

ECB BMCG

EU issuance – Impact on euro area bond markets

3 December 2020

'3-slide' agenda

1

Issuance: How well were the first SURE bonds absorbed?

2

Pricing: Is the EU trading like a Supra or a Sovereign?

3

Outlook: How will future issuance be spread?

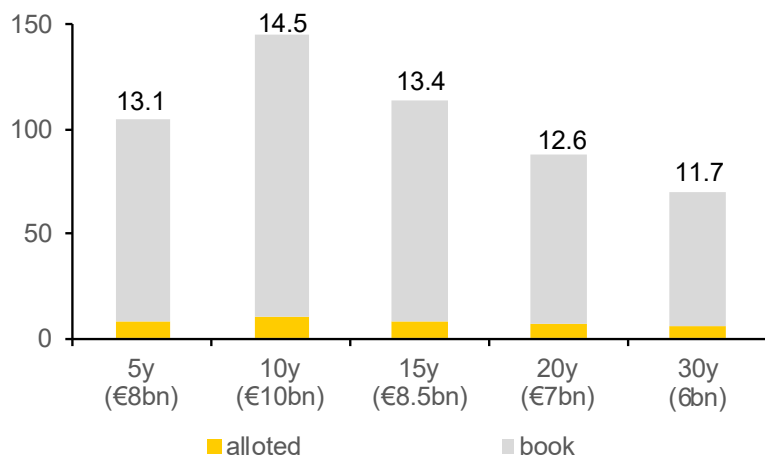
4

Discussion

Strong demand for first deals from broad investor base

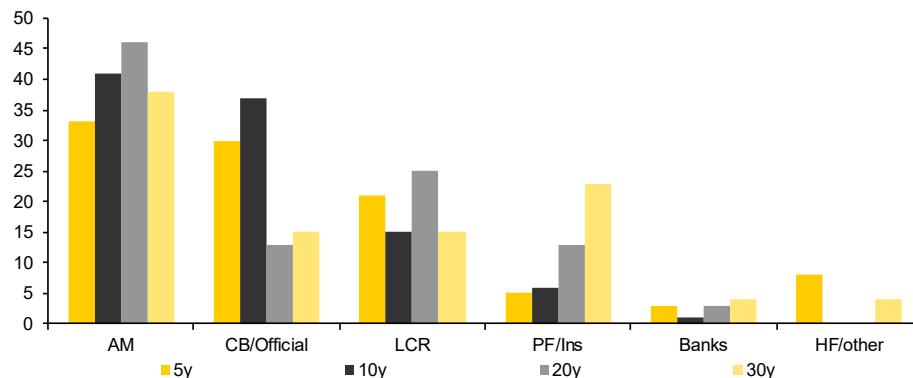
Record oversubscription levels

EU SURE allocation, in € bn, oversubscription rate above columns



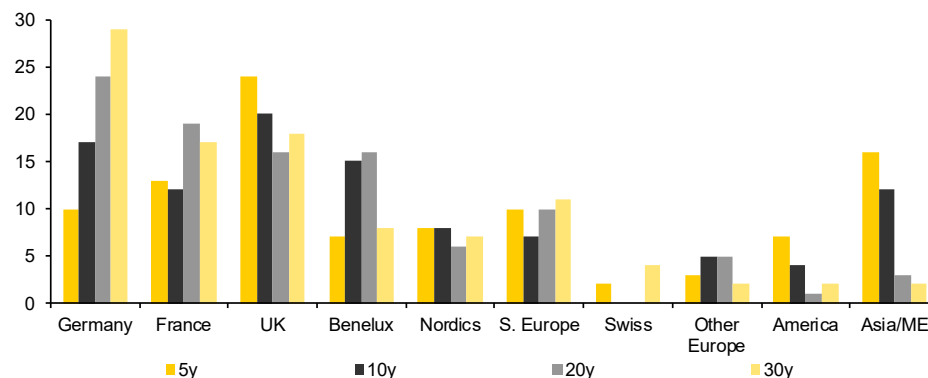
Large real money interest, official sector active in 30y

