EUR SSAs spreads: Tight levels, but the context is important

Sovereign, supranational, and agency (SSA) spreads sit at tight spreads versus core sovereigns. Heavy Bund supply and still record-level funding needs of the SSA sector itself suggest headwinds ahead. But broader context matters – the spread give-up for moving from riskier asset classes into SSAs is at record-low levels

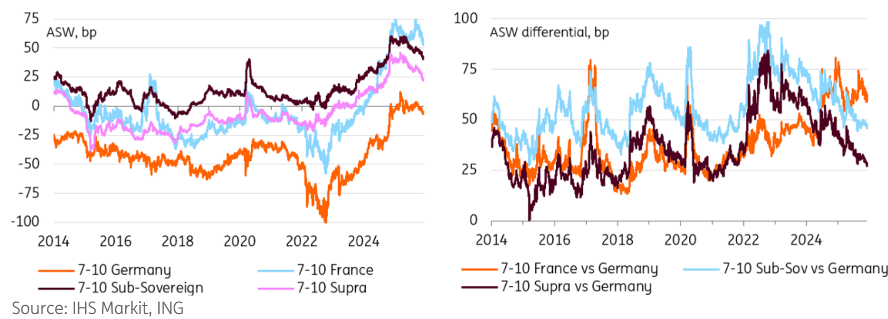
Heavy Bund supply and record-level funding suggest we could feel headwinds

EUR SSAs start out a tight versus core sovereigns, but there's a broader context

On the broader index levels, SSA spreads versus swaps actually look wide historically. Of course, this is still a mirror of the repricing of German Bunds in particular, pushing from the bottom against the credit spectrum. It reminds us that the German dynamic will remain relevant for spreads going forward.

At the same time, SSA spreads are on relatively tight spreads versus core sovereigns. Does that imply widening risk going forward? After all, the structural headwinds for the German spread are well flagged, and the funding needs of the SSA sector will remain near record highs.

Absolute levels kept wider by Bunds, but spreads versus Bunds are tight

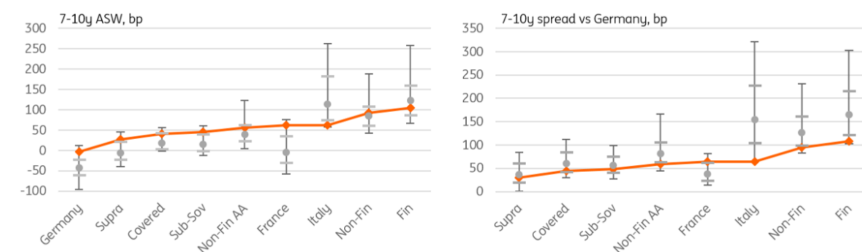


Source: IHS Markit, ING

Contextualising the tight SSA spreads with the entire credit curve suggests SSAs provide attractive risk-reward. For instance, the broader financials and non-financials indices show levels which look even more stretched. Whereas a supranational index might still fall into its general ranges versus Germany, financials and non-financials are at the historically tight end of their ranges since 2014.

As sovereigns are now coping with high debt and/or deficit levels, the smaller gap appears warranted. Some will even argue that larger, more globally operating corporates can structurally trade more expensive than sovereign peers, as we are currently already seeing in some instances.

In the context of tight overall credit markets SSAs look more appealing



Source: IHS Markit, ING

Iboxx index spreads since 2014: Current (red), average, min/max and 10%/90% quantiles

But the historical ranges highlight the different widening potential in adverse scenarios. Essentially, the foregone yield to move from riskier categories to lower-risk, sovereign(-like) exposure with substantially lower widening potential is historically small. And since rates are higher and curves steeper, current spreads themselves are a much smaller contribution to the expected return than the level of rates themselves.

