Covered Bond & SSA View

NORD/LB Floor Research

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Marketing communication (see disclaimer on the last pages)

Agenda

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Market overview
Covered Bonds

Authors: Dr Frederik Kunze // Lukas Kühne

Primary market: New issue premiums on a lasting decline?

Some banks also took advantage of the constructive market conditions over the past five trading days. On the last trading day of a very active January, Berlin Hyp (DE) and Achmea Bank (NL) approached their investors. The Berliners started the marketing phase with their Green Pfandbrief (3.3y; EUR 500m; WNG) at ms +21bp area. The final reoffer spread was ultimately fixed seven basis points tighter at ms +14bp, meaning that no NIP was paid for this transaction. Although the Achmea bond was also announced with a pre-fixed issue size (EUR 500m), the issuer ventured into the longer maturity segment. The spread was set at ms +47bp (guidance: ms +55bp area). The bid-to-cover ratio was 5.7x with a final order book of EUR 2.9bn. Belfius Bank (BE; Issuer View) kicked off February by successfully placing a benchmark (7.0y; EUR 500m) with investors at ms +38bp. As part of the bookbuilding, the deal narrowed by eight basis points compared to the guidance and was subsequently issued slightly below fair value (NIP: -1bp). The final book (EUR 1.9bn) consisting of 71 orders, on the basis of which the issue volume was allocated, also reflects the demand. The banking sector was allocated 53% of the bond volume, while the second-largest share of the deal went to accounts in the "Asset Managers & Funds" category (33%). Finally, yesterday, Tuesday, NORD/LB also approached investors with a Public Pfandbrief. The deal (EUR 750m; 3.25y; Issuer View) was placed at ms +20bp and thus offered a new issue premium of +1bp. For the last ten deals, the average NIP was +1.2bp and thus significantly below the average of the benchmarks placed in 2024 to date (average NIP: +5.9bp). However, we do not expect this very low level to be sustained. Rather, we expect a slight "hangover mood" on the primary market in the coming trading days, followed by a normalization of premiums over fair value in the order of +3-4bp.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
NORD/LB	DE	06.02.	DE000NLB40F8	3.3y	0.75bn	ms +20bp	- / Aa1 / -	-
Belfius Bank	BE	01.02.	BE0390105683	7.0y	0.50bn	ms +38bp	AAA / - / AAA	-
Achmea Bank	NL	31.01.	XS2761358055	10.0y	0.50bn	ms +47bp	- / - / AAA	-
Berlin Hyp	DE	31.01.	DE000BHY0GY7	3.3y	0.50bn	ms +14bp	- / Aaa / -	X

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

Secondary market: How long (still) in the shadow of the primary market?

The demand behaviour on the secondary market continues to suggest that the covered bond asset class is considered attractive from a relative value perspective. This applies in particular to the middle of the curve – both in terms of premium vs. swaps and in comparison to govies. Nevertheless, the reduction in NIPs discussed at the beginning of this report also shows that the scope for the secondary market performance of newly placed deals in trading is more limited than before.

Market overview SSA/Public Issuers

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese

European player: Scope Ratings GmbH increasingly under the spotlight
The European Central Bank (ECB) decided at the end of 2023 to accept the European rating agency Scope Ratings GmbH (“Scope Ratings” or even just “Scope”) as a new external player for the purposes of the Eurosystem Credit Assessment Framework. According to the relevant press release, the decision followed a thorough assessment on the part of the Eurosystem of the application submitted by Scope Ratings. In its assessment, the Eurosystem considered all the acceptance criteria for external credit assessment institutions (ECAIs), which include quantitative and qualitative criteria, as well as any relevant supervisory feedback from the European Securities and Markets Authority (ESMA). The registration by ESMA is also a precondition for an agency’s acceptance within the Eurosystem Credit Assessment Framework. The ratings for asset-back securities (ABS) issued by Scope are not yet compliant with the Eurosystem eligibility requirements, which renders them ineligible for Eurosystem monetary policy purposes for the time being. However, this aspect is negligible from the point of view of our SSA universe. Scope's integration process into the Eurosystem's IT infrastructure began immediately and is likely to take a few months. The ECB will announce the date from which Scope ratings can be used for monetary-policy purposes on its website later on this year. We will keep our readers informed.

Overlaps between Scope Ratings and our coverage
As our readers will be aware, we report on more than 100 issuers as part of our SSA/Public Issuers coverage: this starts with supranationals (e.g. EU, EIB, ESM), continues via sub-sovereigns such as the German Laender and Belgian regions all the through to Canadian Provinces, and ends with agencies which issue benchmark bonds in EUR (e.g. KfW, NRW.BANK, ICO). As things stand at present, we cannot yet say whether or not, and if so, how, we might in future review our Issuer Guides in 2024 or our Issuer Views on individual transactions. Some Scope ratings are not published and therefore cannot just be used, even though they are available to the subscriber community. Nevertheless, having a European player in the market is highly important. To date, Canada’s DBRS was also of no relevance to us, although it has already been recognised as an ECAF/ECAI for some time now. We also often had to turn down some “exotic” requests regarding China's Dagong Global Credit. Since states are left out of our assessments, we have briefly summarised below the sub-segments where we overlap with Scope on the issuer front:

- **Supranationals:** EU, EFSF/ESM, EIB, etc.
- **Sub-sovereigns:** all German Laender incl. Laender jumbos; "only" BADWUR, BAYERN, BERGER and SACHAN available to the public – plus, for example MADRID and LOMBIT (Lombardy).
- **Agencies:** from Germany for example KFW, NRWBK, LBANK and BAYLAN. From Europe for example ASFING, BNG, CDEP, FINNVE and ICO.

SEK: 2023 year-end report – net interest income at record level

Svensk Exportkredit (ticker: SEK) posted its results for FY 2023 on 23 January. Full-year net interest income increased by 33% to SEK 2.9bn (equivalent to EUR 262m). This is the largest net interest income in the company's history. In spite of persistently high inflation, operating expenditure was unchanged year-on-year at around EUR 64m. Net profit consequently amounted to around EUR 109m, which is an increase of 7% compared to 2022. In terms of profitability, SEK was able to reach its target of at least 5%. Based on the high net interest income, the return on equity in 2023 stood at 5.6%. Meanwhile, the lending portfolio increased by just 3.6% (2022: +15.3%). New lending volume dwindled significantly to around EUR 7.3bn over the full year, as against a figure of around EUR 12bn for 2022. High interest rates combined with a weakening global economy therefore played a major part in lower demand for export credits. In addition, the relative weakness of the Swedish krona led to higher costs for customers regarding input goods, further slowing the pace for investments. A major part of SEK's business model is the support it provides for customers in their transition towards greater climate protection and sustainability. Consequently, Sustainability classified lending has increased from 12.0% in 2022 to 15.7% in 2023. In spite of persistently difficult geopolitical indications, Magnus Montan, CEO of SEK, is optimistic about the future: "We are entering a new year dominated by considerable uncertainty and perhaps more than we have witnessed in a very long time. Russia's war in Ukraine shows no signs of ending. The war between Israel and Hamas has been ongoing for three months with a large number of civilians casualties and with negative effects on trade flows in the Red Sea. We are in an economic downturn which further contributes to the uncertainty. SEK's position as a long-term and stable financial partner is more important than ever before. SEK is well capitalized and has good liquidity readiness to be able to meet the needs of the Swedish export industry's financing needs." For further information about SEK, please refer to our Issuer Guide – Nordic Agencies 2023.

Capital requirements for Dutch municipal banks in 2024

As part of its annual Supervisory Review and Evaluation Process (SREP), the European Central Bank has informed the Dutch municipal banks BNG (ticker: BNG) and NWB (ticker: NEDWBK) about their respective imposed capital requirements for 2024. From 01 January, an SREP capital requirement of 10% applies to BNG and of 10.25% for NWB. In the case of BNG, it is made up of the minimum capital requirements under Pillar 1 of 8% and additional capital requirements of 2% under Pillar 2. In the case of NWB, Pillar 1 requirements are also 8%, but Pillar 2 requirements are slightly higher at 2.25%. The European Banking Authority requires credit institutions to hold additional buffers for various purposes (to conserve capital in general and as a safeguard against cyclical and non-cyclical systemic risks). The capital conservation buffer (CCB) for both BNG and NWB is 2.5%. In addition, the Dutch Central Bank has introduced a countercyclical buffer (CCyb) of 1% for lending in the Netherlands – which applies to both banks equally. A capital buffer of 1% also applies to BNG in its role as an O-SII (other systemically important institution). For further details on the regulatory characteristics of both issuers, please refer to our Issuer Guide – Dutch Agencies 2023.

LfA promotional business 2023

The Free State of Bavaria's promotional bank LfA Förderbank Bayern (ticker: BAYLAN) published its promotional report covering FY 2023 on 31 January. Last year, the regional development bank granted loans totalling around EUR 2.3bn. According to the press release, 2023 can be summarized as a solid promotional year. Of this, slightly over EUR 1.6bn was lent in the context of promotional loans tied to various programmes. The strongest demand, as in the previous year, was in the two promotional fields start-up and growth, with an aggregate volume of EUR 1.2bn. There was a sharp increase of 33% under the Innovation Loan 4.0, which over 350 companies used in 2023 above all to finance innovation and digitalisation plans to the tune of around EUR 185m. Overall, however, demand for LfA promotional loans was lower last year than in 2022, when a value of EUR 2.6bn was recorded. The reasons for this can be found in uncertain economic conditions and the elimination of one-off effects. In H2/2022, for example, there was unusually high demand for promotional loans on the back of anticipatory effects, as customers expected higher interest rates at the time. In addition, back then, SMEs in Bavaria could still take advantage of the LfA's coronavirus-related programmes. Bavaria's Minister of Economic Affairs, Hubert Aiwanger, summed up the year as follows: "Innovation, start-ups and growth were the drivers for the promotional year 2023. Those are clear forward-looking issues. It is of key importance that the Bavarian economy keeps its finger on the pulse. Fresh optimism requires the right conditions. Reluctance concerning investments is detrimental." A total of over 3,500 companies and municipalities took advantage of LfA's products last year. For further information on the LfA, please refer to our Issuer Guide – German Agencies 2023.

EU Commission and NIB extend InvestEU guarantees to Norway and Iceland

The European Commission and the Nordic Investment Bank (ticker: NIB) have signed an InvestEU guarantee amendment, through which NIB will also become an implementing partner for the states of both Norway and Iceland. The addition of these two countries will increase the NIB's total lending capacity under the InvestEU programme to EUR 994m. The extension of the NIB InvestEU offering to Norwegian and Icelandic projects was made possible by the accession of both countries to the InvestEU Fund. They will be the first non-EU countries to participate in the programme. Both countries signed contribution agreements with the European Commission back in May 2023. NIB will now be able to provide financing in Norway and Iceland under its InvestEU debt financial product across the two policy windows of "Sustainable Infrastructure" and "Research, Innovation and Digitalisation" areas. NIB President and CEO, André Küüsvek, said that "With Norway and Iceland joining the InvestEU, the guarantee now extends across all Nordic and Baltic member countries of NIB. This expansion enables us to enhance our financing activities, particularly in driving the green transition. Our focus will be on renewable energy, energy efficiency, industry decarbonisation, and transport sector improvements, alongside innovation and digitalisation initiatives. NIB's strategy is firmly committed to embracing higher risks and increasing loans, especially to small, medium-sized, and mid-cap companies. The EU guarantee aligns perfectly with this strategic direction, providing an ideal mechanism to support our objectives."

Primary market

The first trading week in February simply carried on where January had left off. Today, we can report on as many as ten new issues with a cumulative volume of EUR 14.25bn in addition to a tap. In our last issue, we reported two mandates, the books for which opened shortly thereafter: Under the construct of the Gemeinschaft deutscher Laender (ticker: LANDER), five Laender have come together to launch the 64th Laender jumbo under the aforementioned ticker. The EUR 1bn (7y) deal went ahead as per the guidance at ms +12bp. The next issue on the screens came from Saxony-Anhalt (ticker: SACHAN) with a 30-year bond: EUR 500m changed hands at ms +71bp. In contrast, Lower Saxony (ticker: NIESA) opted for the other end of the maturity spectrum with a five-year bond worth EUR 1bn, which was raised in line with the guidance at ms +6bp. In the German promotional bank segment, Investitionsbank Berlin (ticker: IBB) went to the market with a EUR 500m (5y) benchmark which came in at ms +10bp (guidance: ms +11bp area). We now move onto the supranationals: EFSF (ticker: EFSF) sought to raise fresh funds of EUR 4bn (10y). The order book totalling EUR 11.5bn left some leeway, and the issue was therefore priced slightly tighter than the guidance at ms +22bp. There was a new issue in the ESG segment from the World Bank in the form of the IBRD under the same ticker: the 10y sustainability bond in the amount of EUR 3bn was priced at ms +23bp (guidance: ms +24bp area). From Latin America, the multilateral development bank CAF (same ticker) came onto the market and raised EUR 1.5bn in fresh funds (6y) at ms +105bp. Back to Europe now: Kommuninvest (ticker: KOMINS) issued EUR 1bn over three years. In line with the guidance, pricing was at ms flat. From France, the infrastructure operator Société du Grand Paris (ticker: SOGRPR) is now active under a new name: Société des Grands Projets. A new EUR 1bn (25y) green bond was placed successfully at OAT +38bp, which equates to around ms +89bp. The last benchmark issue of the past trading week came from Italy: Cassa Depositi e Prestiti (ticker: CDEP) issued a social bond with a term of just under 6 years in the amount of EUR 750m. The final spread stood at BTPS +37bp area (equivalent to around ms +109bp). In addition, we also noted a tap: Eurofima (ticker: EUROF) tapped its EUROF 3.125% 11/09/31 by a relatively unorthodox amount of EUR 114.35m at ms +20bp. The latest EU auction, moreover, took place on Monday: Two bonds were tapped: the EU 2.75% 05/10/2026 and EU 4% 07/04/2044. The shorter bond was increased in volume by EUR 2.724bn and the longer bond by EUR 1.71bn. The bid-to-cover ratios stood at 1.05x and 1.09x respectively. Last but not least, we can also report on mandates from BASQUE (10y, ESG) and CADES (3y, ESG). The Basques are currently conducting a roadshow.

