

# PRIMARY MARKET UPDATE EUR BENCHMARK BANK BONDS

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## Q1 2021: ECB pulls the rug from under the feet of covered bond issues

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- In the first quarter of 2021, senior unsecured issues of euro-denominated benchmark-size bank bonds with fixed coupons reached a level of around EUR 33 billion. Although that represents a volume 12 % lower than in the strong opening quarter of 2020, in our view it is nonetheless a perfectly respectable figure on a long-term, year-on-year comparison. In France and Italy, larger issues stood out in particular while our analysis shows that the proportion of regulatory-driven non-preferred transactions accounted for more than half of primary market issuance. The share of green issues increased noticeably from 7 % in 2020 as a whole to 17 % in Q1 2021.<sup>1</sup>

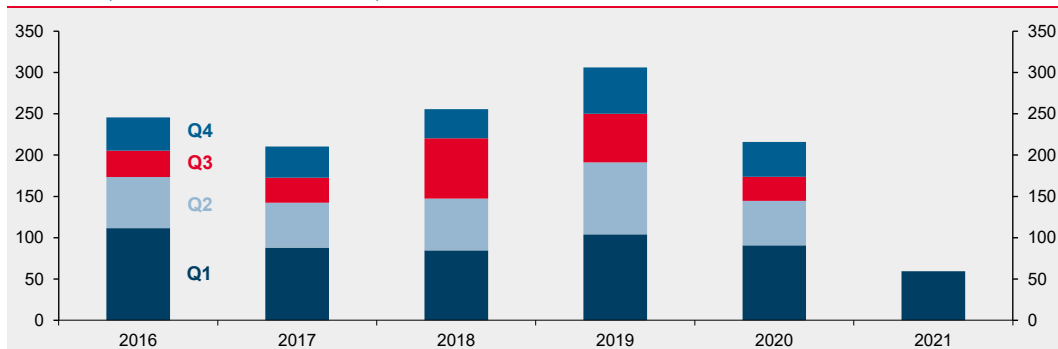
For 2021 as a whole, we continue to expect total issuance of around EUR 90 billion, which would equal that of 2020. Rising maturities and regulatory-driven non-preferred issues are likely to act as supporting factors in this regard. However, a backdrop of further increases in customer deposits and abundant ECB liquidity suggest that any significant pick-up in primary market activity is unlikely. While participation in the ECB's longer-term refinancing operations (TLTRO-III.7) in March was higher than expected at around EUR 331 billion, for the time being lending remains low and institutions' excess deposits high.<sup>2</sup>

- At first glance, the familiar seasonal pattern for covered bonds seems to be holding true: after weak third and fourth quarters, with EUR benchmark volumes of EUR 12 and 13 billion respectively, the primary market bounced back in the first quarter of 2021 with total issuance of approx. EUR 22 billion - but was still considerably below the previous year's volume of EUR 47 billion. Funding raised in previous quarters as well as the extensive use of the ECB's refinancing tenders in March are likely to have been responsible for the relatively low level of activity. As far as we are aware, banks retained covered bonds in an amount of EUR 58 billion (each at an issuance volume of over EUR 50 million) and deposited them at the ECB for refinancing purposes. It is also likely that Scandinavian issuers will continue to make use of their respective central banks' refinancing facilities and will only issue a very low volume of EUR-denominated covered bonds on the market, if at all. Therefore, we are revising our forecast for this year's total volume downwards from EUR 105 billion to around EUR 70 billion. Activity on the primary market will probably be underpinned by covered bonds from France, which have the largest volume of maturities this year and were also seen in large numbers on the market last year. At the same time, the segment of green and social covered bonds is expected to see further growth, having accounted for as much as 20 % of total issuance in the first quarter of 2021 (previous year: 9 %).<sup>3</sup>

### EUR benchmark issues Q1 2021: Primary market covered bonds activity weak

EUR billions (fixed-rate, covered and uncovered)

