The LBBW public sector issuers’ roundtable 2019

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LBBW
Climate and digitisation to dominate SSA’s 2020

An unusual note of optimism defines the attitude of Europe’s public sector issuers as they approach 2020. While many other markets are beset by fears of a slowdown in global growth, trade wars, and Brexit, SSA borrowers are confident in their borrowing strategies and loyal investor bases. Despite a change of face in the ECB’s top job, rates are still set to remain low for the foreseeable future. Accordingly, investors are having to grit their teeth to stomach the scanty yields on offer for euro SSA assets.

Although SSAs are offering little in the way of yield, their place as pioneers of the evolving SRI market always ensures lively debate. In this roundtable, held in early November, market participants on both the buyside and the sell side favoured a more holistic assessment of issuers’ ESG profiles, rather than relying on labelled assets, but whether or not the ECB should take a role in promoting the SRI market through “green QE” divided the group.

Participants in the roundtable were:

- **David Zahn**, head of European fixed income, Franklin Templeton
- **Lucette Yvernault**, head of systematic investment, Fidelity International
- **Sami Gotrane**, head of treasury and financial markets, SFIL
- **Axel Bendiek**, head of treasury and investor relations, Federal State of North Rhine-Westphalia
- **Otto Weyhausen-Brinkmann**, head of funding, KfW
- **Philip Hertlein**, Head of SSA Syndicate & Origination, LBBW
- **Siegfried Ruhl**, head of funding, European Stability Mechanism
- **Lewis McLellan**, moderator, GlobalCapital

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**GlobalCapital**: What are your funding plans for 2020, and does it differ from 2019?

**Siegfried Ruhl, ESM**: We announced at the end of last year the preliminary numbers for 2020, which are in total €27.5bn. We’re issuing for two borrowers, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM). In 2020, we have €19.5bn for the EFSF and €8bn for the ESM. Our final numbers will be communicated in our investor relations newsletter in December.

In 2019, we issued €29.8bn — €20bn for the EFSF and €9.8bn for the ESM. We’ve already completed our funding programme for the year.

**Otto Weyhausen-Brinkmann, KfW**: We have a funding programme in 2019 of €80bn. We have raised €79bn so far so we are almost done and we will announce the borrowing programme for 2020 on December 12th.

**Otto Weyhausen-Brinkmann, KfW**: For NRW, our funding programme for 2020 will be €15bn and that is exactly the amount of our maturing debt because the state runs a balanced budget and so we only refinance maturing debt. In the current year, the programme was significantly larger, €23bn, and we finished it this week with a large transaction. The only reason why it was so large is because we had a shift in our liquidity management. We no longer use short-term funding or money-market instruments. That was a one-time boost to the programme worth around €6.5bn in 2019.

**Sami Gotrane, SFIL**: For SFIL, as with ESM, we manage two different issuers, the parent company, SFIL, and Caffil. Globally next year it should be about €6bn, which is the level this year; no change but down from €7bn last year because we decided this year to reduce our liquidity buffer significantly.

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The main impact is more on our investor
Gotrane, SFIL:
This year, it’s been given a new lease of life. What
thought that QE would be coming to an end soon.

Lucette Yvernault, Fidelity:
negative yield environment?

Weyhausen-Brinkmann, KfW:
That’s an interesting
issue in euros or dollars?
the main considerations that drive your decision to
borrowing currency than dollars this year. What are
we can pick up better yields.

space we would tend to go elsewhere to look for where
and Spain that still have positive yields but in the SSA
Europe are just too negative so beyond things like Italy
as the UK.

David Zahn, Franklin Templeton:
Obviously negative
interest rates. This makes it very challenging to
when the entire euro curve for KfW was trading with
negative interest rates. This makes it very challenging to
find significant demand for new issuance.

GlobalCapital: How do you, as investors, manage the
negative yield environment?