Issuer	Country	Timing	ISIN	Maturity	Size	Spread	Rating	ESG
CDEP	Other	06.02.	IT0005582876	5.9y	0.75bn	ms +109bp	BBB / Baa3 / BBB	X
CAF	SNAT	06.02.	XS2763029571	6.0y	1.50bn	ms +105bp	AA- / Aa3 / AA	-
IBRD	SNAT	06.02.	XS2765024414	10.0y	3.00bn	ms +23bp	AAAu / Aaa / AAA	X
KOMINS	Nordics	06.02.	XS2765020180	3.0y	1.00bn	ms flat	- / Aaa / AAA	-
SOGRPR	FR	06.02.	FR001400NUQ6	25.3y	1.00bn	ms +89bp	AA- / Aa2 / -	X
EFSF	SNAT	05.02.	EU000A2SCAN9	10.0y	4.00bn	ms +22bp	AA- / Aaa / AA	-
NIESA	DE	05.02.	DE000A3828T8	5.1y	1.00bn	ms +6bp	AAA / - / -	-
IBB	DE	01.02.	DE000A30V265	5.25y	0.50bn	ms +10bp	AAA / - / -	-
SACHAN	DE	31.01.	DE000A3512U6	30.0y	0.50bn	ms +71bp	- / Aa1 / -	-
LANDER	DE	31.01.	DE000A3512S0	7.0y	1.00bn	ms +12bp	AAA / - / -	-

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

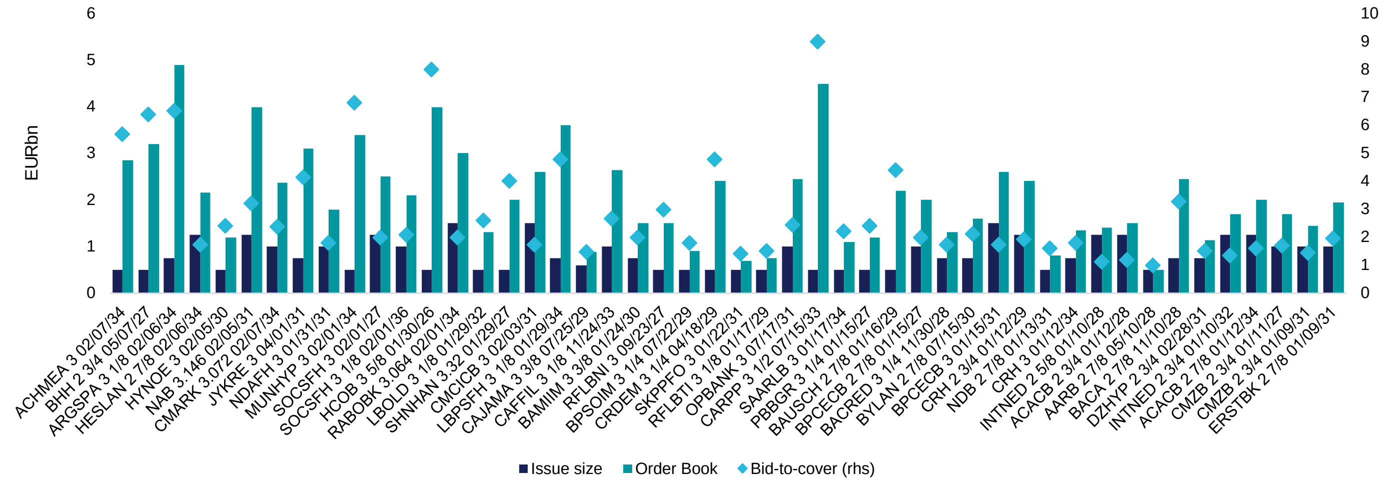
Covered Bonds
January 2024: Record start to the new covered bond year

Authors: Dr Frederik Kunze // Lukas Kühne

January 2024 brings a record volume of new issues

As we have repeatedly described in our weekly publications over recent weeks, January 2024 was a highly dynamic issuance month. In the EUR benchmark segment, for example, new covered bonds with a total volume of EUR 40.6bn (49 bonds) were issued. This figure tops all January primary market volumes since our records began in 2011. Only January 2023 had a similarly high new issuance volume of EUR 39.7bn, which was spread across 46 separate bond issues. Some degree of normality has returned to the covered bond segment after the expiry of the ECB purchase programmes and the associated steady withdrawal of the Eurosystem from the bond market. From a seasonal point of view, particularly in the first few trading weeks of a new year, concentrations of issuers appear on the market and approach investors with fresh supply. In our review article for January 2024, we will first look at the seasonal pattern and then examine other facets of the primary market for 2024 and the question of a return to “normality”. The normalisation process on the covered bond market began last year, but there are also new challenges due to the rise in interest rates. However, the focus for 2024 is not only on the monetary policy implications.

EUR BMK issues January 2024: Issue size, order books and oversubscription rates



Source: Market data, Bloomberg, NORD/LB Floor Research

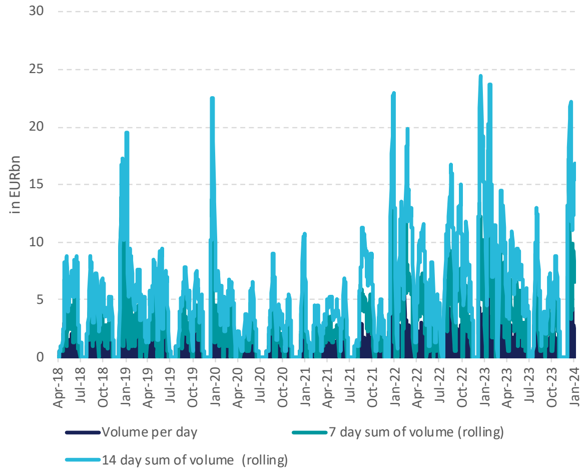
Seasonal pattern (initially) confirmed

With the figure of EUR 40.6bn mentioned above, the high level of the previous year was exceeded once again. A longer-term comparison shows that amounts in the order of EUR 30bn to EUR 40bn are by no means unusual. In fact, January regularly stands out in terms of the seasonal pattern. This applies to both new issues and maturities. In our opinion, however, it is too soon to say whether this seasonal pattern will actually be borne out over the year as a whole. There were also times in 2023 when issuance activities unexpectedly came to a standstill.

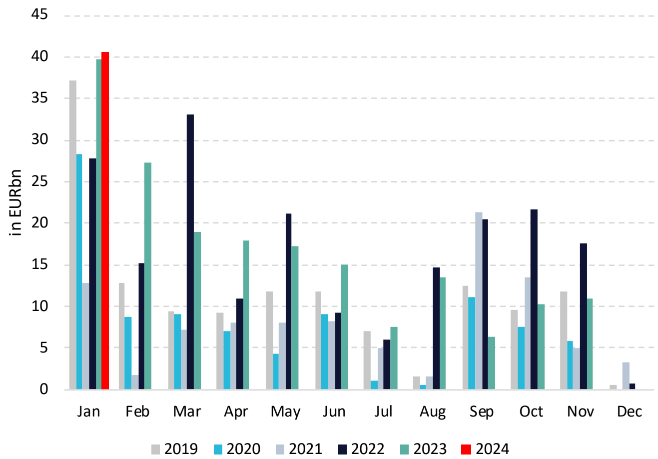
Positive net supply of EUR 18.1bn in January 2024

However, it is also striking that the month of January has only produced a negative net supply on three occasions between 2014 and 2024. This was the case in 2017 (EUR -3.9bn), 2021 (EUR -16.3bn) and 2022 (EUR -6.0bn). According to our records, a positive net supply of EUR +18.1bn was calculated for January 2024 due to highly dynamic new issuance activities. At EUR 22.5bn, maturities in January 2024 were in line with the average of the last five years.

EUR BMK: Issues over the course of the year (on a daily basis)



EUR BMK: Issues over the course of the year (on a monthly basis)

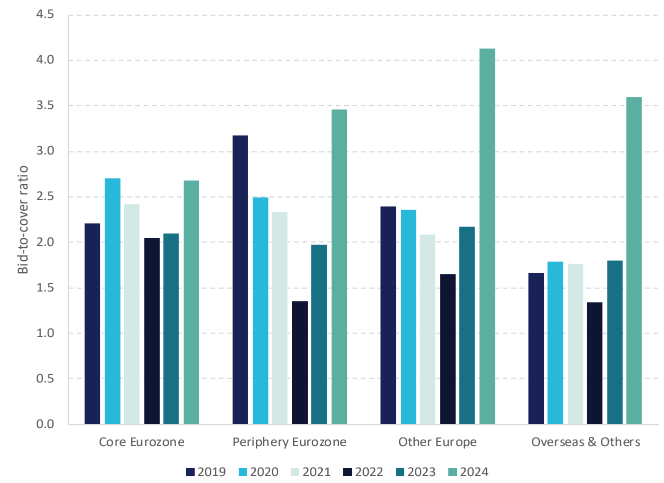


Source: Bloomberg, market data, NORD/LB Floor Research

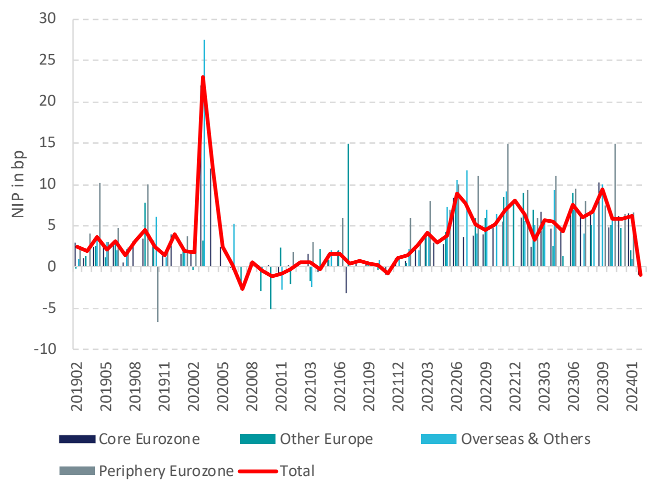
Investor interest reassuringly high and robust

From a macro perspective, the market started the year in a very receptive mood. In our view, this is particularly due to the oversubscription rates that can be seen on the market - which is the case for at least the majority of the newly placed deals in January 2024. We see one reason for what have occasionally been surprisingly high bid-to-cover ratios in the new issue premiums, which can certainly be described as generous. As such, we would like to compare these two key figures, bid-to-cover ratios and the NIPs, for the first issuing month of the year in the following. In January 2024, the order books totalled EUR 102bn, resulting in an average bid-to-cover ratio of 2.8x. The average value of new issue premiums was +2.8bp, which is still the highest value compared with previous years (2023: +2.1bp; 2022: +1.8bp; 2021: +1.3bp). At first glance, this may seem remarkable given that the spread levels were already high. However, we believe that this is actually consistent with the view that the repricing process is not yet complete and that the primary market is setting the tone for the secondary market. The absence of the ECB on the primary market can also be referred to as an explanatory variable here. However, this gap was evidently filled by other buyers in January. The oversubscription ratios are at least an unmistakable indicator of this. The figure from January 2024 contrasts with lower values recorded in previous years (2023: 2.1x; 2022: 1.8x; 2021: 2.4x). We must mention one important aspect in relation to primary market activity at the start of the year: a "downward" trend has emerged with regard to NIPs. Essentially, when viewed in isolation, the more recent deals have certainly been less "generous", albeit without being systematically detrimental to bid-to-cover ratios.

Primary market: bid-to-cover ratios



Primary market: new issue premiums

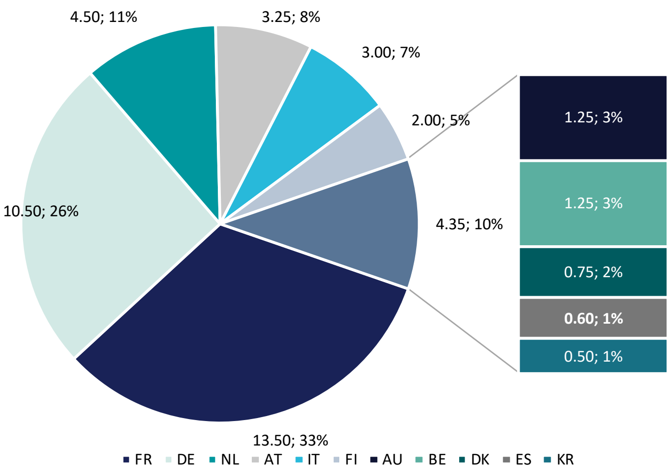


Source: Bloomberg, market data, NORD/LB Floor Research

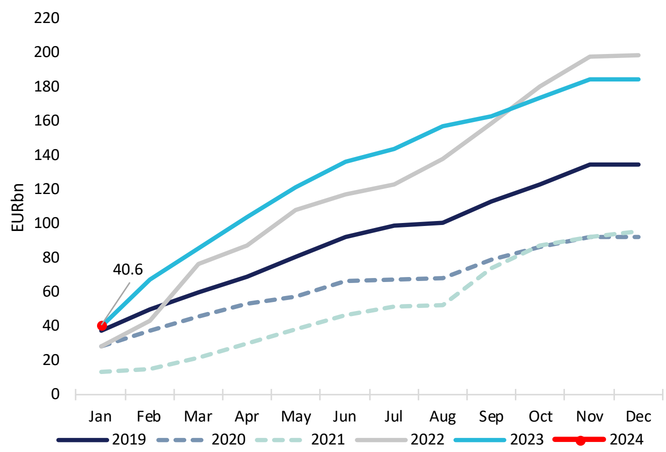
Primary market supply dominated by Germany and France

In terms of the structure of the primary market offering, there is a clear dominance of issues from France (EUR 13.5bn; 12 bonds) and Germany (EUR 10.5bn; 16), followed by the Netherlands (EUR 4.5bn; 4). As usual, Austria is also one of the active jurisdictions with EUR 3.25bn (5); ahead of Italy (EUR 3.0bn; 5) and Finland (EUR 2.0bn; 2). Issuers from Australia (EUR 1.25bn), South Korea (EUR 0.5bn) Denmark (EUR 0.75bn), Spain (EUR 0.6bn) and Belgium (EUR 0.75bn) each approached investors with a single bond in January 2024. We would describe the absence of issuers from Canada so far as surprising. Accordingly, no Canadian covered bond was placed in EUR benchmark format in January 2024. In our view, Canadian institutions were already somewhat cautious in 2023, with only one issuer (size: EUR 1.75bn) approaching investors with a fresh bond in January last year. Two years ago, in January 2022, a total of EUR 7.0bn was spread across four bonds from Canada, with the result that Canadian issuers made a very large contribution to the primary market volume that year. The APAC region and the Nordics have also been underrepresented in 2024 (as was the case in the previous year), while we definitely continue to see some catch-up movement in Italy. As in 2023, some issuers approached investors with dual tranches at the start of the new year. In the first seven days of trading, Commerzbank (DE), Credit Agricole Home Loan (FR), ING Bank (NL), Caisse de Refinancement de l'Habitat (FR) and BPCE SFH (FR) each launched two issues on the market. Longer-term deals were also well received on the market at the start of 2024. This is particularly noticeable when looking at the 7+ year maturity segment. In January 2024, the share of the issuance volume here was 40% ("7y-10y": 38%), far higher than in January 2023 (19%). We see this as a first step towards a normalisation of the maturity structure in the covered bond segment, but remain somewhat cautious when it comes to the future pace of this development. The main reason for this reticence is the structure of the yield curve. Eleven covered bonds are assigned to the ESG category, one of which is in the Social sub-category and ten designated as Green. The issue volume attributable to the ESG segment totalled EUR 7.0bn, of which EUR 2.0bn was placed by German issuers (NORD/LB, Bausparkasse Schwäbisch Hall, Münchener Hypothekenbank and Berlin Hyp).