EUR billions

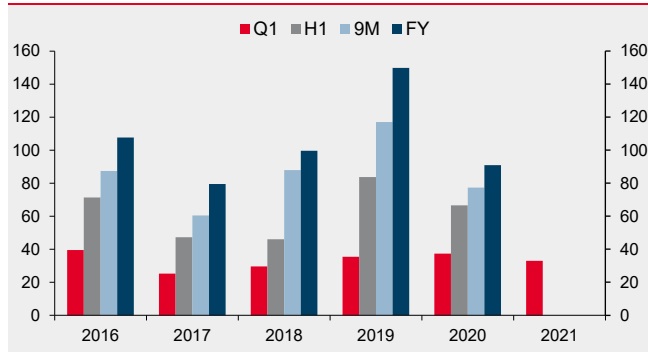


Sources: Bloomberg, Helaba Research

# 1. Senior unsecured bonds with fixed coupons

## Q1 2021: Year gets off to a solid start

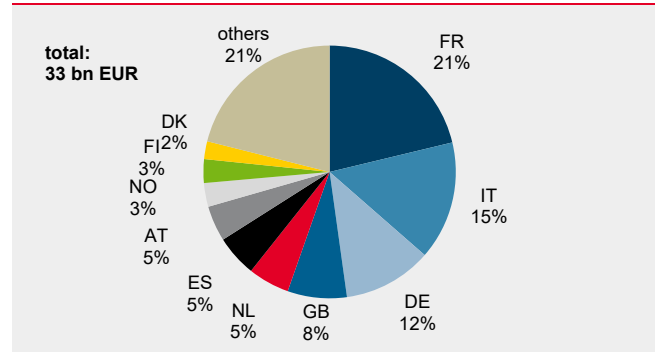
EUR billions (cumulative issuance volume) EUR billions



Sources: Bloomberg, Helaba Research

## France leads the way, also due to NPS issues

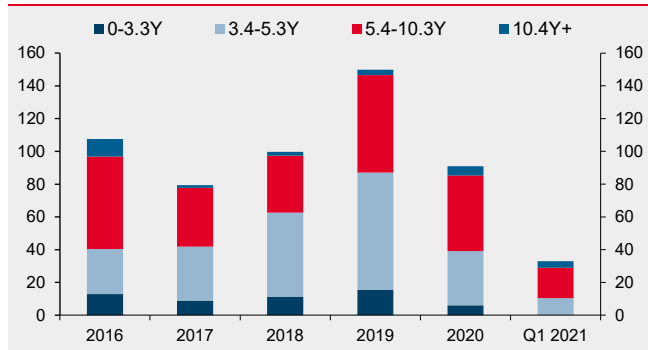
Issuance volume Q1 2021 by country



Sources: Bloomberg, Helaba Research

## Longer maturities return to the market

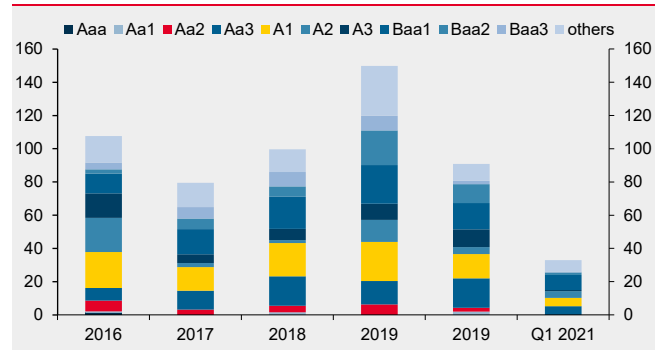
EUR billions (issuance volume by maturity) EUR billions



Sources: Bloomberg, Helaba Research

## Relatively stable mix of ratings during crisis

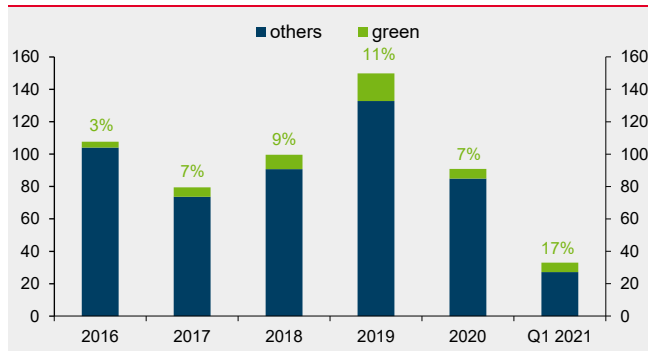
EUR billions (issuance volume by rating\*) EUR billions



\* Moody's rating at time of issuance  
Sources: Bloomberg, Helaba Research

## Proportion of green issues soars to 17 %

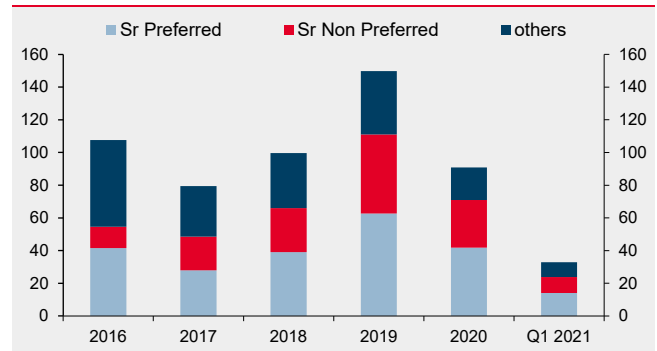
EUR billions (issuance volume by environmental criteria) EUR billions