Lucette Yvernault, Fidelity: It is a reality of the world
we’re living in that the ECB unfortunately has decided to
decrease their intervention and force more quantitative
 easing into the system. From their point of view, it’s
something they feel is needed for liquidity in the system.
From an investor point of view it’s not: We are in a
conundrum in terms of the solutions we can offer to our
clients and obviously how we can support European bor-
rrowers in this kind of market environment.

David Zahn, Franklin Templeton: Obviously negative
yields make it quite difficult, but it has, similar to what
Osto described, meant that we’ve been looking for other
currencies to invest in. We’re mostly looking at Europe,
so we had exposure to Polish bonds and we have expos-
ure to Norwegian, Czech, Hungarian assets, either
hedged or unhedged depending on the currency, as well
as the UK.

Looking at the core, the really high quality assets in
Europe are just too negative so beyond things like Italy
and Spain that still have positive yields but in the SSA
space we would tend to go elsewhere to look for where
we can pick up better yields.

GlobalCapital: This time last year, a lot of people
thought that QE would be coming to an end soon.
This year, it’s been given a new lease of life. What
does that mean for your strategies as borrowers?

Gotrane, SFIL: The main impact is more on our investor
base. There has been a shift. We have more and more
bank treasuries and less and less institutional investors.
The bank treasuries are buying our paper because it’s
level one HQLA and because all the French agencies are
paying a bit more at the moment.

It’s still a very small pick-up compared to three years
ago — around a third of what it was compared to Caisse
des Dépôts et Consignations, or Cades. In this environ-
ment, everything is tighter and the pick-up is no longer
so significant. But investors are still buying because they
need to buy. The bank treasuries balance their balance
sheet on a floating rate basis, so the negative interest
rates are not a barrier. Their liabilities are floating, so
it makes sense to have floating assets too.

Bendiek, NRW: We do not adjust our strategy because
of QE being live or not being live. We see the effects, of
course. In particular, our spreads up to around 30 years
are tighter than they would otherwise be. The credit
curve here is not as steep compared to the very long end
but the spread is only one aspect. For a public sector bor-
rrower, yield is much more important and of course we
like the low yield environment.

We go for very long duration, up to 100 years. Thirty
years is a nice point in the curve and it provides signifi-
cant duration but we wouldn’t restrict ourselves to such
tenores just because they are QE-eligible.

Siegfried Ruhl
ESM
Ruhl, ESM: Our funding strategy is independent from a
specific yield environment or central bank policy. Our
strategy is to be present on all parts of the curve on a
regular basis. This gives us access to a wide investor base.
This year we issued on all parts of the curve. We saw lots
of strong demand also at the short end.
We were able to issue a three year benchmark for the
first time in two years in spite of deeply negative rates.
Investors have to buy. The demand is regulatory-driven
or driven by the way the investors manage their portfolio
— based on relative value and not absolute yield level.
If you have a wide investor base, you always find
somebody who is interested in your offers as long as
they are fairly priced.

Philip Hertlein, LBBW: In terms of the broader backdrop
that we touched upon, we’re set to live with the mea-
sures that were announced at the ECB September meet-
ing for the foreseeable future. A year ago, many believed
that the ECB’s QE programme was running out and we
were discussing a new rate environment. That’s no longer
the case. Now we’re looking, certainly in Germany, at the
Japanification of the economy. It’s tough to see how we
got to a sustained positive interest rate backdrop in the
near future.

GlobalCapital: With Christine Lagarde taking over the
ECB presidency, do you have any expectations of monetary policy being normalised?

Zahn, Franklin Templeton: I don’t really think she can normalise policy; given where inflation is and given where growth is in Europe, you don’t want to start hiking rates. I think the ECB will be doing QE for several years. Rates will be on hold for probably the next five years and I think that you will see her pushing governments and/or the EU to pursue fiscal measures. That’s where her main focus will be.

She’s already talked about buying green bonds. Given the size of the market, that would be bad for the moment. But if there were a huge increase in green bonds, maybe from some of the people around the table then the ECB might be able to buy green bonds.

That’s where we might see development, but there’s no chance of normalising policy.