EU SURE allocation by investor group, in % of total allocation



Broad domestic interest, subdued foreign long-end appetite

EU SURE allocation by investor group, in % of total allocation

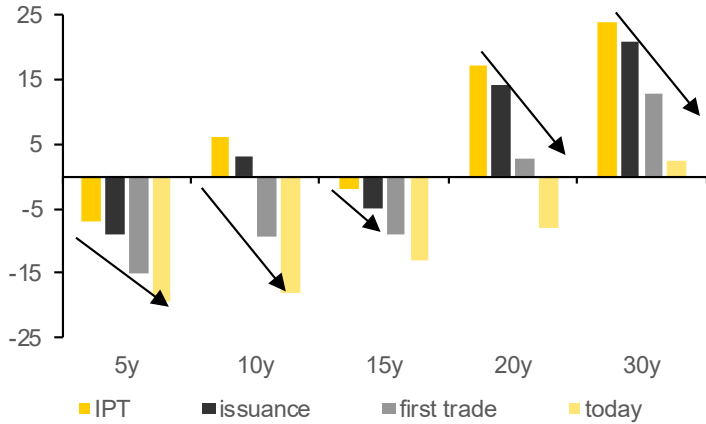


Source: EU, Commerzbank Research

EU issuance creates more competition for core than for semi-core

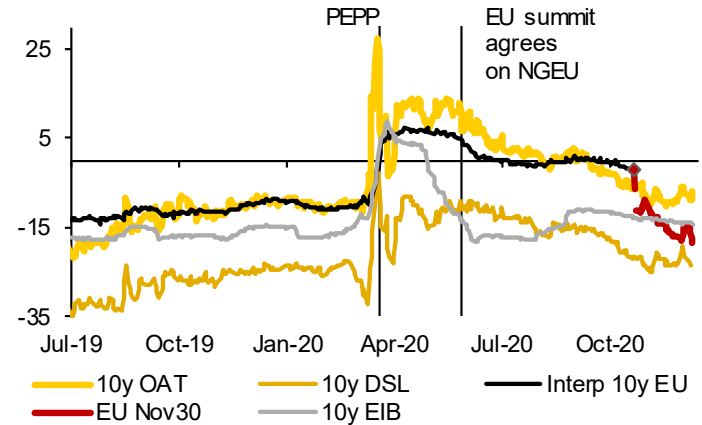
Strong post-issuance performance

EU SURE primary and secondary levels, mid asset swap spreads, in bp



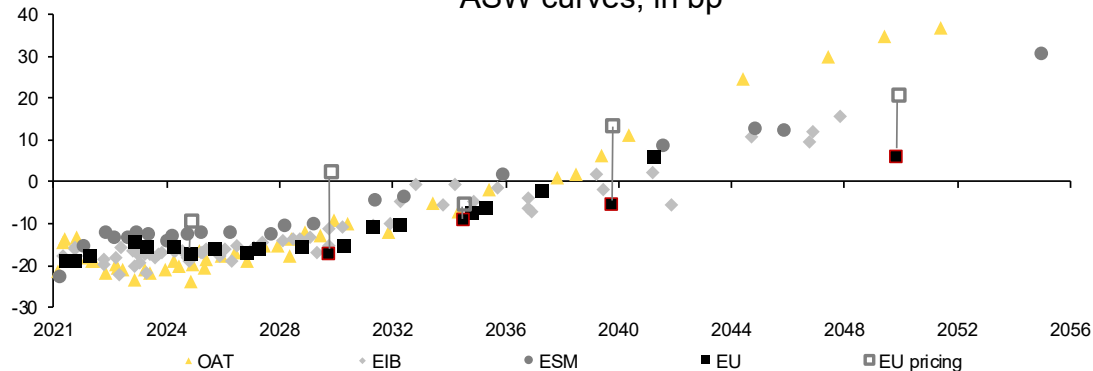
EU slicing through supra peers, approaching core sovereigns