Sources: Bloomberg, Helaba Research

## Share of non-preferred issues at around 30 %

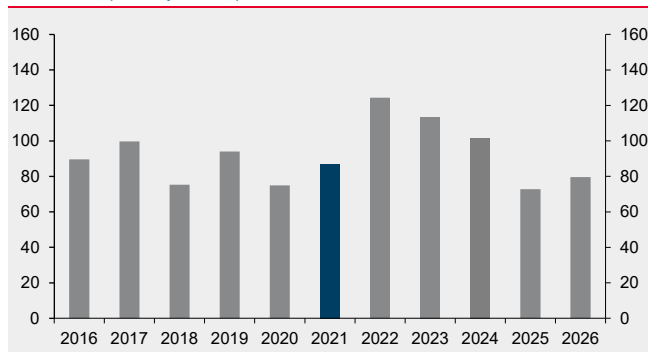
EUR billions (issuance volume by payment ranking)



Sources: Bloomberg, Helaba Research

## Maturities rise in 2021 by 16 % year-on-year

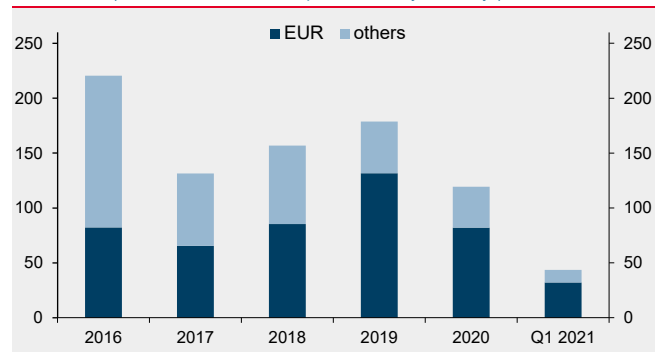
EUR billions (maturity volume) EUR billions



Sources: Bloomberg, Helaba Research

## Euro-denominated issues account for ca. 75 % in Q1

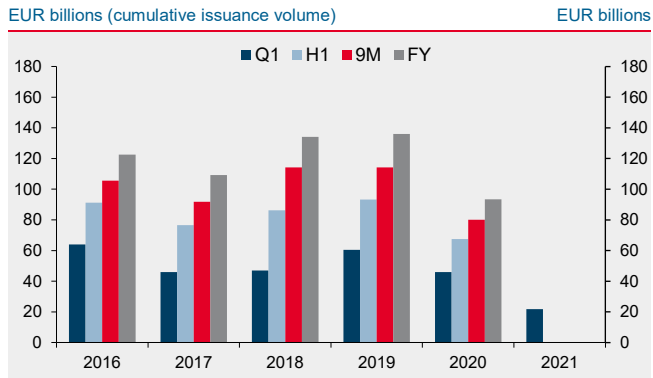
EUR billions (issuance volume of European banks by currency\*)



\* Bloomberg search without currency filter, limited to European issuers  
Sources: Bloomberg, Helaba Research

