR benchmark since 2019
22/2021 ♦ 23 June	▪ TLTRO III.8 neither really strong nor extraordinarily weak: implications for the covered bond market ▪ Realignment of the German real property tax
21/2021 ♦ 16 June	▪ ICMA Green and Social Bond Principles: 2021 update ▪ The covered bond universe of Moody's: an overview Covered bonds vs. senior unsecured bonds
20/2021 ♦ 09 June	▪ PEPP reporting: increased pace of purchases in Q2 ▪ Covered bonds vs. senior unsecured bonds
19/2021 ♦ 02 June	▪ ECB preview: Spectre of inflation fuelling tapering thoughts ▪ FX covered bonds: Same symptomatology as EUR benchmarks?
18/2021 ♦ 19 May	▪ United Overseas Bank reinvigorates the market in Singapore ▪ Transparency requirements §28 PfandBG Q1 2021
17/2021 ♦ 12 May	▪ ASB Finance opens primary market "Down Under": Our outlook for the rest of the year ▪ Development of the German property market
16/2021 ♦ 05 May	▪ Austria implements requirements of the covered bond directive and harmonises existing legal framework ▪ EIB goes Blockchain
15/2021 ♦ 28 April	▪ EU Taxonomy meets the market for sustainable covered bonds
14/2021 ♦ 22 April	▪ LCR levels and risk weights of EUR benchmarks ▪ NextGenerationEU: NGEU is taking shape
13/2021 ♦ 14 April	▪ Predominant ECB strategy: wait-and-see but remain proactive ▪ PEPP reporting: First year done; a second (at least) now follows ▪ OSFI abandons temporarily increased 10% limit with immediate effect: (in)direct implications for Canadian benchmarks
12/2021 ♦ 31 March	▪ Unusual Q1 and revised supply forecast for 2021 ▪ Collective Action Clauses (CACs)

NORD/LB: Markets Strategy & Floor Research

NORD/LB: Covered Bond Research

NORD/LB: SSA/Public Issuer Research

Bloomberg: RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

Issuer Guide Covered Bonds 2020

Risk weights and LCR levels of covered bonds

Transparency requirements §28 PfandBG

Transparenzvorschrift §28 PfandBG Sparkassen (German only)

SSA/Public Issuers:

Issuer Guide – Supranationals & Agencies 2019

Issuer Guide – Canadian Provinces & Territories 2020

Issuer Guide – German Bundeslaender 2020

Issuer Guide – Down Under 2019

Fixed Income:

ESG update

Analysis of ESG reporting

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

ECB launches corona pandemic emergency

ECB responds to corona risks

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

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Governments	+49 511 9818-9660
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Asset Finance	+49 511 361-8150

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Additional information
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Disclosure of possible conflicts of interest at NORD/LB in accordance with Section 85 (1) of the German Securities Trading Act (WpHG) in conjunction with Article 20 of the Market Abuse Regulation (EU) No. 596/2014 and Articles 5 and 6 of Regulation (EU) 2016/958.
None

Sources and price details
For the preparation of investment recommendations, we use issuer-specific financial data providers, our own estimates, company information and publicly available media. Unless otherwise stated in the information, price information refers to the closing price of the previous day. Fees and commissions are incurred in connection with securities (purchase, sale, custody), which reduce the return on the investment.

Basis of valuation and frequency of updates
For the preparation of investment recommendations, we use company-specific methods from fundamental securities' analysis, quantitative / statistical methods and models as well as from technical information processes. It should be noted that the results of the information are snapshots and past performance is not a reliable indicator of future returns. The basis of valuation may change at any time and in an unforeseeable manner, which may lead to divergent assessments. The recommendation horizon is 6 to 12 months. The above information is prepared on a weekly basis. Recipients have no right to publish updated information. For more detailed information on our assessment bases, check under: www.nordlb-pib.de/Bewertungsverfahren.

Recommendation system
Positive: Positive expectations for the issuer, a bond type or a bond placed by the issuer.
Neutral: Neutral expectations for the issuer, a bond type or a bond of the issuer.
Negative: Negative expectations for the issuer, a type of bond or a bond placed by the issuer.
Relative Value (RV): Relative recommendation to a market segment, an individual issuer or a range of maturities.

Breakdown of recommendations (12 months)

Positive:	37%
Neutral:	55%
Negative:	8%

Recommendation record (12 months)
For an overview of our overall pension recommendations for the past 12 months, please visit www.nordlb-pib.de/empfehlungsuebersicht_renten. The password is "renten/Liste3".

Issuer / security	Date	Recommendation	Bond type	Cause