Primary market: EUR BMK issues January 2024



Primary market: EUR BMK issue history

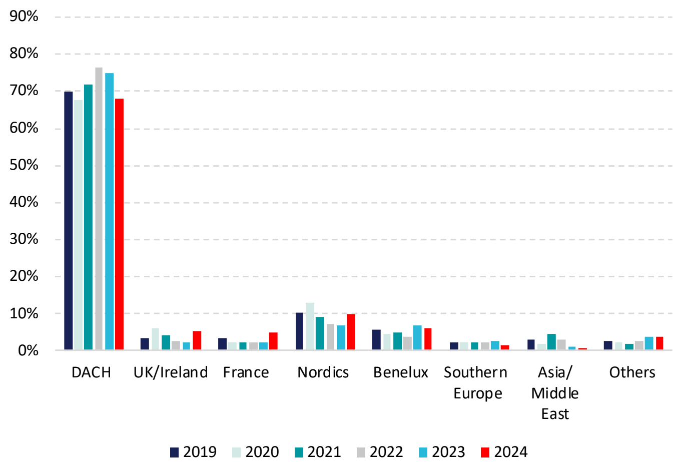


Source: Market data, Bloomberg, NORD/LB Floor Research

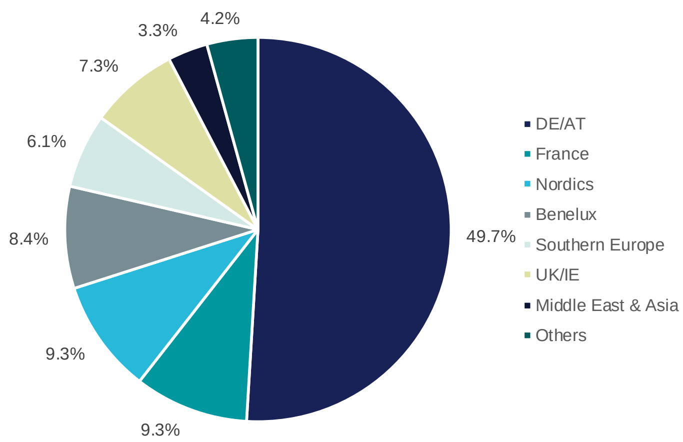
Distribution of the issuance volume: Germany and France with high shares

The geographical distribution of the issuance volume is, in structural terms, largely comparable with previous years (aside from the “outlier” of Canada). However, distortions are possible at the start of the new year, as a sufficiently differentiated database is not yet available. In light of the high proportion of issues from DE and AT, we find the high proportion of investors from Germany and Austria, even by historical standards, by no means surprising. In contrast, the investor base in France is less pronounced compared to the high issuance volume. The relevance of the home bias on the part of investors is evident from the proportion of DE/AT deals allocated to accounts domiciled in these two countries. In January 2024, 68.1% of the allocated volume of the corresponding bonds ended up there.

Primary market: Geographical distribution EUR BMK



Primary market 2024: Geographical distribution EUR BMK

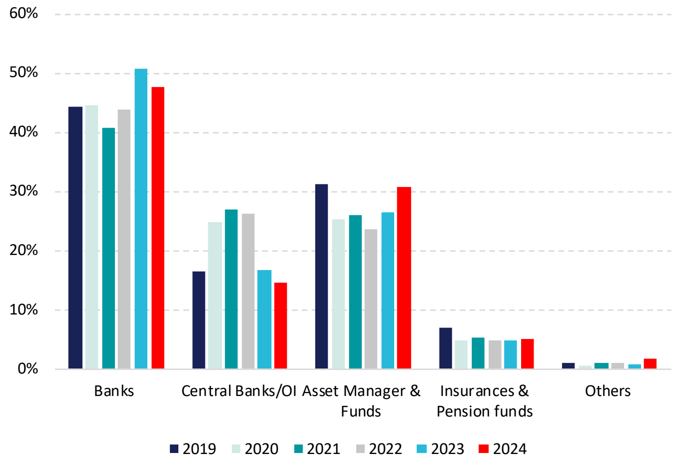


Source: Bloomberg, market data, NORD/LB Floor Research

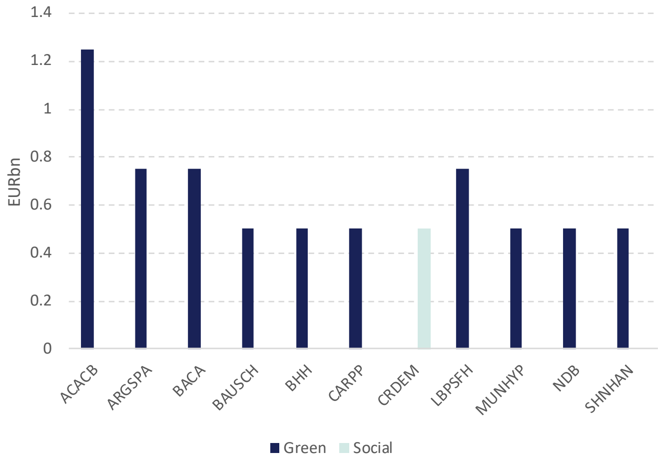
Distribution of the issuance volume: increased demand from "Asset Managers & Funds"

The Asset Manager & Funds category (31%) stands out for the month of January 2023 with a historically relatively high share of the total allocated volume. In comparison with 2023, the decline in demand from the Central Banks/OI category has continued, which is due to lower investments from the Eurosystem. The share has now fallen to just under 15% in January 2024. However, this data comes as no surprise. It is also pleasing that the "freed up" volume as a result was obviously absorbed by other investors.

Primary market: Investor distribution EUR BMK



Primary market 2024: ESG-EUR BMK issues

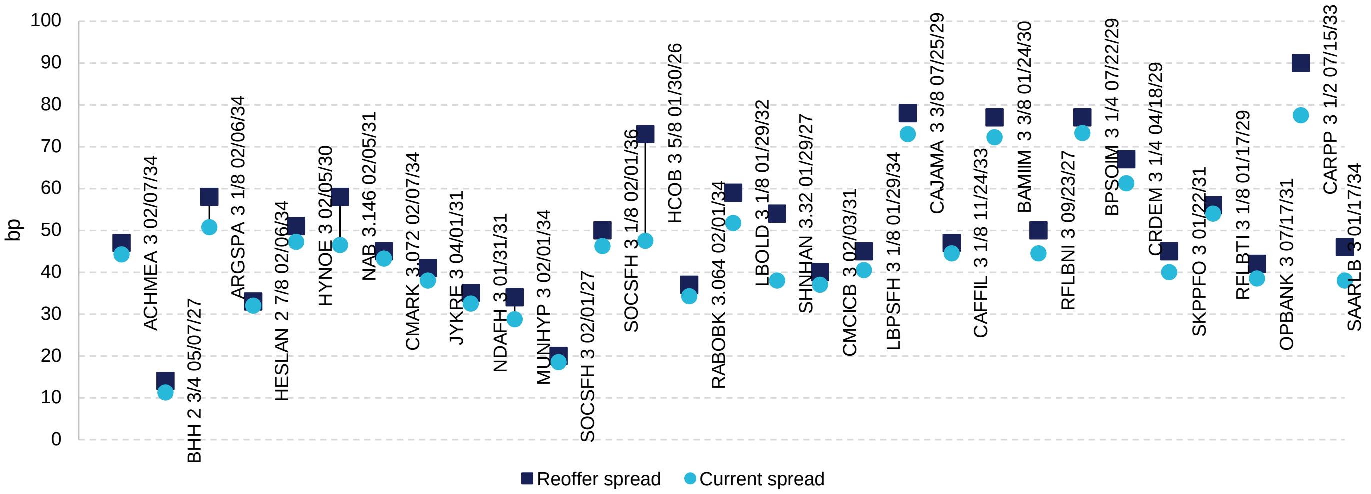


Source: Bloomberg, market data, NORD/LB Floor Research

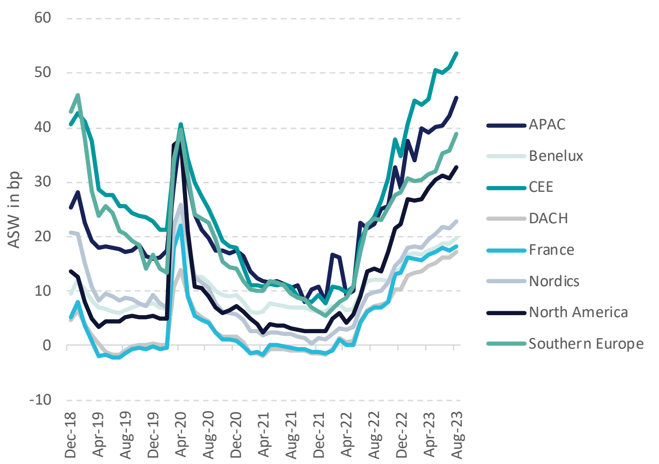
Spread development and outlook

In January 2024, repricing on the covered bond market unequivocally continued. We have also repeatedly pointed out the "imaginary gap" in relation to the pricing of newly placed deals and the spreads of outstanding bonds in the Market Overview sections of our weekly Covered Bond & SSA View. In the wake of the pronounced new issuance activity coupled with the high new issue premiums, the curves on the secondary market have also gradually widened. In this context, the dynamics in the German Pfandbrief segment should certainly be emphasised. Here we would ultimately talk of a catch-up movement with regard to repricing. In fact, Pfandbriefe no longer appear to be "too expensive" compared with covered bonds from other jurisdictions. In this respect, the scenario we were also expecting has materialised, as spreads on the market for covered bonds are widening overall, but this movement, following the restraint in the repricing process to date, is more pronounced for German Pfandbriefe. Together with the high level of new issuance activity and the dwindling presence of the Eurosystem, liquidity is also returning to the covered bond segment. This structural change is likely to be seen initially in the "fresh produce" in particular, but will ultimately benefit the entire universe of (still) outstanding bonds. Based on this basic assumption and our expectation that the covered bond programmes will remain fundamentally resilient, we no longer anticipate any drastic spread widening. The reason for this is a "healthy demand side" even without the ECB. The performance of the deals placed in January 2024 is a serious indication of this.

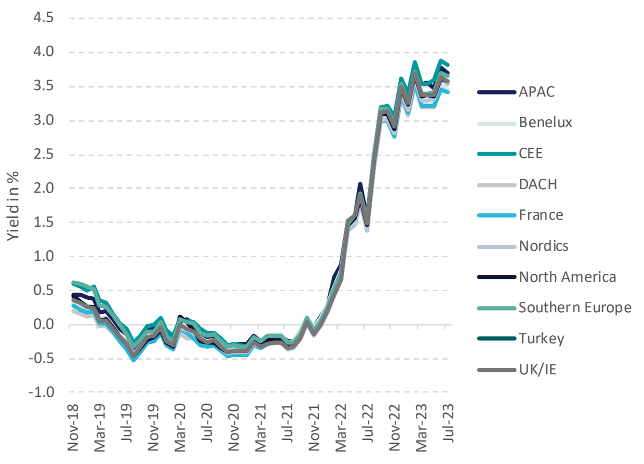
EUR BMK issues January 2024: re-offer spread vs. current spread



ASW spread: covered bonds (EUR BMK; 5y generic)



Yield: covered bonds (EUR BMK; 5y generic)



Source: Bloomberg, market data, NORD/LB Floor Research

Conclusion

After the first month of issues in the new year, we are once again confident that the primary market has positioned itself well in its “seasonal pattern”. The start to the year without the participation of the Eurosystem in the primary market must be considered a success. As in the months since the end of the ECB's participation in new issues and on the secondary market, other buyers are filling this gap. While bank treasuries initially compensated for the Eurosystem's withdrawal in the order books and allocations in 2023, we are seeing an increase in real money investors at the start of 2024. While the return of investors from the insurance sub-segment, for example, is an obvious conclusion, our market observations and discussions suggest that new investors are also likely to be welcomed to the market. As a result of the sustained upward adjustment of spread levels in the covered bond segment, we would even expect “traditional” credit investors who want to secure attractive levels. Only time will tell if this is an “episode” or a trend reversal.

SSA/Public Issuers
SSA January recap: issuance volume at record level

Authors: Dr Norman Rudschuck, CIIA // Lukas-Finn Frese

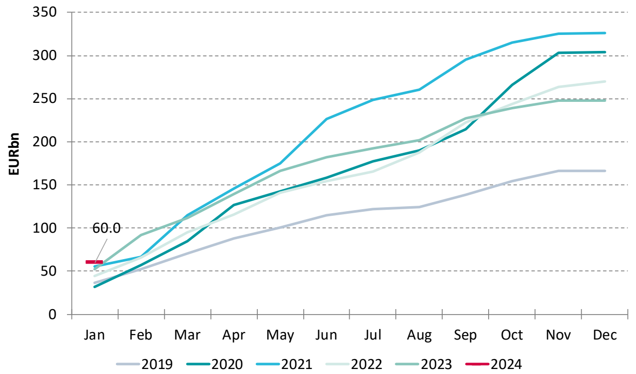
January 2024 – the most active SSA month of all time

At the start of every year, we traditionally take a look at developments in the primary market. January has always been a high-volume month. In most years, it is one of the three strongest months of the year in terms of issuing activities. In fact, the combined total of EUR benchmark bond issues in the SSA segment according to our definition – supranationals, sub-sovereigns and agencies, i.e. excluding sovereigns – for January 2024 amounted to an impressive EUR 60bn (2023: EUR 52.5bn, 2022: EUR 44.5bn, 2021: EUR 55.2bn). Never before have we seen such a strong issuance level at the start of the year. The primary market made use of the full month, comprising 22 trading days. At the end of 2023. NIESA already announced a mandate for the first trading week of the new year, so as not to waste any time. This ensured a successful start straight away on 2 January 2024.

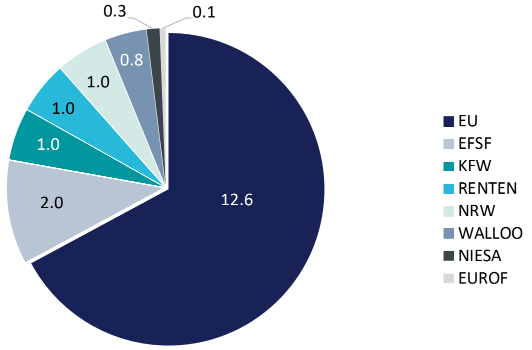
Highlights

In January 2024, a total of 33 different issuers were already successfully present in the market – some of which several times. An overall number of 38 new issues were placed. KFW & EIB accounted for the highest bond totals in the year to date, with each issuer seeking to raise EUR 6bn and the order books ultimately totalling EUR 19.5bn and EUR 42.5bn respectively. EIB's second transaction was the only bond issue to be met with an even higher level of demand. For this deal, the order book amounted to EUR 45bn. However, at EUR 3bn, this bond issue was only half the size of the other two high-volume issues. Canadian issuers are always welcome guests in the EUR primary market. A trio was present with market activities: EDC as well as the provinces of BC (ticker: BRCOL) and Quebec (ticker: Q). In total, EUR 4.75bn crossed the big pond (BRCOL and Q: both EUR 1.25bn, EDC: EUR 2.25bn). German Laender were also anything but restrained at the turn of the year. Seven federal states have already launched benchmark bond issues this year, including HESSEN and BADWUR with FRN as well as SACHAN with a maturity of 30 years. We also wish to mention the Joint Laender (ticker: LANDER), via which five federal states jointly issued bonds worth EUR 1bn. In the year to date, the EU has not yet placed new bonds, opting instead for tap issues. In the year to date, one bond auction saw two bond issues being tapped, with another two taps carried out via syndicated transactions.

