

Corporate greenium in the euro market: visible premium and lower volatility

Amid growing interest in green bonds, the question around 'greenium' is certain to interest capital market participants for a long time. Our analysis concludes that corporate green bonds denominated in euro show spread premium and overall volatility lower than their plain vanilla grey equivalents



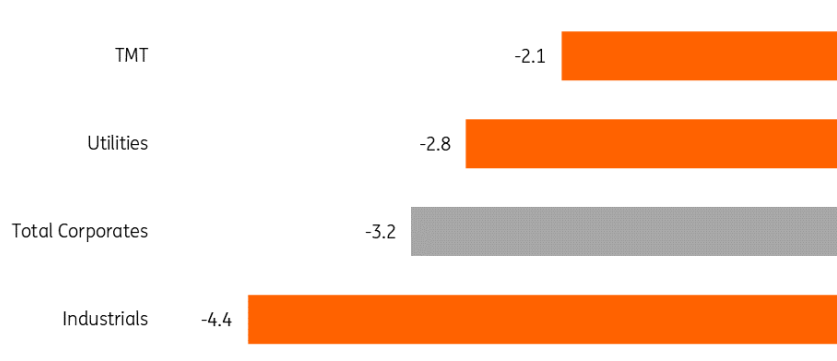
With investors and issuers more eager to take part in the sustainability bond market, the greenium subject has become a recurrent focal point

Greenium confirmed, although disparities remain the norm

With investors and issuers more eager to take part in the sustainability bond market, the greenium subject has become a recurrent focal point. Do green bonds offer any advantage to issuers and investors in comparison to plain vanilla grey bonds? Do green bonds trade inside their own curve?

The answer is yes. Our analysis, conducted in March 2022, shows that globally, corporate green bonds are priced 3 basis points tighter than their plain vanilla grey bond comparables. Three basis points may not seem a lot but this has to be put in perspective with the very large size bonds corporates issue on the markets (for the EUR Investment Grade market, between €350m and €2bn).

Corporate green bond spread premium per sector (in basis points)

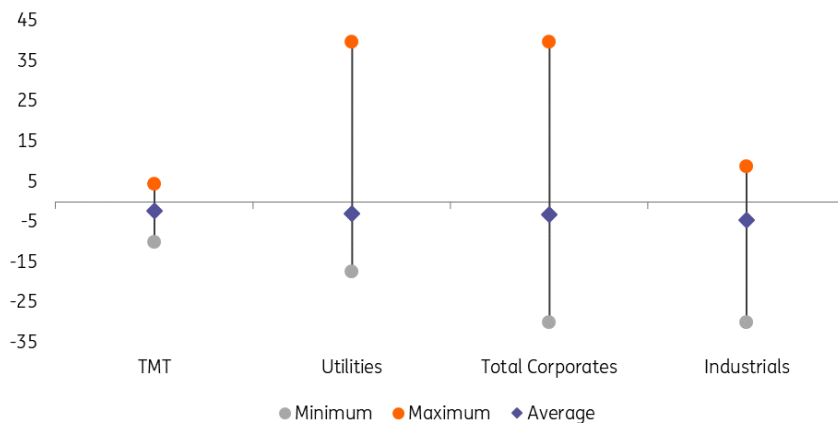


Source: Markit, ING

The greenium varies slightly from sector to sector and is not easy to interpret. However, industrials, with a 4 basis points greenium, include issuers that offer green bond curves trading significantly inside their own grey bond curves. Some of these corporates are within the automotive industry. The favouring of automakers' green bonds over grey bonds could indicate large support from investors for sustainable mobility investments in comparison to traditional mobility products, which are largely associated with pollution issues.

If the global picture proves again the existing greenium for corporate bond issuances, the details also show strong disparities within green bonds in terms of discounts and premiums. For instance, within the utilities sector, the maximum discount (green bond spread above the grey curve) stood at 37 basis points. This demonstrates that not all green bonds offer greenium – on the contrary. The lack of greenium cannot always be explained, but when an explanation is plausible it often relies on the size of the bond (too small or too large) or the investors' perception of the green bond framework or the company's sustainability profile. In some rarer cases, the lack of greenium can also be due to issuers exclusively issuing green bonds over the past few years, leading to the pricing of both curves, green and grey, at the same level.

Corporate green bond spread maximum premium and discount per analysed sector vs. grey bonds (in basis points)



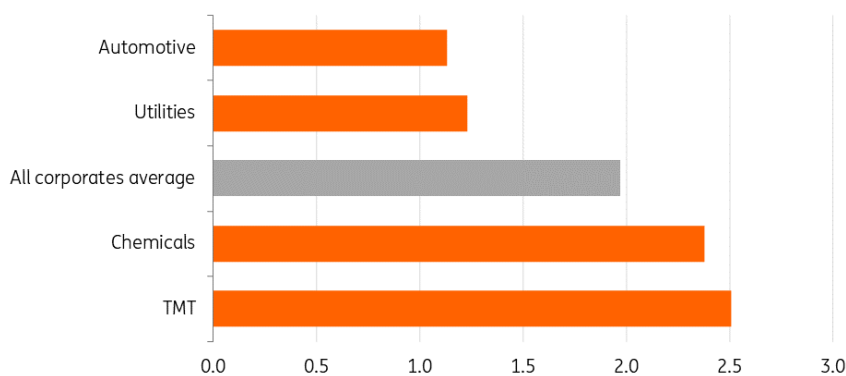
Source: Markit, ING

Corporate green bonds benefit from a lower spread volatility

Our second analysis, looking at green and grey bonds' volatility on the euro market between January 2021 and March 2022, brings another insight. Our corporate bond universe constituted of 130 corporate senior bonds and shows that green bonds have less volatile spreads than grey equivalents, in every sector we analysed: utilities, TMT, automotive and chemicals.

Overall, between January 2021 and March 2022, the corporate senior green bonds of our universe showed average volatility of 0.06 compared with 0.13 for the grey bonds (expressed as standard valuation). Corporate bonds' overall volatility is relatively low in comparison with other financial products such as stocks. However, the outcome of our analysis shows that corporate grey bond spreads are proportionally twice more volatile than green bond spreads.

Grey bond spreads volatility vs. green bond equivalents per sector (x) January 2021-March 2022



Source: Markit, ING

The European Union's sustainability targets for 2030 and 2050 and the recent RePowerEU package

that puts emphasis on the emergency [to switch to clean energies](#) will continue to support green bond issuance in the coming years. In parallel, investors' demand for green and other forms of sustainable bonds has only intensified with growing dedicated funds. For capital markets, the question around greenium will remain in the spotlight, however, bond performance is certainly not the only motivation behind the green bond label.

Author

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.