

Rates Spark: Autumn greens

Green issuance remains a hot topic after the summer. Not only as Germany launches a new 10Y today, but also as the EU prepares its entrance to the market to become a significant player. Supply also looms for USTs today, meaning they could remain in the driving seat a little longer, ahead of tomorrow's closely-followed ECB meeting.



Green issuance is in focus

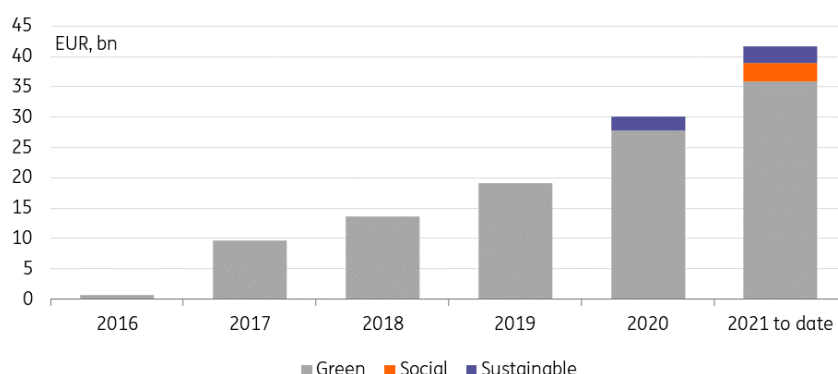
Green issuance has been a major theme for primary markets returning from the summer break. Following hot on the heels of yesterday's 12-times oversubscribed inaugural 20Y green bond from Spain, Germany will today launch a new 10Y green Bund via auction. The targeted volume is €3.5bn and the bond will be reopened in October for another €3bn. As usual with the German sovereign green bonds this will happen alongside a top-up to the same amount of the regular twin bonds, in this case the Bund maturing in August 2031.

The twin-bond approach Germany employs allows for a direct comparison of green versus non-green bond valuations, the differential having been coined as the 'greenium'. In case of the older 10Y green Bund maturing in August 2030 this 'greenium' has gradually increased to peak around 7bp in yield terms this August. We read it as another clear sign of investor demand for green securities, although the lower liquidity over the summer may have magnified the differences.

Recently though the greenium has started to ease. And it may do so further given not only today's and upcoming German green supply in this maturity bucket, but also green supply coming from

other sovereign and sub-sovereign issuers, notably the EU going forward.

EUR denominated sovereign ESG issuance



Source: ING

NGEU green bond framework paves the way for first EU green bonds

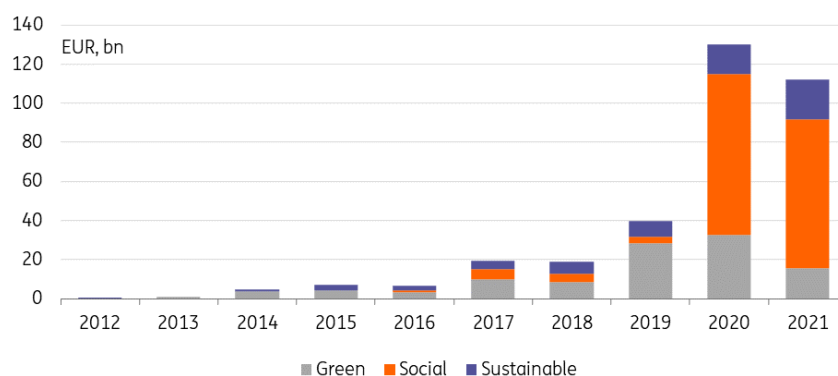
The next significant new entrant to the growing green bond market will indeed be the EU. So far the EU has dominated the social bond market whilst funding the €100bn SURE programme, now largely completed. But over the next years through 2026 the bloc will also raise €800bn to fund the NextGenerationEU (NGEU) recovery instrument, up to a third of which in green bonds. Yesterday the EU laid out the NGEU green bond framework and has announced plans to start issuing green bonds in October.

In total the EU still plans to issue €35bn until the end of this year. The overall €80bn funding target for 2021 has remained unchanged versus previous guidance with the latest funding update provided yesterday. In more detail, three syndicated issuances are planned as well as three bond auction dates. The latter can each encompass multiple bond reopenings or new issues (we would assume shorter dated bonds).

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The new details in mind we think it is still possible for the EU to raise €15-20bn in green bond this year, although that would fall short of the EU's stated target to raise "at least 30%" of its long-term funding via green bonds. EU Commissioner Hahn had hinted at this given how much has already been issued this year, but he also reiterated that the 30% was a broader timed target and the EU's green issuance would also follow demand to an extent.

EUR denominated SSA ESG issuance



Source: ING

Today's events and market view

Little data in eurozone leaves the focus on green (and social) bond supply. Germany today launches a new 10Y green bond for €3.5bn. The EU will hold an investor conference call after it released the green bond framework and outlined funding plans for the rest of the year yesterday. The French agency CADES yesterday mandated a 10Y social bond, likely today's business.

US rates may stay in the driving seat for bit longer ahead of the ECB meeting tomorrow, especially with the US Treasury selling US\$38bn of 10Y notes later today. Upward pressure on rates may thus persist. In data US job openings could provide more hints that it is the lack of workers that has been behind the big miss in latest non-farm payrolls. Later the Fed beige book might also provide a more granular look at the state of the recovery when headline data appear subject to distortions.

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