Issuance volume over the year(s)



Tap volume by issuer (EURbn)

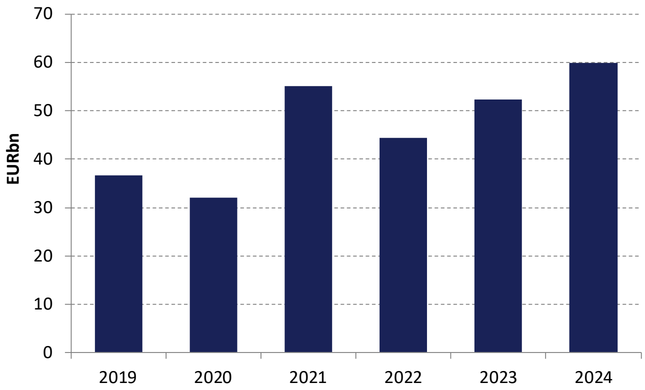


Source: Bloomberg, NORD/LB Floor Research

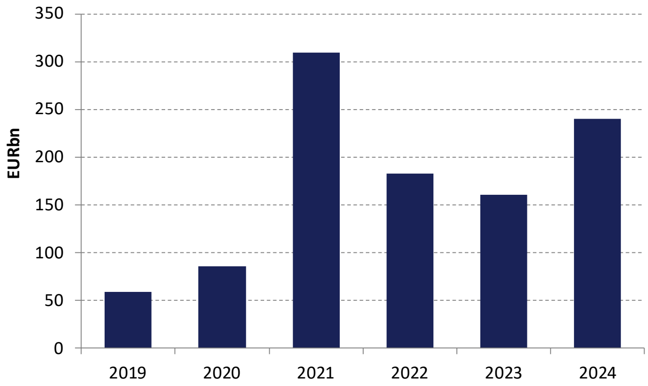
EU dominates volume of tap issues

Although tap issues were not included in our 'big' dataset, we want to examine these separately in view of their extraordinarily high volume. In the first month of the year, the amount already totalled EUR 18.8bn. Of this total amount, the four above-mentioned EU increases alone accounted for EUR 12.6bn. EFSF, KFW, RENTEN, NRW, WALLOO (cf. Issuer View) and NIESA also opted to increase existing bond issues in addition to placing new bonds. The presence of Eurofima (ticker: EUROF) in the primary market was likewise limited to a tap issue. In relation to the new issuance volume of EUR 60bn, the total amount of tap issues equated to just under 31% and was therefore unusually high.

Issuance volume – yoy comparison (January)



Order book volume – yoy comparison (January)



Source: Bloomberg, NORD/LB Floor Research

Order books significantly fuller again

A glance at the order books reveals an aggregate amount of EUR 239.7bn across the 38 new bond issues. Compared with 2023 (EUR 160.2bn) and 2022 (EUR 182.7bn), this figure represents a significant increase. However, this higher issuance volume still did not match the 2021 level. The successful EIB and KfW deals, with order book totals of EUR 87.5bn and EUR 46.5bn respectively, were key drivers of the overall increase. As mentioned above, the tap issues carried out this year so far were not included in the dataset illustrated above. Nevertheless, they absolutely merit mentioning. For example, the order books for the increases carried out as part of the first syndicated EU transaction were equivalent to EUR 81bn and EUR 99bn respectively, with staggering bid-to-cover ratios of up to 33x.

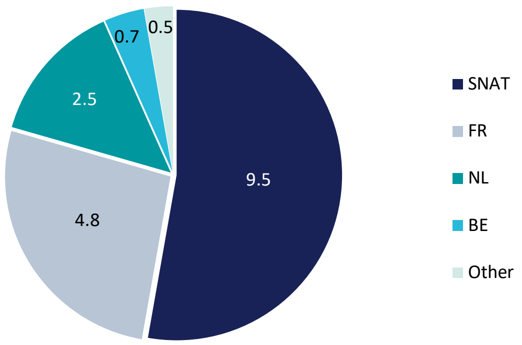
Monetary policy continues to impact the overall environment

In terms of an outlook for the coming weeks and months, the all-encompassing monetary policy remains an unavoidable subject. Since the meeting on 14 December 2023, we have known that comprehensive reinvestments under the PEPP will be a thing of the past from H2 2024 onwards. This means that, from July 2024 onwards, we will see an average monthly reduction of EUR 7.5bn. With regard to the next interest rate moves, we expect the first key rate cut in June this year at the earliest. Meanwhile, the market is also starting to wave goodbye to speculation about premature interest rate cuts. We believe that there will be a few more months of calm before the storm (cf. Fixed Income Special of 25 January). Accordingly, we were not surprised that issuers were keen to achieve substantial funding success as early as January.

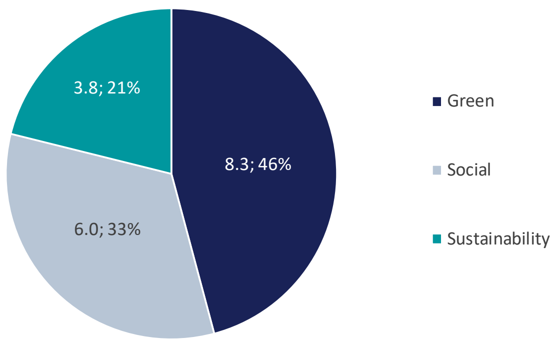
ESG – supranationals and green bonds dominate

We recently examined developments in the market segment of ESG bonds in 2023 as part of a separate annual review. A glance at this topic highlights that ten ESG bond issues were already placed in January this year, with the new issuing volume amounting to EUR 18bn at the start of the year and accounting for a share of just over 27% in our sub-segment (total volume in January: EUR 60bn). Supranationals proved to be particularly active. At EUR 9.5bn, they accounted for the lion's share. Four issuers from our SNAT coverage have already placed bonds with an ESG profile – EIB (EUR 6bn, green), IDAWBG (EUR 1.75bn, sust.), ASIA (EUR 1.25bn, green) and NIB (EUR 500m, green). In line with what has become something of a tradition, new ESG bonds from the Netherlands were placed in the market by BNG (EUR 1.25bn, social) and NEDWBK (EUR 1.25bn, sust.). Two French issuers were also far from backwards in coming forwards. CADES issued a social bond worth EUR 4bn and IDF placed an EUR 800m sustainability bond issue. At EUR 8.3bn (46%), green bonds accounted for the highest share, followed by sustainability bonds at EUR 6bn (33%). At EUR 3.8bn (21%), 'pure' social bonds were in third place.

ESG volume by jurisdiction (EUR bn)



Volume by ESG format (EUR bn)



Source: Bloomberg, NORD/LB Floor Research

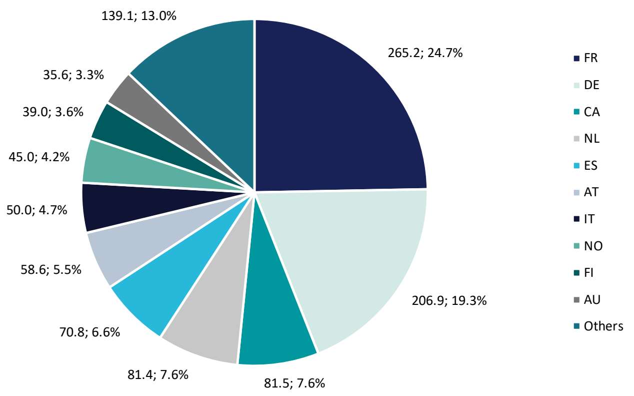
Conclusion

No two Januarys are the same. In previous years, the market environment was always marked by and/or faced challenging factors. This year there again is an (even) stronger focus on monetary policy, and issuers are evidently tending to go for early funding success. At EUR 60bn, the previous record from 2021 has been exceeded. Had the EU decided to launch a new bond issue rather than tapping various existing issues, this head start would have been considerably greater still. Furthermore, KfW has already achieved almost 10% of its funding target of EUR 90-95bn, raised on the basis of its successfully placed dual tranche comprising two new bond issues. It remains to be seen how current conditions for issuers in the SSA segment will develop in the course of this year. The energy (price) crisis, the continuing conflict in Ukraine, the debt brake in Germany and the ECB's monetary policy that is hanging over everything will all remain key factors. As long as (some) order books remain many times oversubscribed, we are already looking with great interest at a continued highly successful SSA year in 2024.

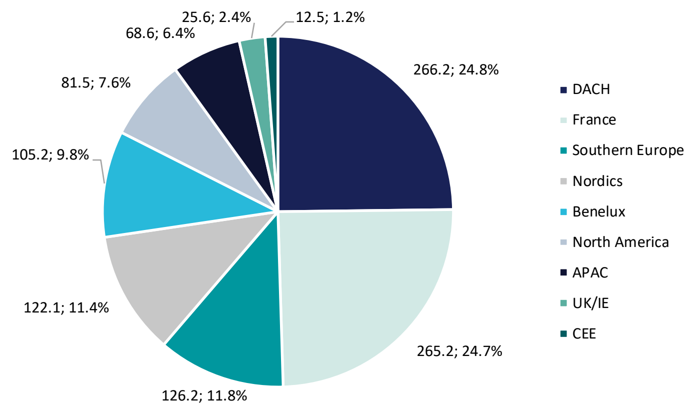
NORD/LB

Charts & Figures
Covered Bonds

EUR benchmark volume by country (in EURbn)



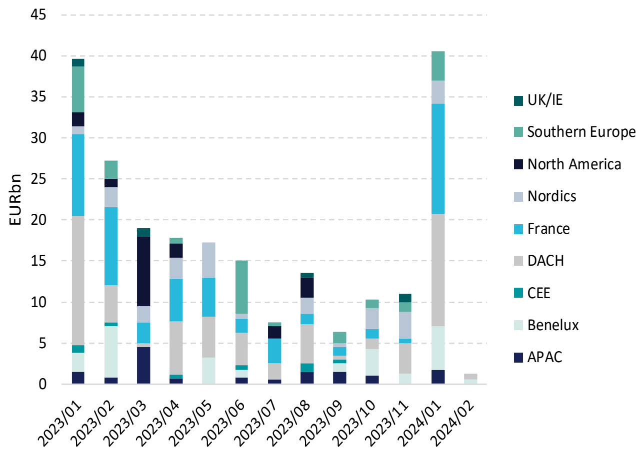
EUR benchmark volume by region (in EURbn)



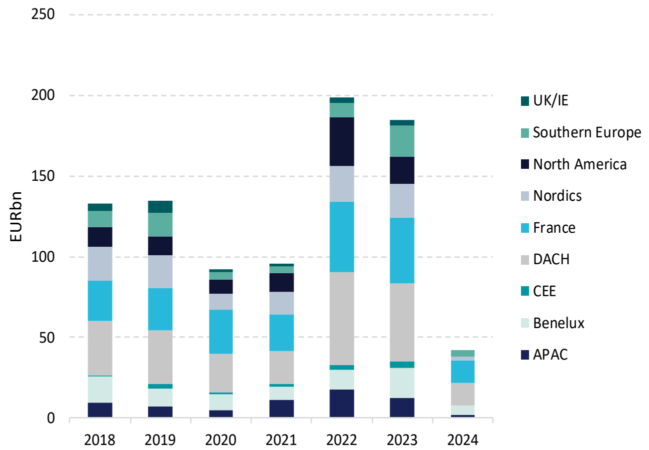
Top-10 jurisdictions

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	265.2	255	24	0.97	9.3	4.8	1.34
2	DE	206.9	294	39	0.65	7.8	4.1	1.32
3	CA	81.5	60	0	1.33	5.5	2.7	1.15
4	NL	81.4	82	3	0.93	10.4	6.1	1.24
5	ES	70.8	56	5	1.15	11.0	3.3	2.05
6	AT	58.6	99	5	0.58	8.1	4.5	1.45
7	IT	50.0	62	4	0.78	8.5	3.7	1.69
8	NO	45.0	55	12	0.82	7.3	3.5	0.78
9	FI	39.0	43	4	0.89	6.9	3.6	1.56
10	AU	35.6	34	0	1.05	7.2	3.4	1.60

EUR benchmark issue volume by month



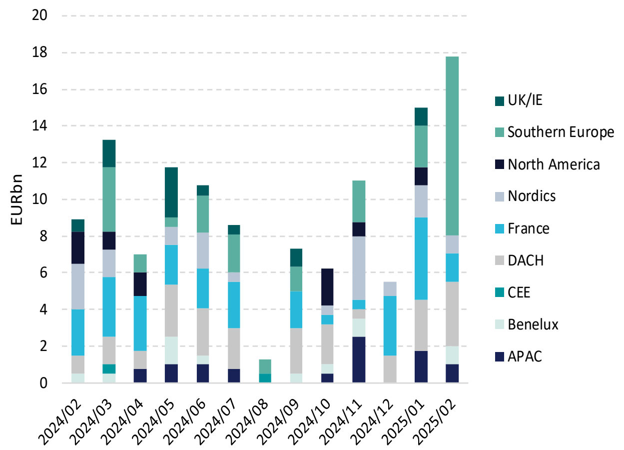
EUR benchmark issue volume by year



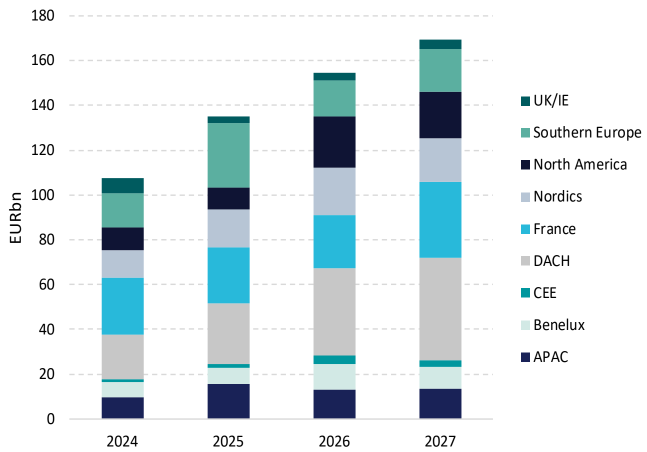
Source: market data, Bloomberg, NORD/LB Floor Research