Mid asset swap spreads, in bp



EU establishes new benchmark curve

ASW curves, in bp

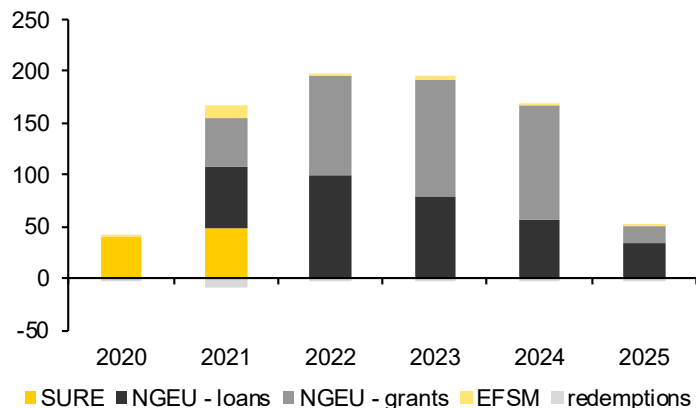


Source: EU, Bloomberg, Commerzbank Research

€160-200bn EU net issuance expected each year through 2024

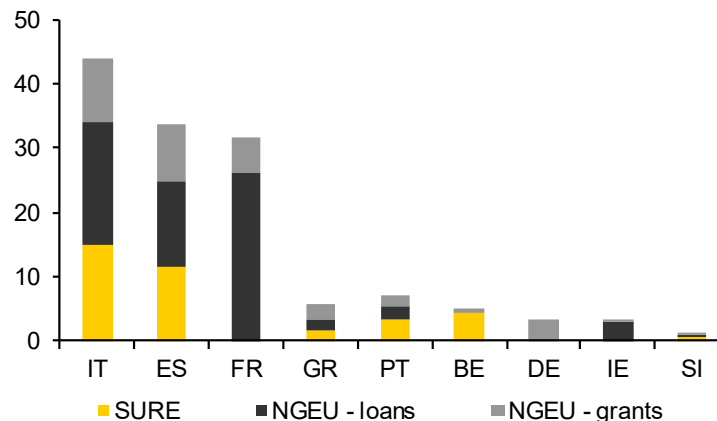
Front-loaded loan funding...

Estimated funding profile according to sectoral legislation drafts from 30 May, in € bn



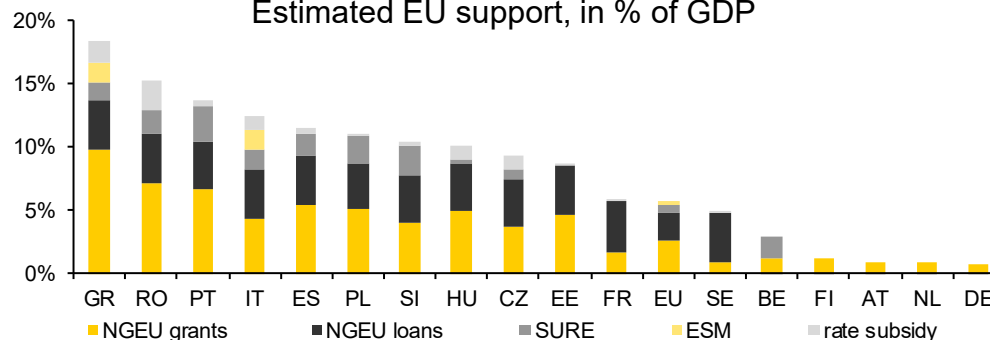
... would mean most flow support for periphery

Estimated 2021 EU support by country, in € bn



South and East benefiting the most

Estimated EU support, in % of GDP



Source: EU, Commerzbank Research

Discussion points:

- Is the initial 'EUphoria' exaggerated and how can the positive momentum be maintained?
- Is there a risk that heavily oversubscribed orderbooks make a proper allocation nearly impossible?
- Could bond futures improve market functioning?
- Should the EU consider T-bills, foreign currency funding and interest rate swaps for NGEU
- Should the ECB adjust its asset purchases to account for EU?
- How could transparency be improved?
- Can the ESM approach be applied to the EU and how could the role of the ESM evolve?
- How relevant is it that EU funding can only be temporary?

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Overweight (OW) We expect outperformance versus the benchmark in spread and/or total return terms
Marketweight (MW) We expect performance in line with the benchmark in spread and/or total return terms
Underweight (UW) We expect underperformance versus the benchmark in spread and/or total return terms

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	All covered instruments	The proportion of issuers in each of these categories for which Commerzbank provides investment banking services
Overweight	39%	30%
Marketweight	46%	39%
Underweight	15%	28%

Source: Commerzbank Research

Distribution of Commerzbank AG rates research recommendations as of 31 March 2019

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Source: Commerzbank Research

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