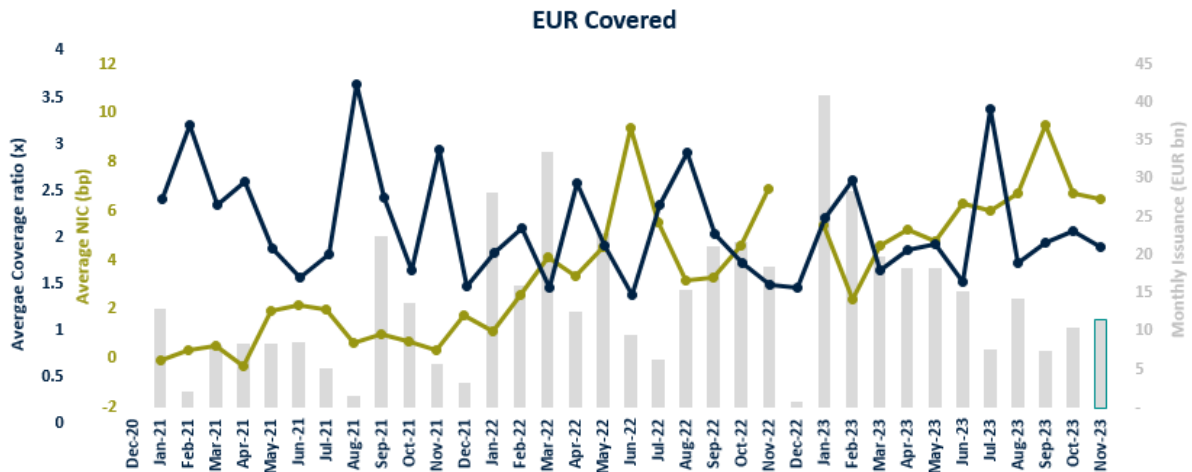


Covered Viewpoint: 2023 in review

By: Melissa Marques



Covered issuance remained robust in 2023 where EUR192.725bn was printed across 244 lines. This makes 2023 the third busiest year for the asset class on IGM's records after 2006's EUR203.9bn and 2022's EUR207.28bn tallies.

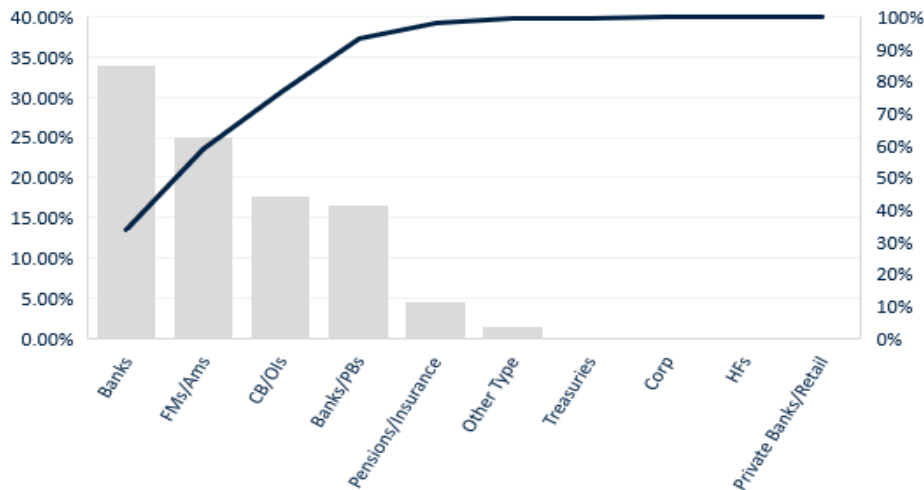


In summarizing the year's activity, bankers gleaned three main talking points: waning and eventual withdrawal of ECB support; the disappearance of longer tenors and the prevalence of certain jurisdictions.

Clear impact of ECB's withdrawal

The ECB continued to be a major influencer of the dynamics of this year's covered bond activity, even beyond the discontinuation of its reinvestments under CBPP3 in July 2023.

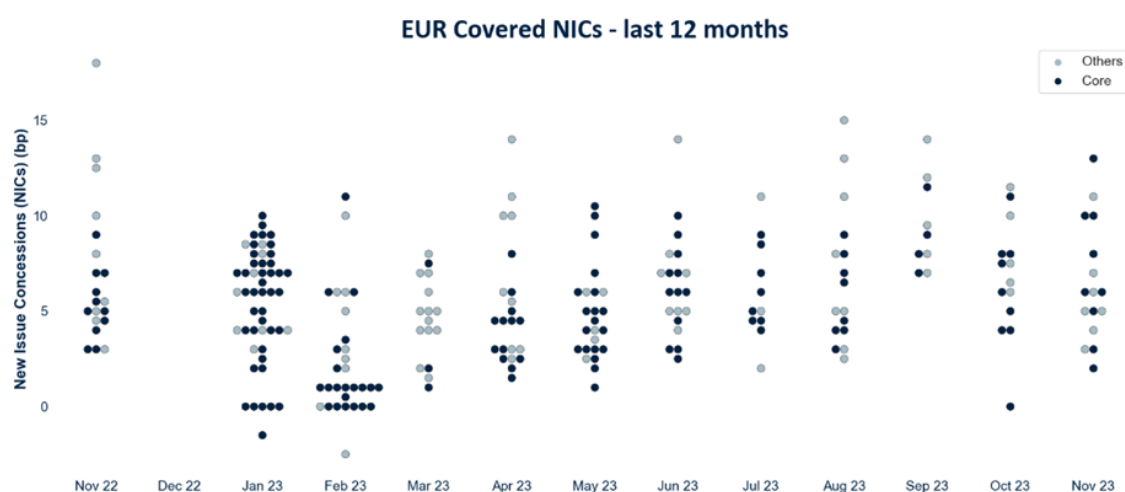
2023 Covered Bond Placement by Investor Type



On the demand side, this left real money buyers in the driver's seat for the first time since 2014. On the supply side, it induced issuers to strike ahead of the central bank's withdrawal of support.