NORD/LB

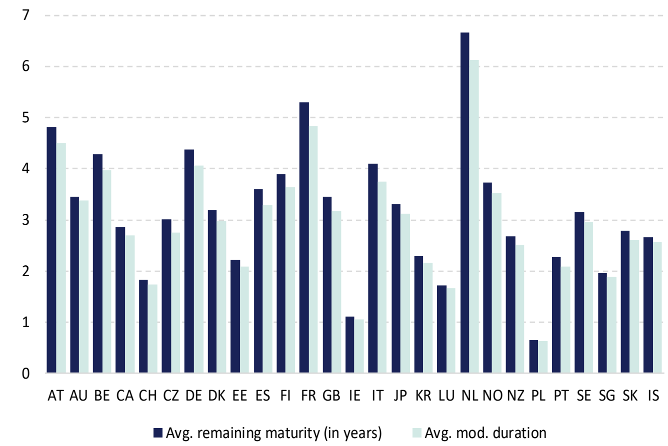
EUR benchmark maturities by month



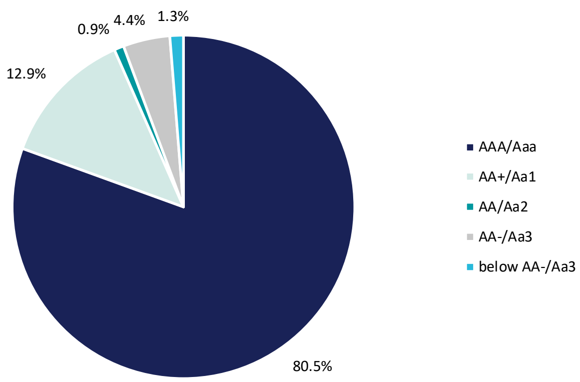
EUR benchmark maturities by year



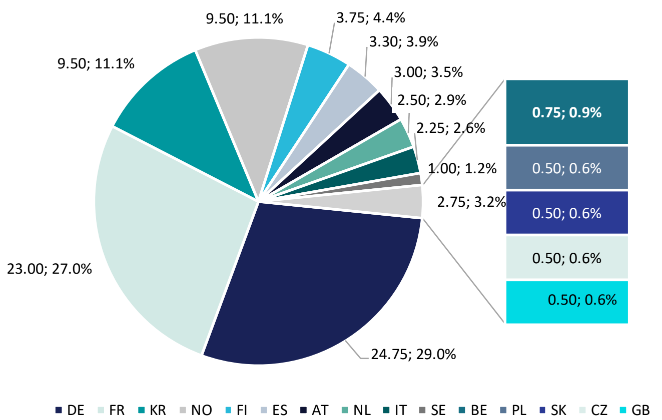
Modified duration and time to maturity by country



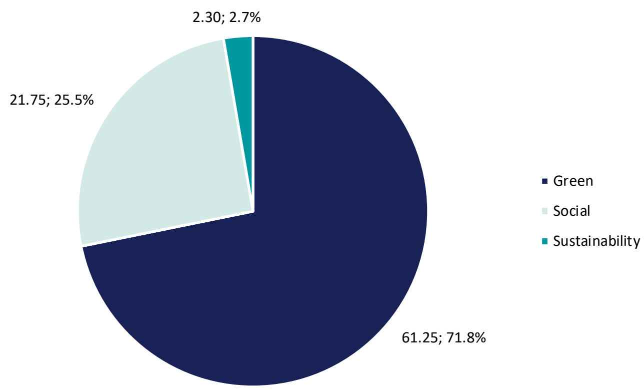
Rating distribution (volume weighted)



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

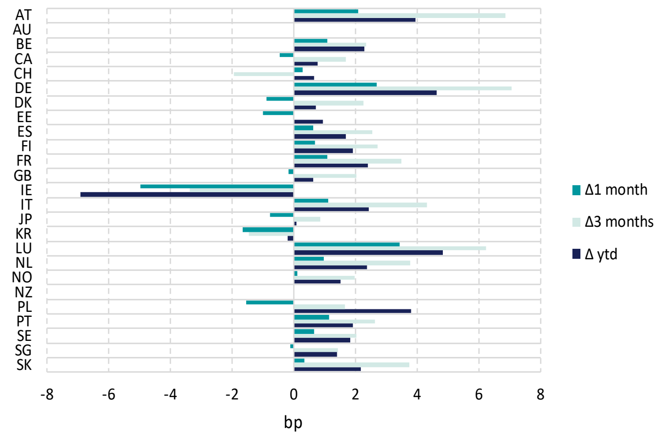


EUR benchmark volume (ESG) by type (in EURbn)

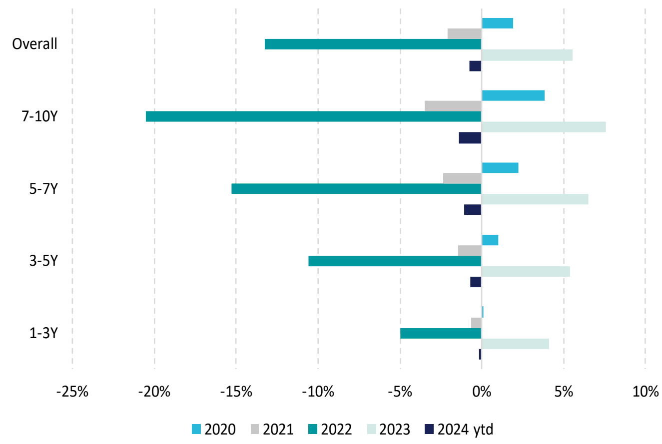


Source: market data, Bloomberg, NORD/LB Floor Research

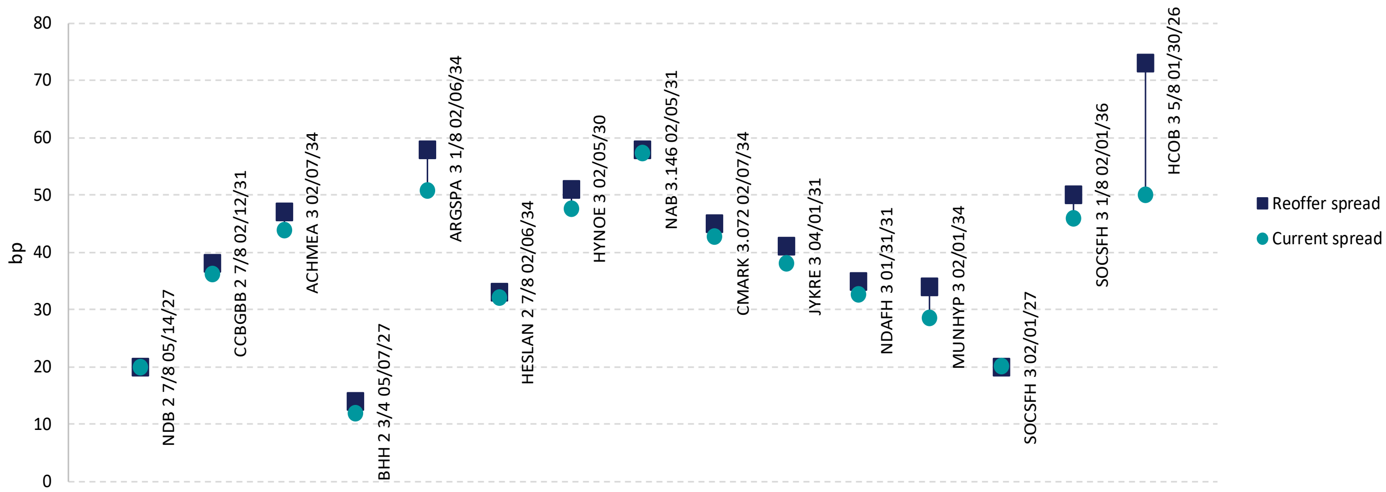
Spread development by country



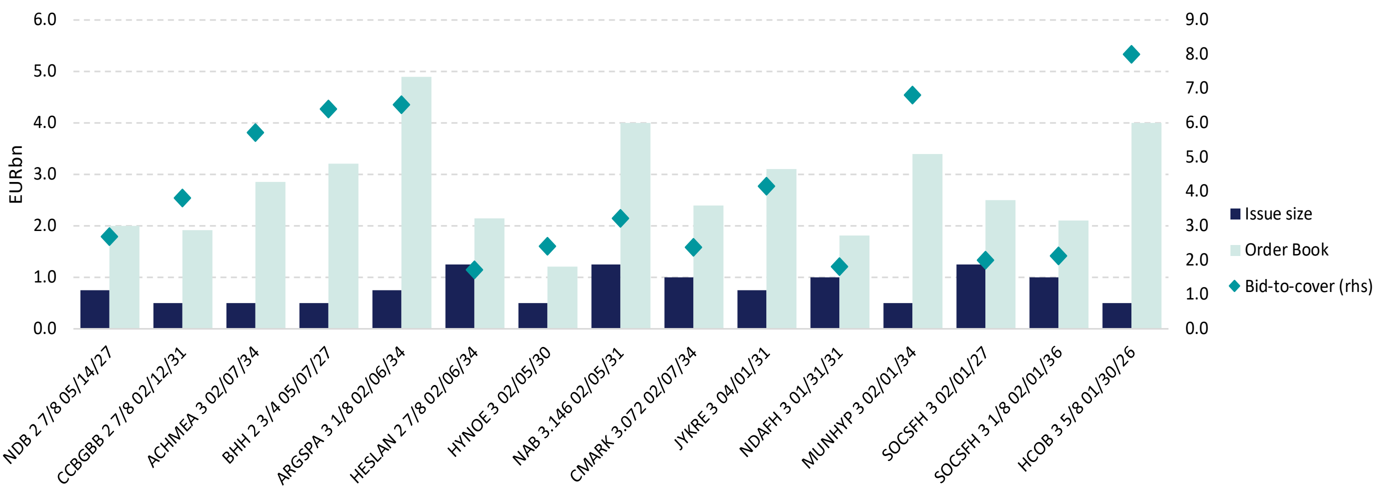
Covered bond performance (Total return)



Spread development (last 15 issues)



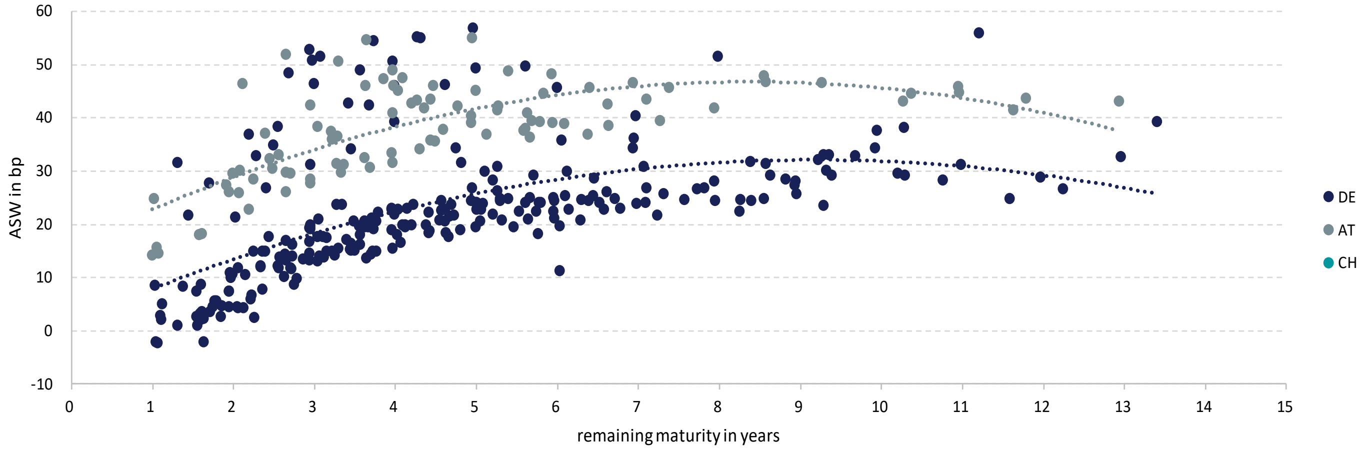
Order books (last 15 issues)



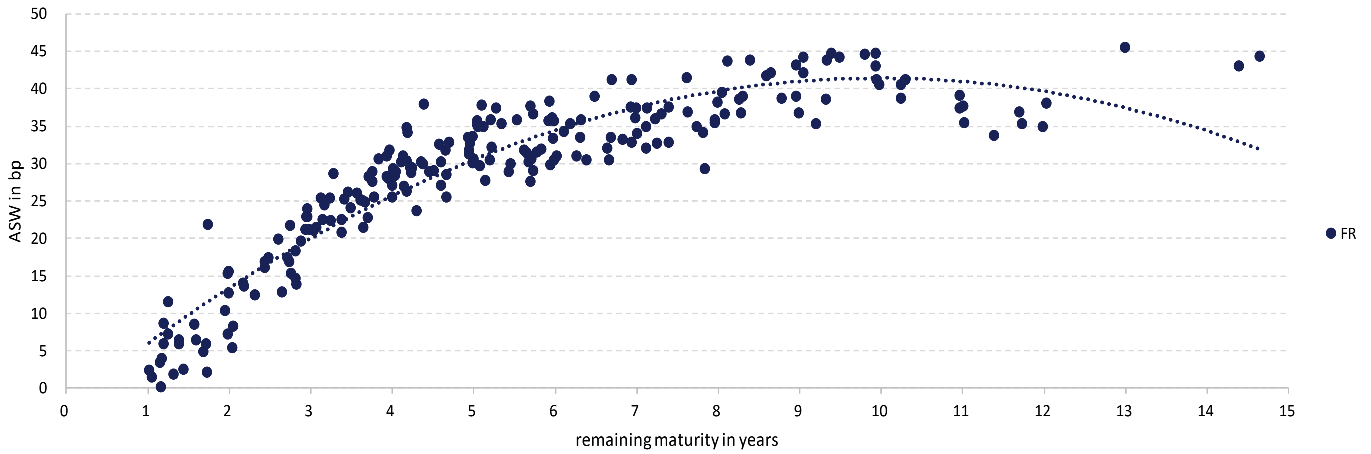
Source: market data, Bloomberg, NORD/LB Floor Research

Spread overview[1]

