

Press release

Berlin, 20 June 2023

vdp Issuance Climate – sentiment depressed by decline in lending

- **Members take ECB withdrawal from primary market in stride**
- **Strong sales of benchmark Pfandbriefe in first five months of 2023**

Sentiment on the capital market is rather subdued at present, according to the survey conducted for the second time by the Association of German Pfandbrief Banks (vdp) among its members' capital market experts. Potential factors impacting the issuance of Pfandbriefe and unsecured bank bonds include the lack of growth in lending business and the announcement by the European Central Bank (ECB) of its plan to discontinue reinvestments under its asset purchase programmes. The outlook for the second half of 2023 therefore remains muted.

The results of the twice-yearly survey are published under the title “vdp Issuance Climate”. The sentiment indicator, which ranges from -100 to +100 points, currently shows slightly negative sentiment of -21 points, with Pfandbriefe (-14) scoring better than unsecured bank bonds (-29). Both scores have deteriorated slightly since the survey conducted in December 2022.

Scoring	June 2023	December 2022
Score for Pfandbriefe:	-14	-10
Score for unsecured bank bonds:	-29	-26
Overall score:	-21	-17

Pfandbriefe: demand exceeds expectations

The main reason for the decline from -10 to -14 in the Issuance Climate score for Pfandbriefe is the expectation that investor demand for Pfandbriefe – which is currently high – could wane in the second half of 2023. This is borne out by the changes in the sub-scores for investor demand of +30 (current demand) and +14 (demand in the next six months). The survey respondents also expect that the volume of lending to be funded will remain low. This has suffered primarily due to reduced demand for real estate financing.

Real estate financing business continues to be affected by the reticence of market participants. The volume of real estate financing of vdp member banks was EUR 25.6 billion in the first quarter of 2023, which is 3.2% higher than the previous quarter, but 47.8% lower than the EUR 49.0 billion reported for Q1 2022, which was a new record. The expectation that demand for financing will

remain subdued is also reflected in the Issuance Climate score for loans to be funded, which declined from -69 to -81. A total of 80% of the member banks surveyed assume that the low lending activity will have a negative effect on demand for funding.

The withdrawal of the ECB is deemed negative (-56 in June 2023), although not as negative as in December 2022 (-60). The ECB announced that it would no longer replace maturing Pfandbriefe and other covered bonds under the asset purchase programmes with effect from July 2023. The reductions in reinvestments thus far have been easily offset by purchases of traditional real money investors, such as life insurers, pension funds, etc., and the willingness of these investor groups to buy has also been buoyed by the attractive yield premium on Pfandbriefe compared with government bonds. This is also reflected in the score of +44 with respect to the impact of the premium over the coming six months.

“As a stable funding instrument, the Pfandbrief always sells – even in tense market periods such as we are experiencing now. There have been a lot of issuances in 2023 thus far, but we cannot assume that this momentum will continue in the second half of the year. This would require a revival of the real estate financing business,”

said Sascha Kullig, member of the vdp Management Board, summarising his expectations for the second half of 2023.

New Mortgage Pfandbriefe of almost EUR 41 billion planned for 2023

Benchmark Pfandbriefe (minimum volume EUR 500 million) have already been issued in the amount of EUR 24.5 billion since the beginning of the year. As of 12 June 2023, sales are therefore around 25% higher than the record figure of the prior-year period. The vdp member banks placed a total of EUR 27.5 billion of new Pfandbriefe on the market in the first five months of 2023, of which EUR 22.2 billion were Mortgage Pfandbriefe and EUR 5.2 billion Public Pfandbriefe.

The forecasts issued by vdp member banks at the end of 2022 predict sales of new Mortgage Pfandbriefe of almost EUR 41 billion in volume in 2023. With nearly EUR 28 billion maturing, this equates to net new issues of just under EUR 13 billion. Maturing Public Pfandbriefe (around EUR 15.2 billion) are set to exceed projected sales (approximately EUR 9 billion) once again in 2023.

Unsecured bank bonds: demand remains subdued

Sales potential for unsecured bank bonds will remain challenging in the second half of 2023 according to the vdp Issuance Climate survey, as reflected in the decrease in the corresponding score from -26 points in December 2022 to the

current -29. The vdp capital market experts expect demand to be rather subdued in this area for the next six months, with relatively unattractive funding terms.

The general rating trend for the banking sector is expected to be marginally more negative, with the decline in its score from -30 in December 2022 to the current -36 weighing on the assessment of the issuance environment, in particular on unsecured bonds. The further development of interest rates is expected to be relaxed, with the majority of banks surveyed assuming that the ECB's rate hikes will come to an end within the next six months.

“Placement of unsecured bank bonds has proved predominantly difficult so far this year. But there may be more issuance opportunities in this segment in the second half of the year than at the beginning, given that our members have weathered the uncertainty triggered by crises at some US regional banks and Credit Suisse, and that unsecured bank bond spreads are currently narrowing,” Kullig said.

Methodology

Each survey comprises an assessment of the past six months, the current situation and the coming six months, with the latter being weighted most heavily in the evaluation. These assessments determine separate scores for Pfandbriefe and unsecured bank bonds, as well as an overall score. A score of 0 points corresponds to a stable capital market environment in which issuance plans can be carried out without any problems. Negative scores (maximum -100) indicate that the issuance environment is less favourable than average, and positive scores (maximum +100) that it is more favourable than average.

The vdp Issuance Climate survey provides information twice a year on the sentiment among the members of the Association of German Pfandbrief Banks (vdp) with regard to the placement of Pfandbriefe and unsecured bank bonds. To assess this sentiment, experts from the vdp member banks are asked about the factors influencing Pfandbrief and unsecured bank bond sales. Each survey covers the past six months, the current situation and the coming six months, with the latter being weighted most heavily in the evaluation.

The responses are grouped together by subject area, providing an overview of the supply and demand situation on the markets for Pfandbriefe and unsecured bank bonds. Three scores are then calculated based on certain assumptions about the relative importance of each subject area: one score each for Pfandbriefe and unsecured bonds, as well as an overall score. A score of 0 points corresponds to a stable capital market environment in which issuance plans can be carried out without any problems. Negative scores indicate that the issuance environment is less favourable than average, and positive scores that it is more favourable than average.

The Pfandbrief banks belonging to the vdp hold a market share of almost 96% of outstanding Pfandbriefe.