

MARKET COMMENTARY

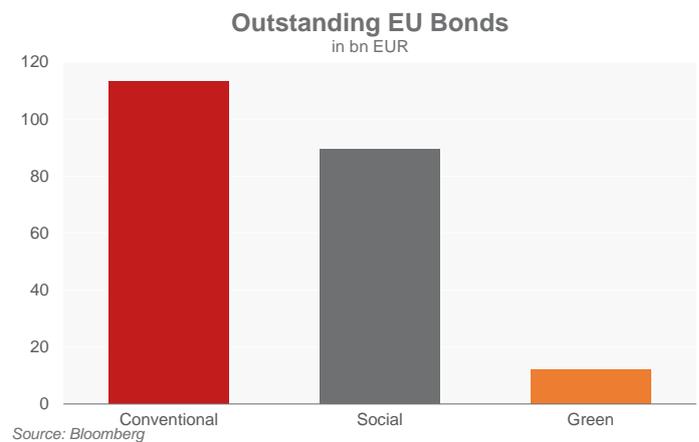
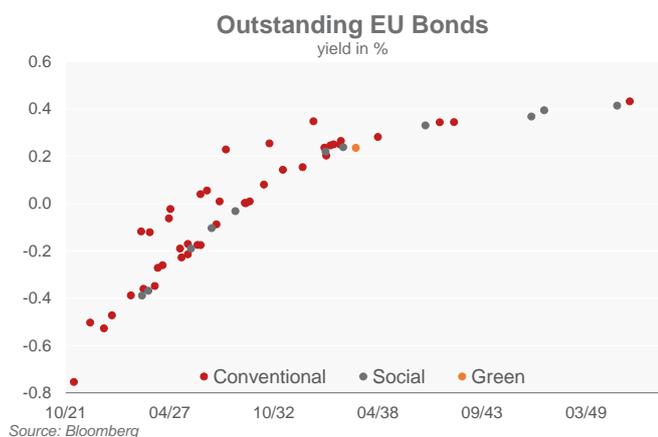
EU soon to become the world's leading green bond issuer

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- In October, the EU issued € 12bn worth of its first green bond to finance the green parts of its € 800bn Next Generation EU. The EU will raise up to 30% of the funds (€250 bn) through the emission of green bonds until 2026 making it the world's leading issuer in this segment.
- In addition, the EU is also leading in the emission of social bonds (€ 90bn since October 2020), underlining the EU's commitment to the development of the market of sustainable bonds.
- The EU uses a diversified funding strategy including syndications and auctions. After reducing its funding target for 2021 the EU will not conduct any further issuances this year. The funding plan for H1 2022 will be published in December.
- EU ESG bonds are trading at a premium. Amid the strong demand by investors, we expect this greenium to persist in the foreseeable future.

The EU put on a stunning performance in October when it issued its first green bond ever raising € 12bn. The 15-year bond attracted strong demand by investors and was oversubscribed by over 11 times (books exceeded € 135bn). The bond – issued via syndicated transaction – was the largest green bond ever in financial markets. The issuance was part of the Next Generation EU (NGEU) funding programme. Year-to-date the EU has placed bonds worth € 71bn within this programme. Until 2026 the EU aims to issue € 800bn to finance the Covid-19 recovery fund. Up to 30% of the overall volume (€ 250bn) will be raised through the emission of green bonds. This means that the EU will become the largest issuer of green bonds in the next few years.



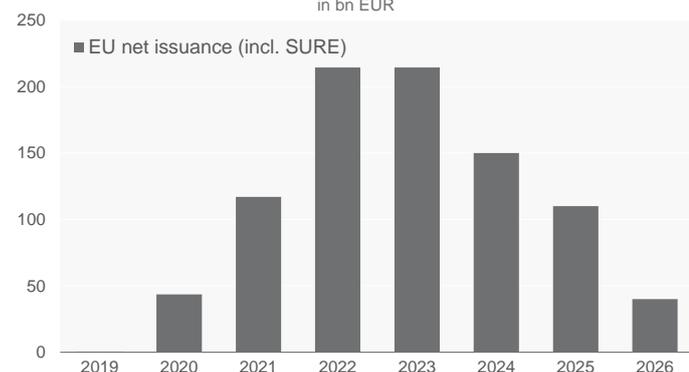
With the issuance of SURE bonds, the EU has already underlined its commitment to foster the establishment of sustainable bonds. SURE is the EU programme to finance employment schemes in EU member countries during the Covid-19 crisis. Between October 2020 and May 2021, the EU has placed around € 90bn of social bonds. This has made the EU the world's

biggest social bond issuer. The applied framework is compliant with the social bond principles of the International Capital Market Association (ICMA). The EU has already announced that a further € 5bn will be issued in 2022 (the total limit of SURE is € 100bn).

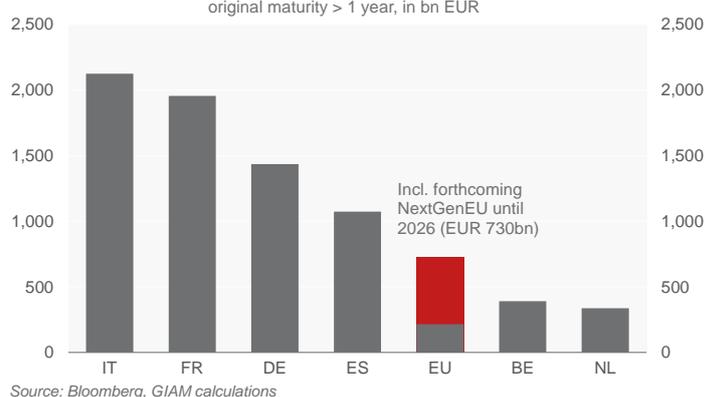
This has given an additional boost to the already rapidly growing market for ESG bonds and has confirmed the EU's commitment to sustainable finance. The volume and liquidity of sustainable bonds is increasing fast. As the green bonds issued by the EU are aligned with the green bond principles of the ICMA they allow investors to diversify their investments. The EU follows the recognised standards for green bonds, including rules for the use of proceeds, tracking the spending (37% of the NGEU funds are set to support the transition towards a greener future), and certain reporting obligations.

To raise the necessary NGEU funds the EU applies a diversified funding strategy. It rests on multiple funding instruments, among others medium- and long-term bonds. Year-to-date the EU conducted five syndicated transactions and two auctions issuing a volume of € 71bn (almost € 50bn have an original maturity of more than 10 years). At the end of October, the EU reduced its annual funding target from € 80bn to € 71bn. Hence, it will not conduct any further EU issuances until the end of 2021. The new funding plan for H1 2022 will be published in December. While the overall amount of the NGEU translates into annual borrowing volumes of on average roughly € 150bn we expect some frontloading in the years 2022 and 2023. Hence, we estimate an EU issuance volume of at least € 200bn in 2022 of which around € 70bn will likely be green bonds. This implies that the share of green bonds (currently around 5%) will increase substantially in the years to come.

EU net issuance to rise strongly
in bn EUR



EU to become an important issuer
original maturity > 1 year, in bn EUR



As other issuers, EU ESG bonds are trading at a premium. The premium is visible both on the primary and the secondary market as ESG bonds are attracting more interest from investors than conventional ones. Hence, the issuance of ESG bonds reduces the EU funding costs compared to vanilla debt. Amid the strong demand by investors in combination with the limited supply we expect this so-called greenium to persist in the foreseeable future. The oversubscription indicates that investor demand will continue to outpace the (rising) supply.

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