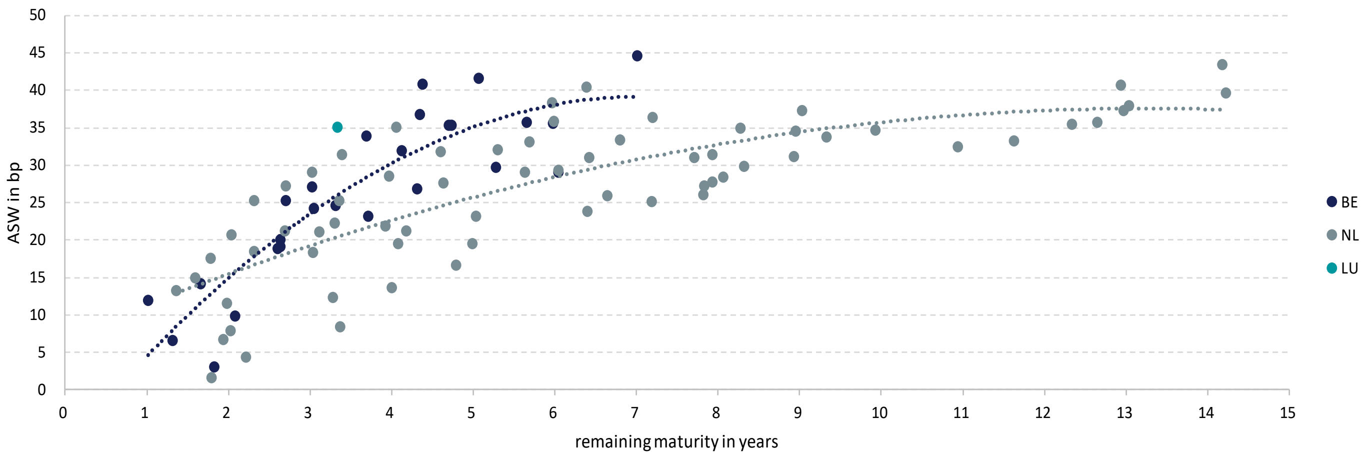
DACH



France

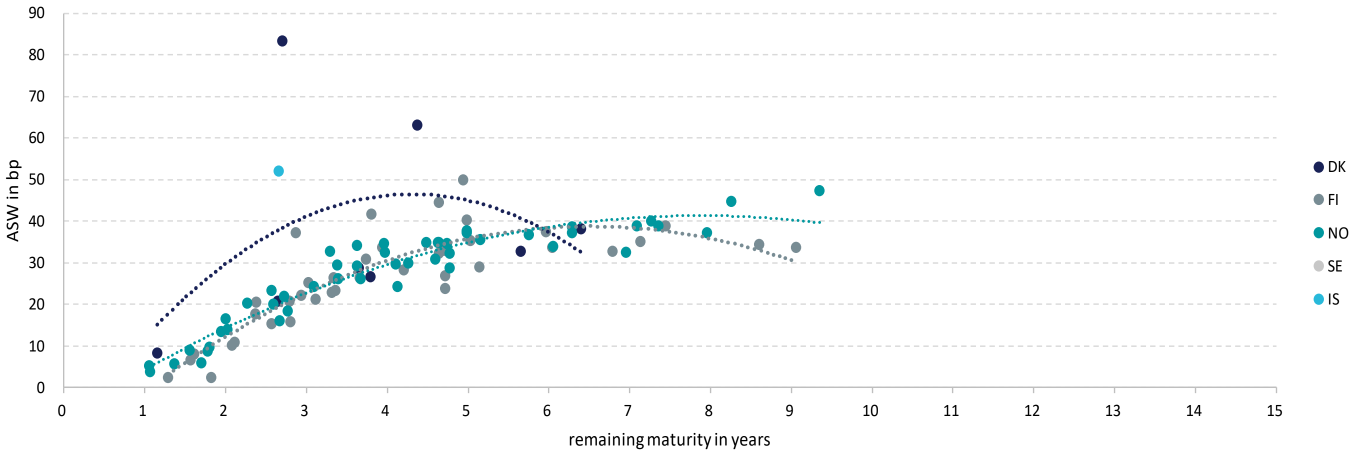


Benelux

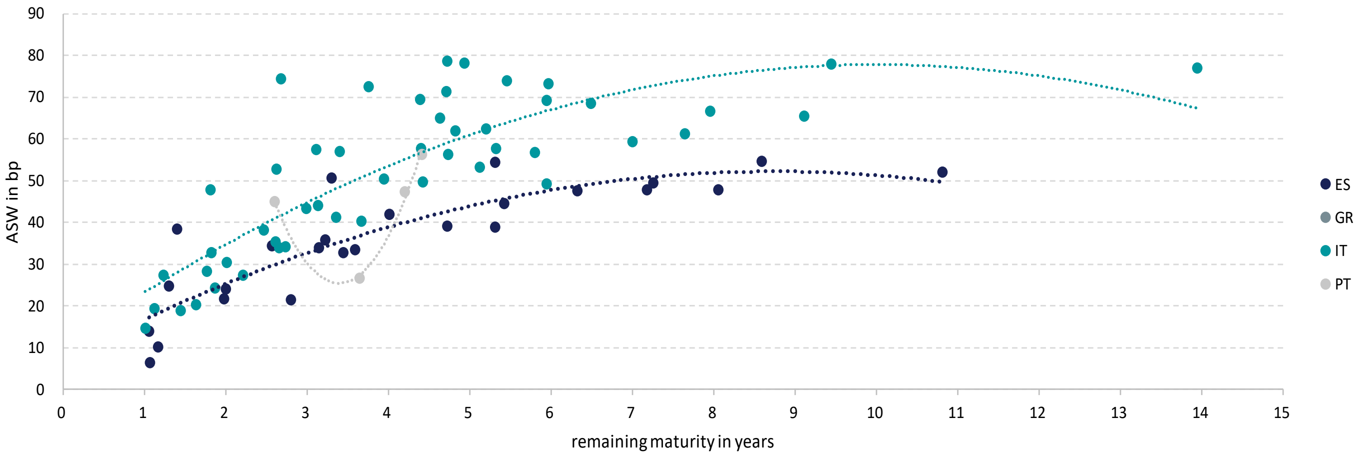


Source: market data, Bloomberg, NORD/LB Floor Research [1]Time to maturity 1 ≤ y ≤ 15

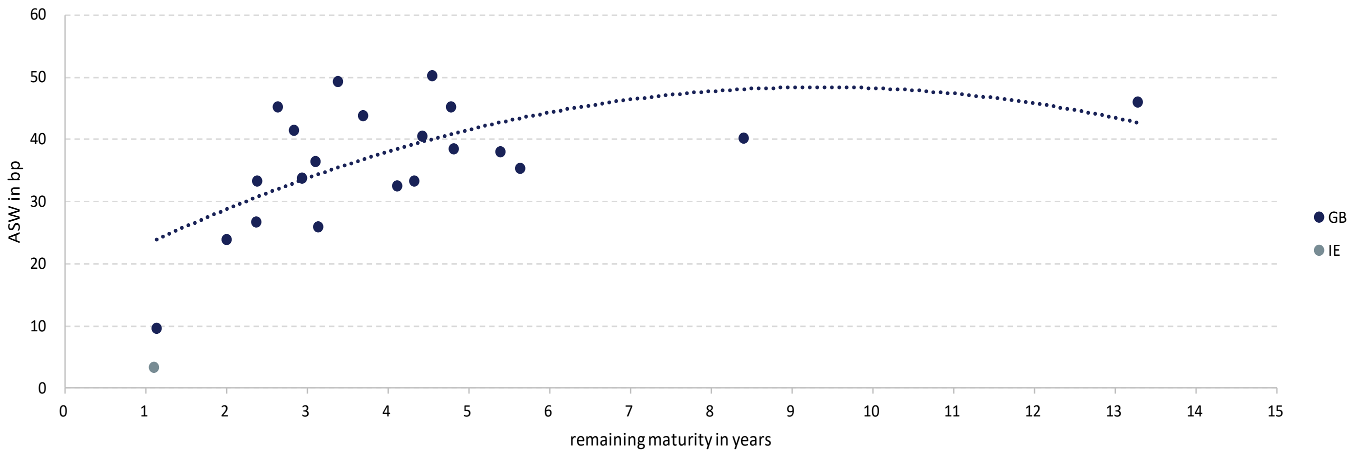
Nordics



Southern Europe

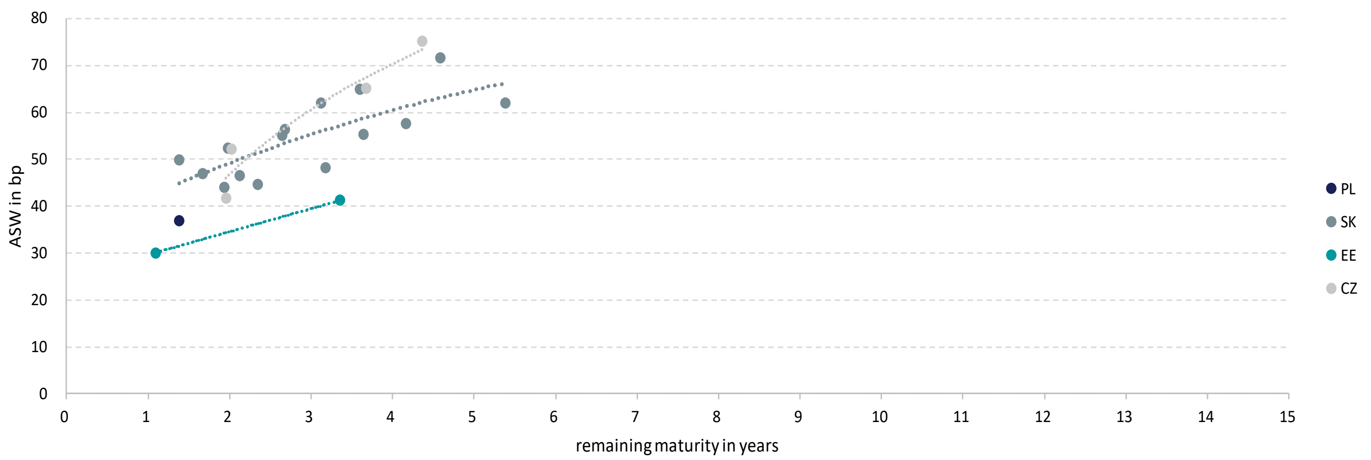


UK/IE

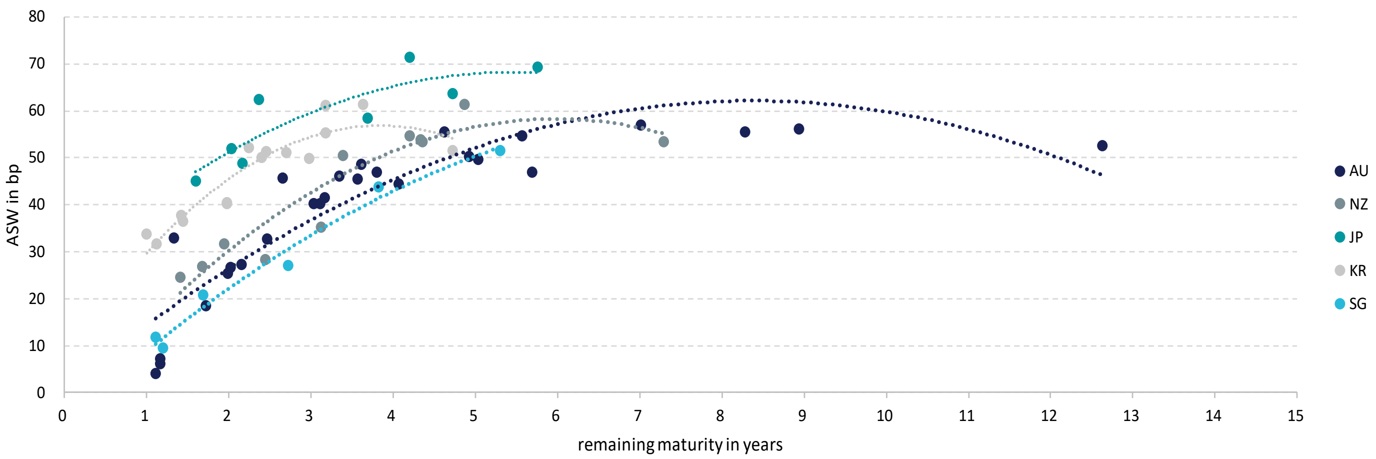


Source: market data, Bloomberg, NORD/LB Floor Research

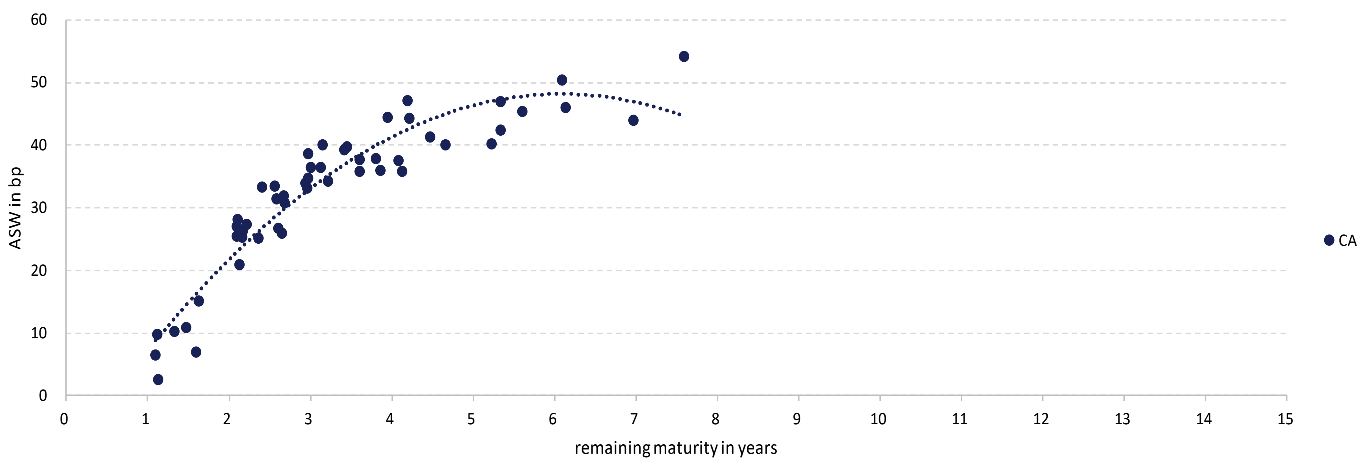
CEE



APAC



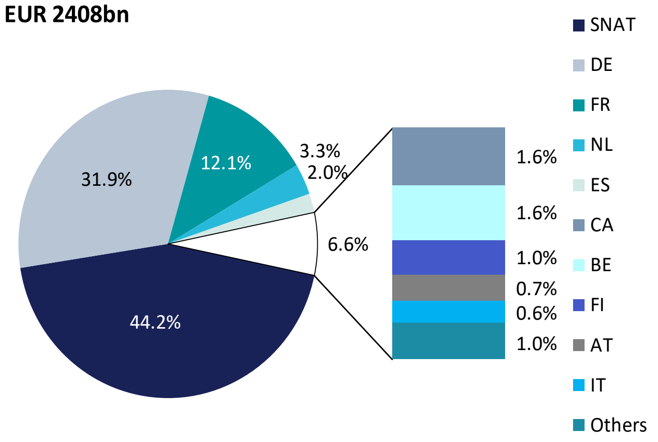
North America



Source: market data, Bloomberg, NORD/LB Floor Research

Charts & Figures
SSA/Public Issuers

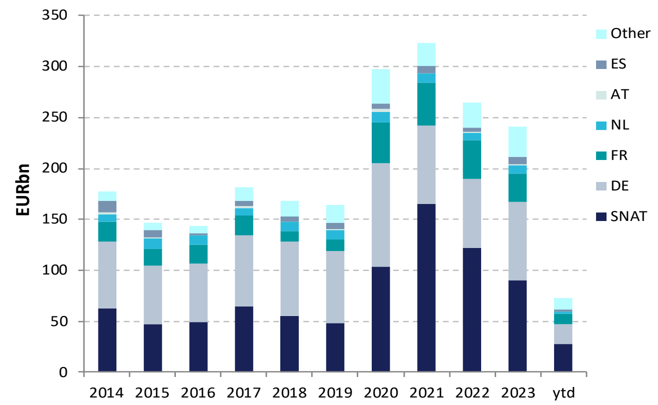
Outstanding volume (bmk)



