

Press release

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vdp Issuance Climate: sentiment on the Pfandbrief market brightens considerably

- **After strong start to the year, capital market experts expect greater investor reticence in second half of 2024**

The sentiment with regard to sales of Pfandbriefe and unsecured bank bonds has brightened significantly in the last six months, according to the results of the fourth survey conducted by the Association of German Pfandbrief Banks (vdp) among its member banks' capital market experts. Although the scores for Pfandbriefe and unsecured bank bonds developed positively, they remain in slightly negative territory for both asset classes.

Compared with the December 2023 survey results, the sentiment values in early summer proved to be significantly better. Thus, the capital market experts awarded 45 points for investor demand both over the last six months and at the current margin. By contrast, a score of only -3 points was calculated for expected demand in the coming six months. The hitherto strong demand for Pfandbriefe is also reflected in the score of currently 43 points for the over-subscription level for Pfandbriefe, while the score for the next six months is 11 points.

The results of the survey, which is conducted twice a year, are published under the heading "vdp Issuance Climate". The sentiment indicator ranges from -100 to +100 points, and currently shows only a slightly gloomy sentiment with a score of -12 points. There is very little difference between the scores for Pfandbriefe (-11) and unsecured bank bonds (-14). Compared with the December 2023 survey, the overall score improved by 10 points, with the individual score for Pfandbriefe up by 12 points and the individual score for unsecured bank bonds up by 7 points.

Scoring	June 2024	Dec. 2023	June 2023
Score for Pfandbriefe:	-11	-23	-14
Score for unsecured bank bonds:	-14	-21	-29
Overall score:	-12	-22	-21

The main driver of the slightly negative scores is the general trend in interest rates (-53 points after -24 points in December 2023). Expectations of lower yields are again likely to lead to a certain degree of reticence among investors going forward. In this context, the influence of the lending business to be refinanced remains well in negative territory at -32 points. The capital market experts

surveyed expect the weak demand for property finance to continue to put a damper on the lending business to be refinanced over the next six months. That said, there is a 21-point improvement compared with the December 2023 survey. The capital market experts likewise take a less negative view than in December 2023 (-24 points) of the general rating trend for the banking sector. The corresponding score has improved by 15 points to currently -9.

Market for unsecured bank bonds expected to cool down

For the last six months and the present, the vdp member banks reported strong and very strong investor demand respectively for unsecured bank bonds. A score of 29 points was calculated for the last six months, and a current score of 48 points. Given that the spreads on unsecured bank bonds have fallen heavily in the meantime, the score of -32 points shows that experts are considerably more skeptical about their expectations with regard to investor demand in the coming six months.

“The increase in interest rates and the attractive spreads versus Bunds and swaps led to very strong demand for Pfandbriefe in the first five months of the new year. It is pleasing to note that longer-dated Pfandbriefe, which are important for long-term property financing, were again in good demand,” said Sascha Kullig, Management Board member at the vdp, to sum up the developments of the past six months.

Good start to the new year for Pfandbrief market

In the first five months of 2024, the vdp member banks issued Pfandbriefe with a total volume of just under EUR 30.1 billion. This is nearly 10% above the volume placed in the corresponding period one year before. Of the new Pfandbriefe issued, Mortgage Pfandbriefe accounted for EUR 23.0 billion and Public Pfandbriefe for EUR 6.6 billion. Compared with the corresponding period one year before, this represents an increase of 3% for Mortgage Pfandbriefe and 26% for Public Pfandbriefe. In addition, Ship Pfandbriefe were placed with a volume of EUR 500 million (corresponding period one year before: zero).

It was noticeable that investors again added a substantial volume of longer-dated Pfandbriefe to their portfolios. The vdp considers this to be a reflection of the fundamental trust that investors have in the outstanding quality of the German Pfandbrief.

We have seen considerable improvements in most drivers of demand. It is not surprising that, following the strong first five months of 2024, somewhat more investor reticence is again expected,” said Kullig.

Charts and tables showing the current and previous scores of the vdp Issuance Climate survey are available on the vdp’s website under this [LINK](#).

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.

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