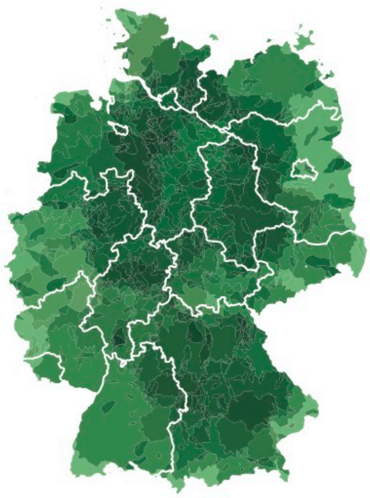
Germany adds to green bond curve

Germany has just launched its third green bond, with a 30Y maturity. We can now calculate the green premium - dare we say greenium - at this maturity. The deal should help build non-sovereign green bond volumes at the long end of the curve



Greener for longer

The launch of the green Bund Aug50 green line complements the existing 5Y 10/25 and 10Y 08/30 issues. In fact, it is the longest green Euro government bond issue to date. Note, though, that fellow eurozone sovereigns have also exhibited a preference for long-dated green issues, albeit slightly shorter.

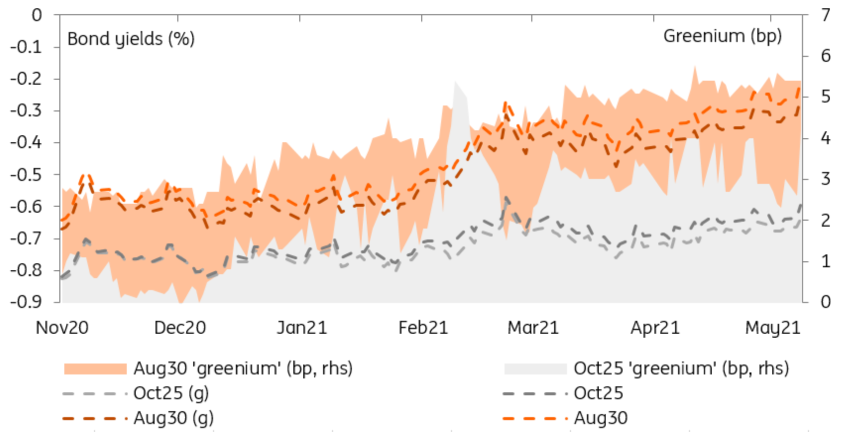
Germany's approach to green issuance differs from that of other sovereigns

Germany's approach to green issuance differs from that of other sovereigns in that it consists of 'twin' lines that are fungible into matched coupon and maturity issues. For each of the three existing green German sovereigns bonds (5Y, 10Y, and 30Y) there is thus an identical 'non-green' bond.

How does one say greenium in German?

This allows for a simple 'one-to-one' comparison between green and non-green bonds. Readers familiar with green bonds will immediately see the advantage of this approach. Namely, the yield difference between these twins bonds represents accurate measures of the 'greenium', the additional price (measured in yield) investors are willing to pay to invest in green bonds rather than non-green equivalents.

Other green Bunds offer a lower yields than non-green twins



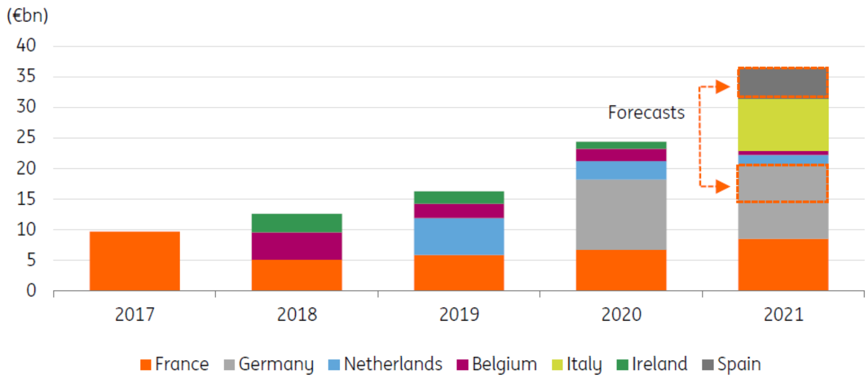
Source: Refinitiv, ING

From the point of view of borrowers, in this instance the German federal state, this represents a saving on the interest rates carried by the (lower-yielding) green bond. At this point, one might object that green bonds do not necessarily trade with lower yields than non-green bonds. Except, in the current case, they do. The new 08/50 green Bund was issued at a yield 2bp lower than its non-green peer. As per today's secondary market data indicate that the 5Y and 10Y equivalent 'greenium' is around 3bp and 5bp respectively.

It's all a matter of incentives

As long as this 'greenium' remains positive, it carries an incentive for borrowers to issue green bonds rather than non-green equivalents. As the funds raised in this way are ring-fenced for 'green' uses, the cost of financing green projects is lower. In the case of a sovereign, this could either take the form of additional 'green' expenses or simply lower the breakeven rate of return on already planned projects.

Germany is a relatively latecommer to the green bond party



Source: Refinitiv, ING

But green sovereign issuance brings another benefit: it creates benchmark green issues off which other issuers, whether financials and corporates, can price off. Germany is a relative latecomer among eurozone sovereigns, but it is taking it seriously. Its approach is fast building a standard for the pricing of green bonds across maturities, including in shorter tenors where other sovereign green bond issuance is more scarce.

Author

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Disclaimer