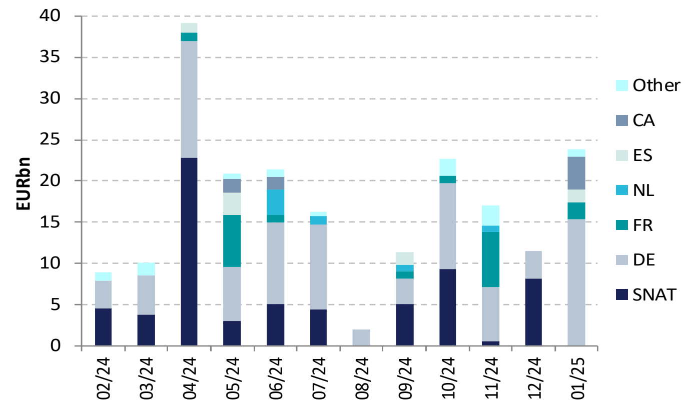
Top 10 countries (bmk)

Country	Vol. (€bn)	No. of bonds	ØVol. (€bn)	Vol. weight. ØMod. Dur.
SNAT	1,065.0	232	4.6	8.0
DE	768.4	573	1.3	6.2
FR	290.5	197	1.5	6.1
NL	78.3	67	1.2	6.7
ES	48.0	65	0.7	4.6
CA	38.8	27	1.4	4.5
BE	37.8	41	0.9	10.7
FI	23.5	25	0.9	4.7
AT	17.8	22	0.8	4.4
IT	15.2	19	0.8	4.5

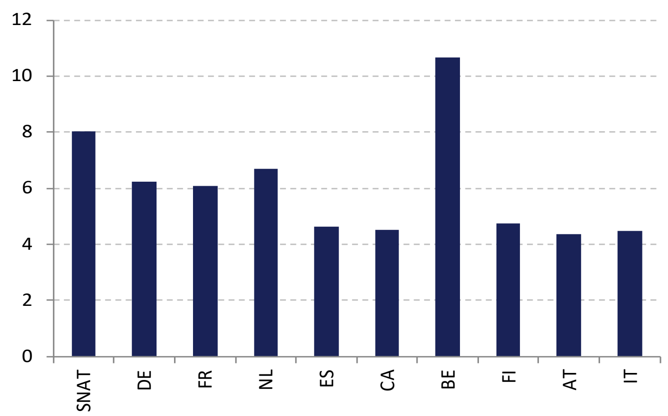
Issue volume by year (bmk)



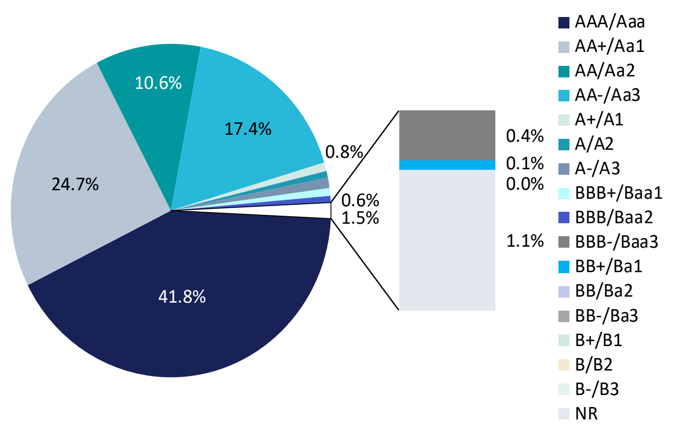
Maturities next 12 months (bmk)



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

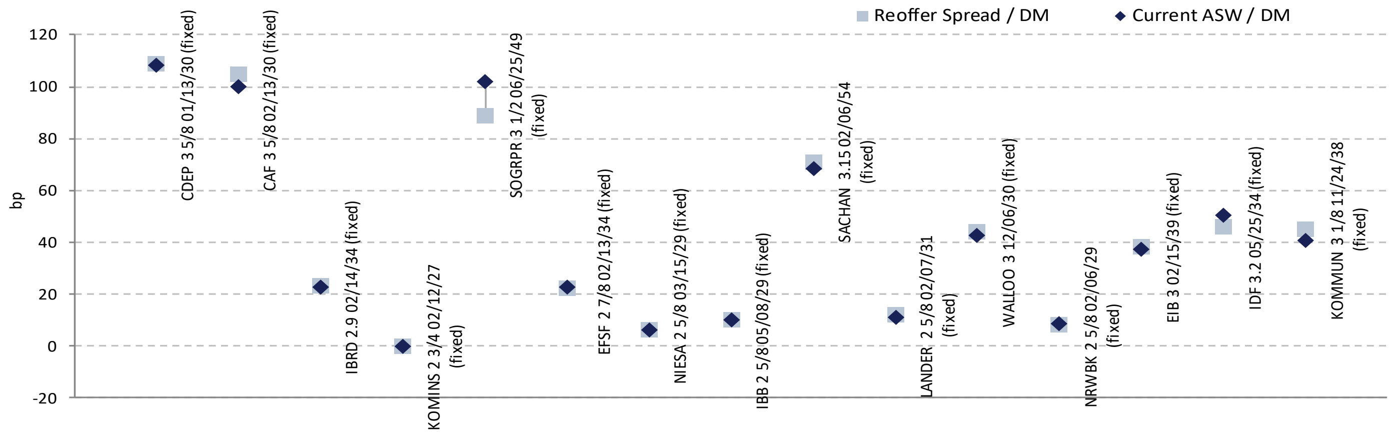


Rating distribution (vol. weighted)

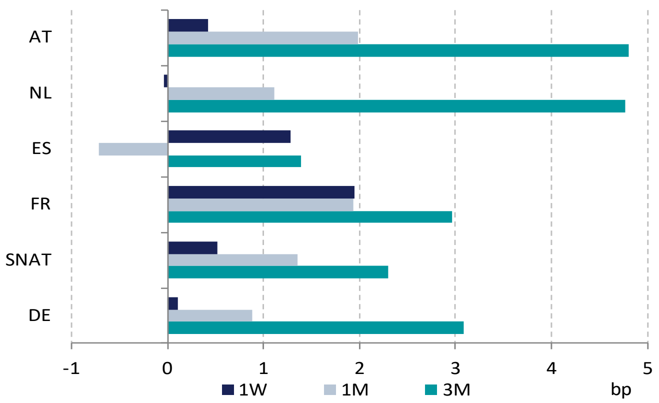


Source: Bloomberg, NORD/LB Floor Research

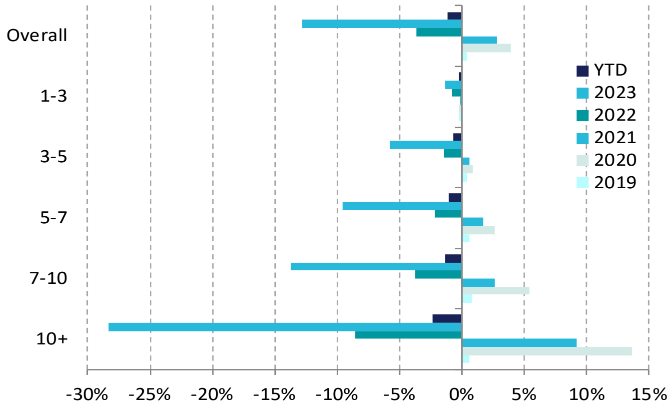
Spread development (last 15 issues)



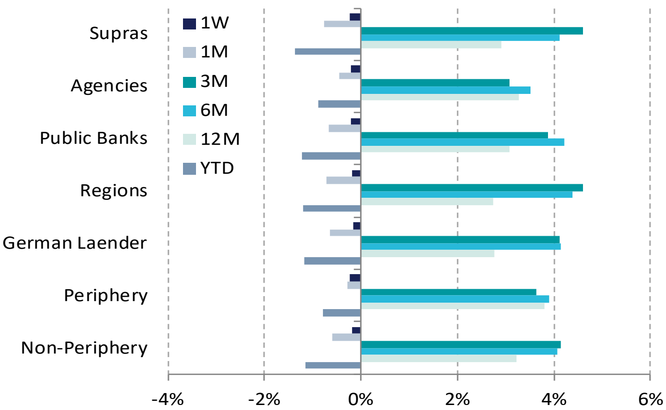
Spread development by country



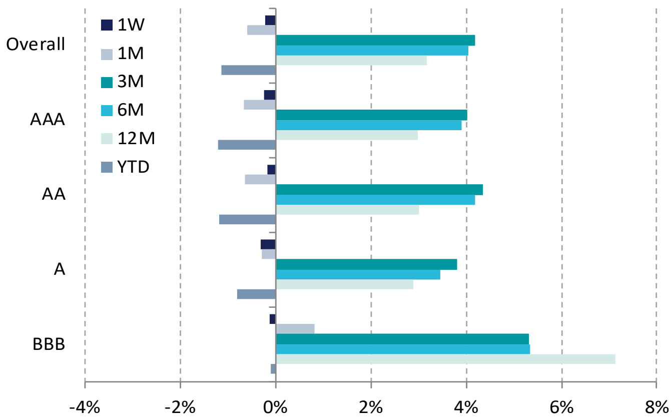
Performance (total return)



Performance (total return) by segments

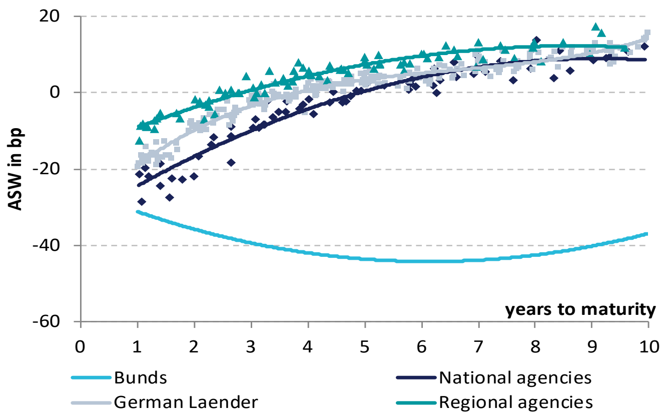


Performance (total return) by rating

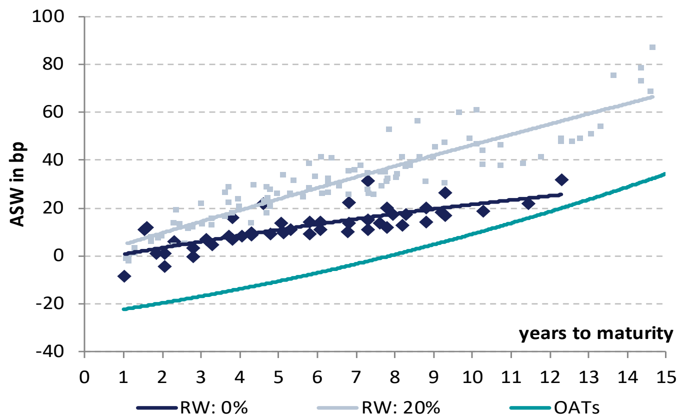


Source: Bloomberg, NORD/LB Floor Research

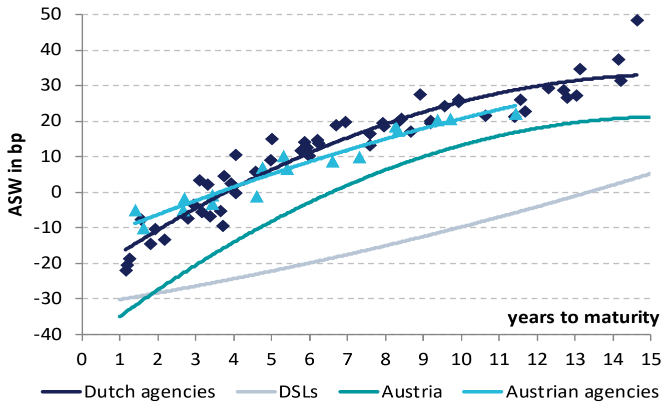
Germany (by segments)



France (by risk weight)



Netherlands & Austria



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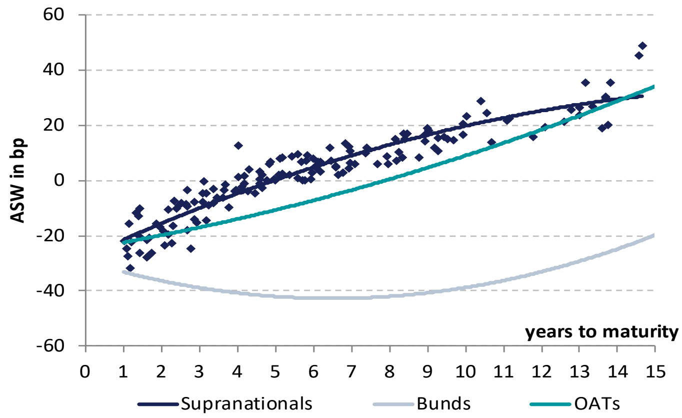
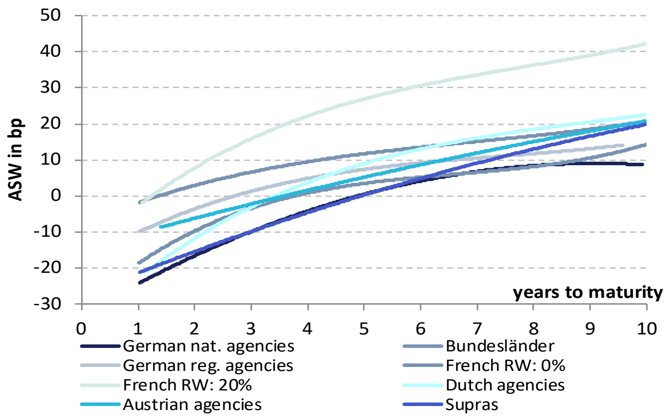
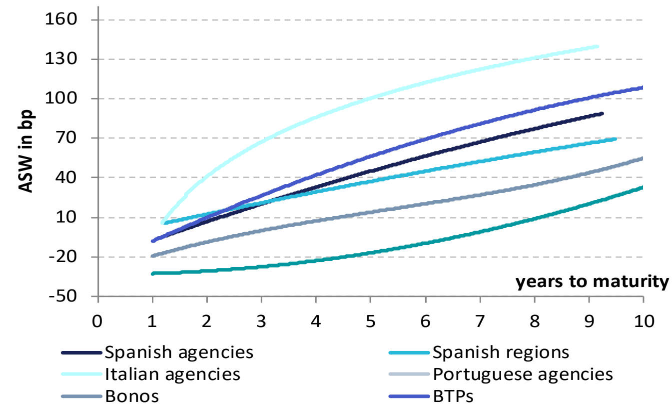