SSA spreads can remain supportive

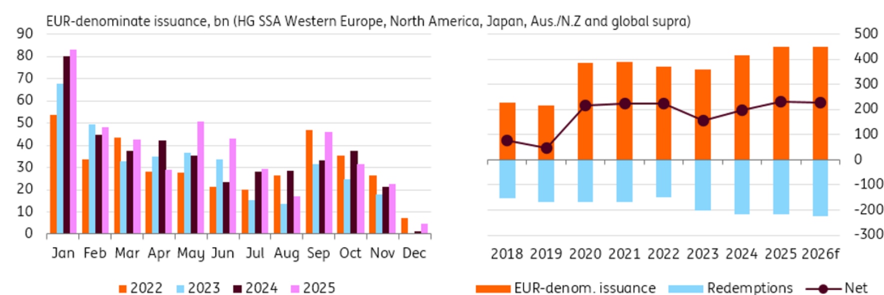
To be sure, such an adverse scenario is not our base case, but those contemplating taking some chips off the table might turn towards SSAs as well. Despite rich levels, the broader macro backdrop and credit spread context also suggest that SSA spreads can remain supported. While another round of record issuance early in the year may require some concession, we remain more upbeat about the longer-run spread outlook.

Of course, this is with one eye on the political risks in particular surrounding France, but over the past year, the spill-over to broader spreads has become less pronounced and more short-lived with each stress episode.

The SSA supply picture: Another record year, but more nuanced below the surface

Broadly reflecting what we are seeing in the central government sector, broader SSA supply will remain elevated in 2026 as well. 2025 saw €-denominated SSAs gross issuance rise from €414bn in 2024 to almost €450bn. We estimate that 2026 will see a very similar issuance volume. However, below the surface, the picture is becoming more nuanced. We pick out a few below:

Another busy start in 2026 with SSA issuance staying at record levels



Source: BondRadar, ING

European supranationals

The **EU** has already flagged for a while a gross issuance volume of €160bn for 2026, broadly in line with what we have seen this year. Supply stands at €153bn after the final auction in December. At the same time, redemptions will rise from €29bn to €47bn. However, eyeing the overall trajectory starting next year, gross levels should also start to drop off more noticeably with the payouts from the NGEU programme ending and – at least for now – other funding needs for programmes such as SAFE being substantially lower in comparison.

The other large European supra issuer, the **EIB**, is likely looking at smaller gross issuance volumes of around €50bn already next year on the back of noticeably lower redemptions, while the **ESM** and **EFSF** are looking at stable to lower gross issuance volumes, €7bn and €18bn (vs €21bn), respectively, amid broadly stable redemption levels.

The EU's longer-run declining net supply picture should leave its spreads well-supported and with more tightening potential. We do not think that the possibility of additional supply to finance, for instance, Ukraine aid, will fundamentally derail this picture. Instead, it could even be seen as

providing the EU with arguments in support of its efforts to eventually accede into sovereign bond indices, showing that it will remain a large issuer on an ongoing basis. While market infrastructure is improving with a repo facility and a futures contract having been added, that final goal of index inclusion has been elusive so far.

German Lander and agencies

The German states, i.e. **Laender**, now have the possibility to run structural deficits of 0.35% of GDP under the reformed debt brake, as opposed to the old rules that required a balanced budget. In aggregate, that provides room for up to €16bn of additional debt next year. Some Laender have already announced that they will at least partially use their new fiscal leeway. On top of that, the largest German Land NRW is financing a municipal debt relief programme that requires additional funding of €4-5bn next year alone. As for the largest federal agency, **KFW**, it just raised its funding target to €75-80bn versus €71bn this year.

German agency levels versus Bunds into year-end look tight. And while tighter levels have been observed historically, these occurred when the ECB was actively buying bonds. We do think the macro backdrop provides a chance to establish new tighter ranges since the greater supply pressure is clearly on the sovereign, but we also think the spread should remain positive. While Bunds and the federal agencies are essentially the same credit, the market depth and superior liquidity of Bunds should still command a spread premium.

Dutch agencies

Remaining with core SSAs, the Dutch issuers BNG and NEDWBK are seen running funding programmes of €15-17bn and €11-12bn, respectively, next year. While this is a slightly lower volume than 2025, they will be joined next year by TenneT Netherlands, a state-owned grid operator which will start issuing bonds furnished with an explicit government guarantee. This guarantee is indefinite, but can be terminated after 2030 by either party with a 12-year notice period. TenneT plans a capital expenditure of €90bn over the next 10 years, which could translate into an annual funding need of €4-5bn initially.

In terms of underlying dynamics for the agency spreads, we see the potential for the Dutch sovereign to tighten structurally versus Bunds on the grounds of divergent supply trajectories. While that should also exert a pull on Dutch agency spreads versus their German peers, the limiting factor here can be that bonds of BNG and NEDWBK have higher risk weights attached under banking regulations.

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