Explanation of the vdp Issuance Climate Questionnaire

December 2023

Investor demand

Investor demand reflects interest in Pfandbriefe or unsecured bonds. The stronger the demand for bonds, the more positive the vdp issuance climate is. The assessment of demand over the past six months influences the assessment of the current level, which in turn is decisive for expectations for the coming six months. The past assessment is rated at only 15%, the current assessment 20% and the expectation 65%.

Oversubscription level for issues

The oversubscription level indicates the ratio of investor orders to issue size for a bond. High oversubscription levels indicate brisk demand. There is thus a positive correlation between oversubscriptions and the vdp issuance climate.

Asset Swap Spread Level

The ASW spread indicates the premium or discount from the benchmark swap curve (usually 6-month Euribor) at which issuers can place a bond on the market. A low ASW spread level means that issuers can refinance themselves cheaply on the market, i.e.: The lower the level, the better for the vdp issuing climate.

Premium over Bunds

The gap observed by many so-called "real money" investors to the yield of German government bonds with matching maturities, which are regarded as the benchmark for top-rated bonds, provides information on the relative attractiveness of the Pfandbrief asset class. In this context, the Pfandbrief becomes more attractive if the yield spread over German government bonds is perceived to be high, for example from a historical perspective. Therefore, a positive correlation is found between the premium on and the issuance climate, although a higher spread, especially in times of crisis, may also be of longer duration.

Upcoming maturities

Investment funds from maturing bonds generally increase demand on the primary market. There is therefore a positive correlation: Above-average maturities lead to above-average refinancing and investment requirements, especially for high-quality investments such as covered bonds. In the case of unsecured bank bonds (senior preferred or senior non-preferred), this relationship is looser than for covered bonds.

Rating trend in the banking sector

If the banking sector as a whole is under pressure, risk premiums for bank bonds should tend to increase, i.e. refinancing the sector becomes more expensive. On the one hand, issuers will prefer covered bonds because of their comparatively low risk premium; on the other hand, unsecured bank bonds will only be purchased at more expensive conditions. Overall, refinancing costs are likely to increase. A stable or positive rating trend in the banking sector, on the other hand, tends to make the initial sale of bank bonds a seller's market - Pfandbrief banks will tend to expand their activities on the capital market. Therefore, a positive correlation is assumed between rating trend and issuing climate is assumed.

Lending business to be refinanced

A positive correlation is assumed between balance sheet growth and refinancing requirements – both both uncovered and covered.

Interest rate development

In a zero interest rate environment lasting many years, a positive correlation is assumed between rising interest rates and investor demand and the issuing climate. In principle, a negative correlation can also be relationship, at least with regard to certain maturities. For example, in an environment of rising interest rates, investors are likely to be reluctant to buy bonds with long maturities. Therefore the assumption of a positive correlation is regularly reviewed.

ECB Support

By June 2023, the ECB had suppressed private demand on the primary market with its purchase programs and reinvestment. In July 2023, following the end of net purchases, the ECB also stopped replacing maturities from the Covered Bond Purchase Program (CBPP) and the Asset Purchase Program (APP). Overall, the model assumes a positive correlation between ECB support and the issuing climate.