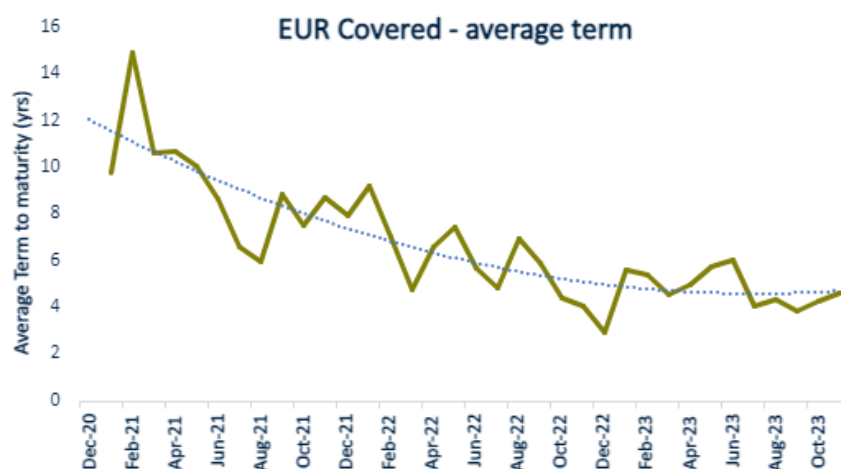
In light of this, H1 became the busiest for the asset class on IGM's records with over EUR89bn and almost EUR52bn raised in Q1 and Q2 respectively.

The ECB's gradual withdrawal also impacted issuer funding costs as measured by new issue concessions. With real money investors heavily influencing the pricing process, average NICs (which had remained broadly stable during H1, began to rise steadily, peaking in late summer before levelling off in October and November at still-high levels.



Long-end a hard sell

A further trend seen in 2023 was the shortening of average tenors. Historically, covered bonds served as a low-cost means of securing long-term funding. Recent issuance has seen this almost dissipate, with steepening curves requiring large spreads to get long-dated deals away.



This year, the five-year tenor was favoured (47 lines) while only 17 deals were in the ten-year (2033) maturity bracket, all of them emerging in the first half of the year.

By way of example, Caisse de Refinancement de l'Habitat's (CRH) EUR1.25bn Feb-2033 OF and Deutsche Bank's EUR500m wng May-2033 HP were two of the year's more successful long-dated deals back in February and May. Investor demand of EUR2.7bn and EUR3bn facilitated spread refinements of 5bp and 6bp respectively, leaving NICs of 0.5bp and 2.5bp on offer.

Compare this to Landesbank Baden-Wuerttemberg (LBBW)'s EUR500m wng Jun-2033 OP from June, which saw spread set in line with guidance, leaving the full 9bp NIC on the table, courtesy a EUR620m+ book.

Familiar names remain popular, but some jurisdictions (re)emerge

In keeping with historical issuance trends, German and French issuers continued to provide the bulk of covered paper this year raising a combined EUR79.9bn total. Further significant core European supply came from Austria (EUR14.97bn volume).

Notably however, and after some regulatory changes at the end of Q1, Italian banks became frequent visitors to the market. From June, EUR9.4bn was raised via 12 tranches – almost three times what was printed in all of 2022 (EUR3.25bn).

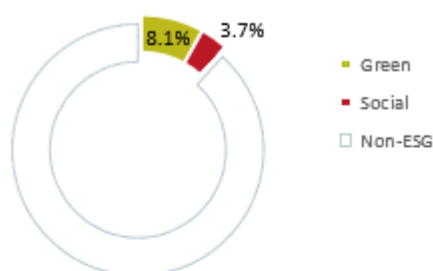
Supply from CEE issuers also climbed in 2023, with EUR4bn sold across eight tranches - the highest annual issuance volume out of the region on record.

ESG Issuance

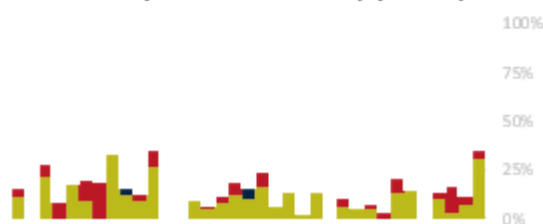
ESG issuance remained an important source of funding for covered issuers and accounted for 11.75% of total covered supply (EUR22.65bn, 34 tranches). This was up on last year's EUR19.6bn which made up a little over 9% of covered volumes.

By jurisdiction, the ethical format was favoured by German banks which provided the bulk (EUR7.25bn or 32%) of this issuance. Berlin Hyp alone issued EUR2.25bn across four tranches in green and social formats.

ESG breakdown by type this year...



...and last 3 years as % of volume (by month)



Supply in 2024

Looking ahead to 2024 and a busy Q1 is expected, in line with historical issuance trends.

More broadly, bankers expect 2024's volumes to remain in line with this year's with various forecasts putting volumes in the range of EUR170-190bn.

Here too, the focus remains on the shape of a post-ECB world and the prospects for longer-dated paper.

For note, ca. EUR117bn worth of covered bonds is scheduled to mature across 2024, with ca. EUR22bn of that to come in January alone.