Core



Periphery



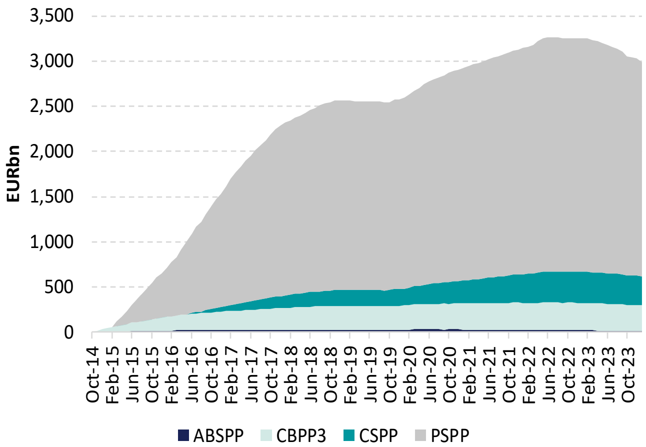
Source: Bloomberg, NORD/LB Floor Research

ECB tracker

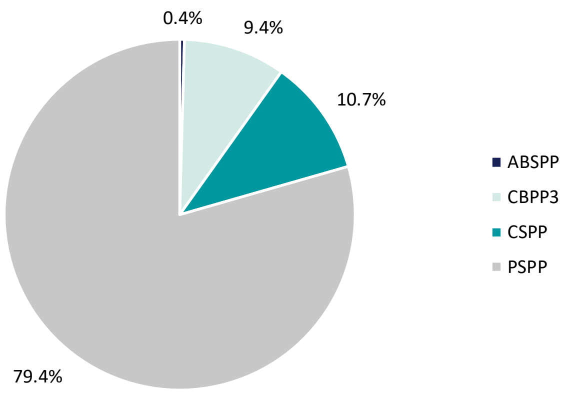
Asset Purchase Programme (APP)

	ABSPP	CBPP3	CSPP	PSPP	APP
Dec-23	13,348	285,620	323,921	2,403,035	3,025,924
Jan-24	12,896	281,510	320,763	2,377,495	2,992,664
Δ	-452	-4,109	-3,159	-25,539	-33,259

Portfolio development

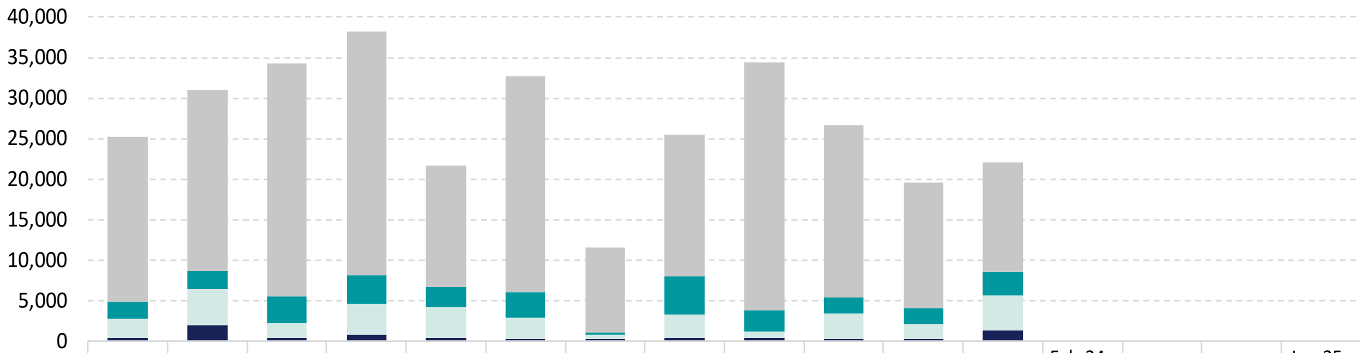


Portfolio structure



Source: ECB, NORD/LB Floor Research

Expected monthly redemptions (in EURm)



	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-24 - Jan-25	2023	2024	Jan-25 - Jan-25
APP	25,254	31,039	34,262	38,283	21,632	32,721	11,589	25,493	34,447	26,697	19,618	22,056	323,091	331,565	334,221	334,221
PSPP	20,372	22,413	28,712	30,194	14,974	26,620	10,533	17,416	30,578	21,298	15,557	13,463	252,130	255,025	264,191	264,191
CSPP	2,075	2,188	3,316	3,463	2,462	3,204	244	4,738	2,720	2,031	1,944	2,973	31,358	31,251	31,486	31,486
CBPP3	2,449	4,434	1,814	3,836	3,777	2,558	541	2,993	736	3,136	1,790	4,335	32,399	35,147	32,173	32,173
ABSPP	358	2,004	420	790	419	339	271	346	413	232	327	1,285	7,204	10,142	6,371	6,371

Source: ECB, Bloomberg, NORD/LB Floor Research

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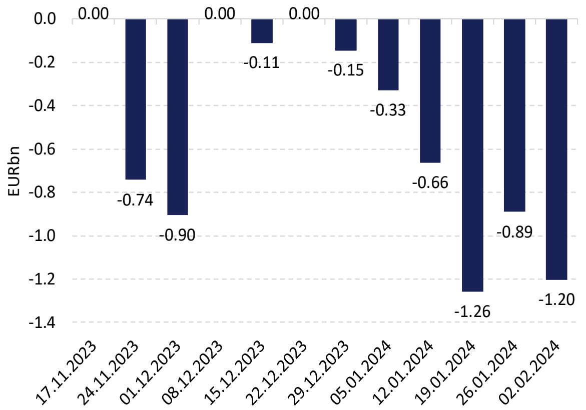
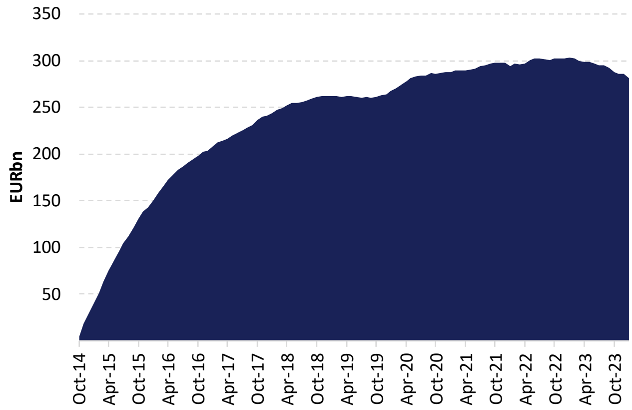
Covered Bond Purchase Programme 3 (CBPP3)

Weekly purchases

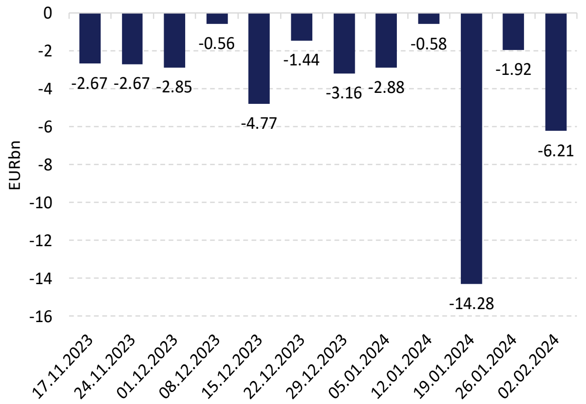


Development of CBPP3 volume

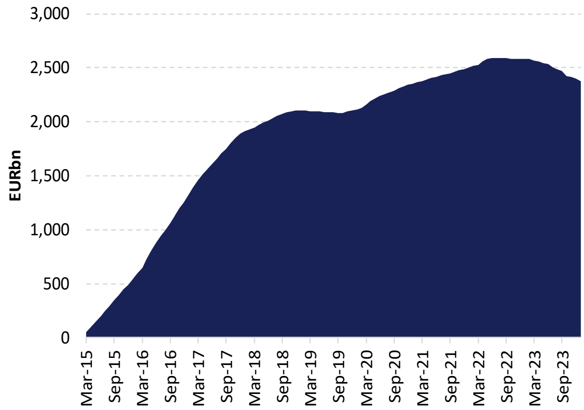


Public Sector Purchase Programme (PSPP)

Weekly purchases



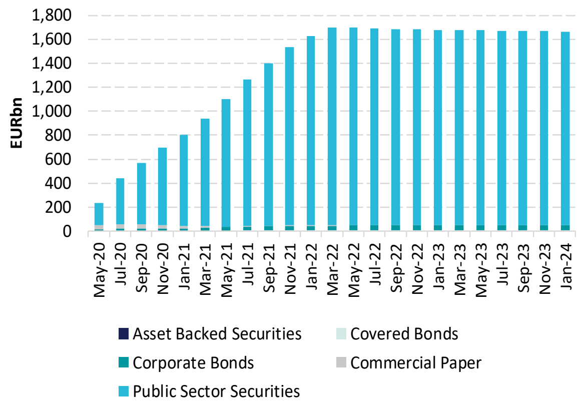
Development of PSPP volume



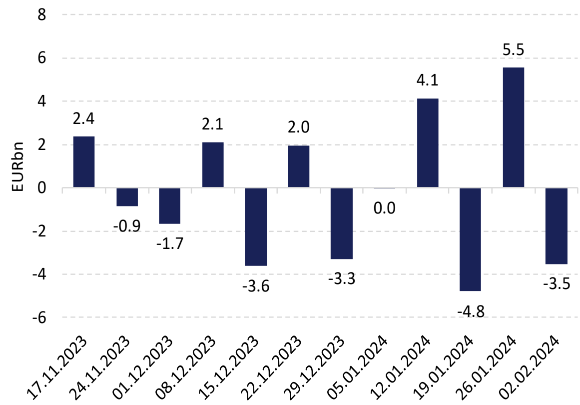
Source: ECB, Bloomberg, NORD/LB Floor Research

Pandemic Emergency Purchase Programme (PEPP)

Portfolio development



Weekly purchases



Source: ECB, Bloomberg, NORD/LB Floor Research

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Appendix
Overview of latest Covered Bond & SSA View editions

Publication	Topics
04/2024 ♦ 31 January	▪ The Pfandbrief market at the start of 2024: caution thrown to the wind ▪ Teaser: Issuer Guide - Other European Agencies 2024
03/2024 ♦ 24 January	▪ The "V" in the LTV calculation: Differing approaches persist despite EU Directive ▪ 28th meeting of the Stability Council (December 2023)
02/2024 ♦ 17 January	▪ Pfandbrief market: potential newcomer Evangelische Bank ▪ Review: EUR-ESG benchmarks 2023 in the SSA segment
01/2024 ♦ 10 January	▪ ECB: Annual review of 2023 – no end to high rates? ▪ Covered Bonds: Annual review of 2023 ▪ SSA: Annual review of 2023
37/2023 ♦ 13 December	▪ Our view of the covered bond market heading into 2024 ▪ SSA outlook 2024: ECB, NGEU and the debt brake in Germany
36/2023 ♦ 06 December	▪ The covered bond universe of Moodys: an overview ▪ Teaser: Issuer Guide – Nordic Agencies 2023
35/2023 ♦ 29 November	▪ ESG covered bonds: a look at the supply side ▪ Current risk weight of supranationals & agencies
34/2023 ♦ 22 November	▪ Transparency requirements §28 PfandBG Q3/2023 ▪ Teaser: Issuer Guide – German Agencies 2023
33/2023 ♦ 15 November	▪ Development of the German property market ▪ ECB repo collateral rules and their implications for Supranationals & Agencies
32/2023 ♦ 08 November	▪ Norway: creation of SpareBank 1 Sor-Norge ▪ ECB: PEPP versus TPI – or: (re)investing where others like to go on holiday
31/2023 ♦ 25 October	▪ Banks in Europe: the EBA Risk Dashboard in Q2 2023 ▪ Teaser: Issuer Guide – Spanish Agencies 2023
30/2023 ♦ 18 October	▪ Focus on covered bond jurisdictions: Canada in the spotlight ▪ A closer look at Newfoundland and Labrador
29/2023 ♦ 11 October	▪ A covered bond view of Belgium ▪ Funding of Canadian provinces – an overview
28/2023 ♦ 27 September	▪ The covered bond universe of Moody's: an overview ▪ Update on DEUSTD – Joint German cities (bond No. 1)
27/2023 ♦ 20 September	▪ Newcomer to the EUR benchmark segment: Bendigo and Adelaide Bank set to expand issuer base in Australia ▪ Teaser: Issuer Guide – Austrian Agencies 2023
26/2023 ♦ 13 September	▪ ECBC publishes annual statistics for 2022 ▪ Teaser: Issuer Guide – Dutch Agencies 2023
25/2023 ♦ 06 September	▪ Covered bond market on the growth path: OLB looks set to join the ranks of EUR benchmark issuers ▪ NORD/LB Issuer Guide German Laender 2023 published

NORD/LB:	**NORD/LB:**	**NORD/LB:**	**Bloomberg:**
Floor Research	Covered Bond Research	SSA/Public Issuers Research	RESP NRDR <GO>

Appendix
Publication overview

Covered Bonds:

- **Issuer Guide Covered Bonds 2023**
- **Covered Bond Laws**
- **Covered Bond Directive: Impact on risk weights and LCR levels**
- **Risk weights and LCR levels of covered bonds** (updated semi-annually)
- **Transparency requirements §28 PfandBG Q3/2023** (quarterly update)
- **Covered bonds as eligible collateral for central banks**

SSA/Public Issuers:

- **Issuer Guide – German Laender 2023**
- **Issuer Guide – German Agencies 2023**
- **Issuer Guide – European Supranationals 2023**
- **Issuer Guide – French Agencies 2023**
- **Issuer Guide – Dutch Agencies 2023**
- **Beyond Bundeslaender: Belgium**
- **Beyond Bundeslaender: Greater Paris (IDF/VDP)**
- **Beyond Bundeslaender: Spanish regions**

Fixed Income Specials:

- **ESG-Update 2023**
- **ECB decision: Council versus market**
- **ECB preview: New year, new luck?!**
- **ECB: Scarf, dry cough and with less liquidity unwell into 2024**

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

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Time of going to press: 07 February 2024 (08:49)