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What the greenium tells us now and how it is evolving by sector

A higher price for green versus grey issuance (the greenium) is not a guarantee, but it remains typical, even if lower these days. We identify how the greenium evolves by sector, and ask whether there are liquidity issues. We conclude that there are differences by sector, but no liquidity problem of note, apart from green bonds that trade at a discount

By sector, we found that the greenium was lowest in technology, media, and telecom

We addressed the greenium issue last year in a series of articles that can be found here, and we specifically looked at the theory and practice of the greenium concept here. We noted that the pricing of sustainable finance products should theoretically benefit from reduced existential risk, and if such issuance has an ancillary benefit for wider stakeholders whether customers, employees or investors in the institution in question. Despite the avalanche of supply in this space in recent years these perceptions tend to continue to dominate, manifesting in strong demand at primary, and persistence of the new issuance greenium in secondary market trading.

Support for sustainable issuance continues to strengthen. While a greenium helps for new issuance, it's typically not the determining factor. In fact, there are issuers that fully accept a green discount at launch and/or issue in sustainable space fully in the knowledge that secondary lines trade at a discount to grey bonds. The benefit is still a large and diverse book. For most though, there is a greenium; the win-win scenario.

As an aside, even US issuers that might have, for whatever reason, not gone down the sustainable issuance route to date could well find rationale in doing so in the years ahead as they face US Securities and Exchange Commission disclosure requirements on climate change preparedness. It's not that this requires sustainable issuance per se. It's more that all corporates find that they must pay more attention to sustainability issues as a matter of course, arguably making the dive into sustainable issuance less dramatic.

Our key takeaways from our analysis covering corporates, sovereigns and emerging markets

Our global analysis of environmental, social and corporate governance (ESG) issuance spans sovereigns, SSAs (sub-sovereign, supranational and agencies), European and US corporates and emerging markets sovereigns. We make the following central observations from our analysis:

- Obtaining a greenium remains a baseline assumption for new issuance. The avalanche of ESG issuance has tended to dampen its size, but not to an extent that is particularly significant. The typical expectation centres on a greenium in the low single digits, but it can be much higher.
- Greeniums also tend to persist into the secondary market and roll down the curve. They tend not to be dominated by duration so that a larger greenium price effect (or green price premium) can be seen in longer maturities. These then roll down the curve over time.
- There are also many examples of ESG bond discounts (the opposite to a greenium), both in primary and secondary. A discount in primary is typically maintained on secondary. This can come down to bond peculiarities, but can also reflect greenwashing concerns (less common).
- We found that the greenium tended to shrink during the recent bout of credit spread widening, especially as the Russia/Ukraine crisis erupted. That said, once that calmed the greenium tended to reassert itself.
- While the latter might suggest a lack of liquidity in ESG lines, often it was the opposite. Ease of liquidation has often meant that the more liquid lines can be forced to underperform. We saw some evidence of this in the price action seen in the past month or so.
- There is no evidence of a material difference between the bid/offer available on ESG lines relative to grey lines. On a case-by-case basis, some differences can be found, but in a generic sense we cannot conclude that ESG has either a higher or lower bid/offer versus grey.
- Consequently, although ESG issuance has a reputation for being bought and held, we find no convincing evidence that this has been necessarily detrimental to its liquidity. Clearly, exceptions can be found in individual circumstances, but generically we find minimal disruption in liquidity.
- For the odd ESG bond that displays a significant discount (opposite to a greenium), there can be an issue with liquidity, as there is also some evidence that such bonds can have a tendency to exhibit wider bid/offer spreads.
- A special study in the benchmark EUR corporate space finds evidence that volatility in ESG lines is less than that of grey lines over a longer time frame. By sector, we found that autos and utilities were least volatile, while chemical and technology, media, and

telecom (TMT) were more volatile.

- Also by sector, we found that the greenium was lowest in TMT, followed by utilities, and highest in industrials. There are many examples of exceptions to this, but these are the generic outcomes, with the average greenium in TMT at 2.1bp, 2.8bp in utilities and 4.4bp in industrials.
- In the SSA space, at the onset of the Ukraine invasion, we observed a tendency of the SSA greenium to grow, at least temporarily. For some issuers that move has already been reversed but it suggests that periods of illiquid market conditions favour green bonds.
- To conclude that 'greenness' is a factor that affects the pricing of all green bonds, we would ideally want to see a degree of correlation between the greenium of green bonds within the same curve, indicating that they are a substitute for each other in investors' mind, and across issuers. We indeed found a tendency for green bonds to trade with lower yields than their theoretical 'grey' yield, but no cross-issuer correlation. The greenium observed is on a case by case basis.

Authors

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

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

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com