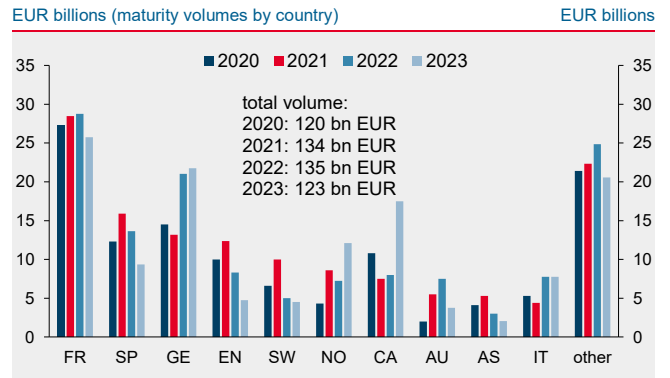
## 2. Covered bonds with fixed coupons

### Q1 2021: Issuance falls once again due to TLTRO



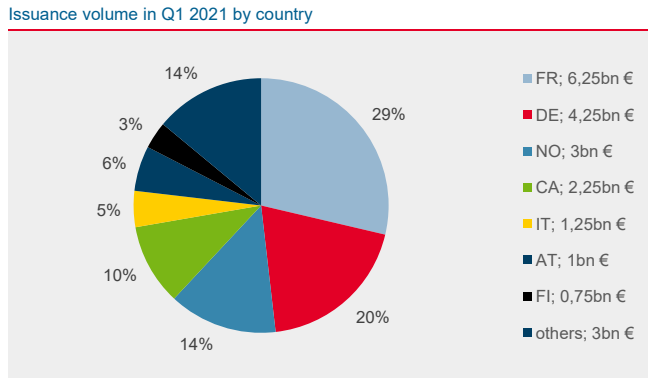
Sources: Bloomberg, Helaba Research

### High level of maturities in France



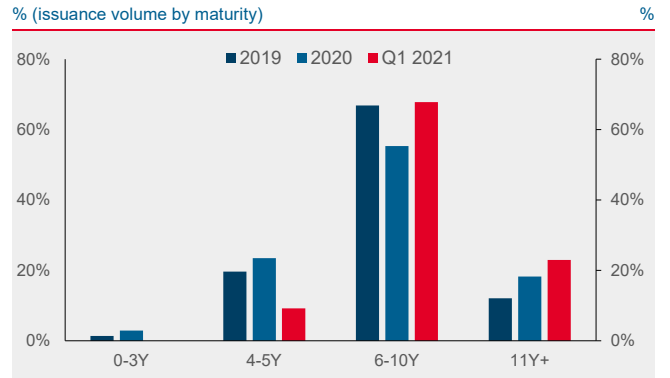
Sources: Bloomberg, Helaba Research

### Dutch covered bonds not among top 7



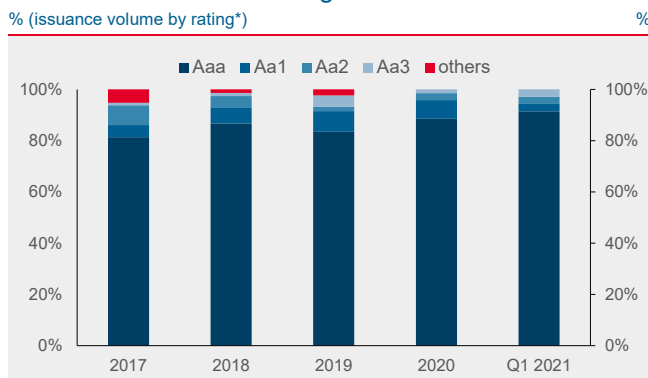
Sources: Bloomberg, Helaba Research

### Long maturities increasingly popular



Sources: Bloomberg, Helaba Research

### Issues with first-class ratings



\* Moody's rating at time of issuance  
 Sources: Bloomberg, Helaba Research

### Share of sustainable issues as high as 20 % in Q1



Sources: Bloomberg, Helaba Research

## TLTRO III: Targeted longer-term refinancing operations

## Overview

	Allocation	Settlement	Earliest voluntary repayment (settlement)	Maturity	Allocated amount (EUR bn)	Outstanding amount (EUR bn)
TLTRO-III.1	19.09.2019	25.09.2019	29.09.2021	28.09.2022	3.4	3.4
TLTRO-III.2	12.12.2019	18.12.2019	29.09.2021	21.12.2022	97.7	97.7
TLTRO-III.3	19.03.2020	25.03.2020	29.09.2021	29.03.2023	115.0	115.0
TLTRO-III.4	18.06.2020	24.06.2020	29.09.2021	28.06.2023	1,308.4	1,308.4
TLTRO-III.5	24.09.2020	30.09.2020	29.09.2021	27.09.2023	174.5	174.5
TLTRO-III.6	10.12.2020	16.12.2020	22.12.2021	20.12.2023	50.4	50.4
TLTRO-III.7	18.03.2021	24.03.2021	30.03.2022	27.03.2024	330.5	330.5
TLTRO-III.8-10	06 – 12/2021					

Sources: Deutsche Bundesbank Eurosystem, ECB Eurosystem, Bloomberg, Helaba Research

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<sup>1</sup> See Credit Special: "[European bank bonds: Supervision wearing green-tinted spectacles](#)" of 8 December 2020

<sup>2</sup> See Credit Special "[European banks: Adequately prepared for rising credit defaults?](#)" of 4 March 2021

<sup>3</sup> See Covered Bond Special: "[Green covered bonds: The EU Taxonomy - a climate killer?](#)" of 11 December 2020