Bendiek, NRW: Politicising the ECB, through buying green bonds or focusing on climate change, would be difficult, in my opinion, because it is not straightforward monetary policy. Unless you can show that climate risks are financial stability risks, it’s a difficult step to take because it’s not within the ECB’s mandate.

Yvernault: Fidelity: I beg to differ. I think we are all responsible for the future of this planet, not just a small portion of the population. We in the financial industry have our roles to play. Going forward, expecting investors to fund your programmes without disclosing the use of proceeds beyond ‘general purposes’ is not palatable.

Regulators all around the planet are increasingly forcing insurance companies, pension plans, retirement plans to focus on investing to have a more positive impact on the planet. We cannot carry on just closing our eyes and saying general purpose is as good as having clarity over what the money is used for.

We all know that agencies were created to essentially issue on behalf of governments. If these same governments, including the local regulator, are pushing pension and retirement plans to invest in more sustainable futures we need to source bonds that are more responsible and sustainable.

So if you’re not prepared to do your piece as issuers in this market, I’m afraid we’re going to look for assets elsewhere. I believe that the ECB should be a role model in that play. I don’t see any difference in terms of pattern of trading between green bonds and regular bonds, only that we know what the proceeds are being used for, as opposed to this veil of ‘general purposes’, where we just have to believe that you’re doing the best as an agency to promote the local economy.

The social status of governments and governmental agencies has to be examined, especially when the gap between the rich and the poor all across Europe has increased stupendously over the last 10 years.

Bendiek, NRW: I agree with what you say, but I don’t think it should be QE delivering on those goals, by giving preferential treatment for green bonds or sustainable bonds. QE has a different perspective and a different target and that’s why I think green bonds should not be the focus of QE.

Gottrane, SFIL: I think there is a consensus from all the issuers, even if I know there is a difference of approach between France and Germany, that we need to support the green market. It’s a law in France, which is why, this year, we did both our social inaugural and green inaugural transactions. There is a lot of pressure on the government and a consensus in the community that we need to do something.

My fear is that if the ECB is buying green bonds, the market is quite small and will be distorted. We are in a ramp-up period of the green bond market, so the pressure could cause some mispricing.

I’m not going to discuss whether there should be a premium on green bonds — that’s not my job as an issuer; it’s the job of investors. But if there is to be a difference in pricing, it should come from investors, not the ECB.

Yvernault, Fidelity: It’s no different from the ECB buying covered bonds. The difference between senior and covered bond, as we know, has been extremely compressed. That has not jeopardised liquidity or investor appetite. So I see no difference between that and the green bond story. It is on everybody’s agenda. If the ECB is only going to not buy green bonds I don’t see how they’re showing the example in terms of where money should be invested.

Zahn, Franklin Templeton: I think that’s where we might disagree a little bit. I think that with the green bond market at its current size, it would be very difficult for the ECB to enter and start buying. But what I foresee is that you will see a green infrastructure project that will come out in Europe over the next couple of years from the European Commission, backed by the ECB, that could be in the range of trillions.

If all of a sudden you’re going to bring the green bond market from a couple of hundred billion to half a trillion or a trillion in the course of five to 10 years then you probably do need another buyer there; that will help and it helps diversity.

I think in the current green bond market, that would not be very helpful. But if you see this exponential growth which it, you have to start addressing it, otherwise what you’re doing is you’re actually skewing the market the other way by saying ‘we won’t buy green, we’ll only buy the conventional stuff’.

Ruhl, ESM: I would like to pick up on your point that it’s a responsibility of all of us to care about the future of the planet. You said the public sector, on the one hand, expects investors to behave in that way, and so it should offer the appropriate investment opportunities.

I would like to look at it from a wider perspective. So far, we were talking about the labelled bonds: social bonds and green bonds. This was a good starting point to
raise this topic. I see during discussions with investors, a small but positive change here. Investors are moving away from looking purely at the label of a bond, and starting to look at the issuer in a more general, more holistic way. This changes the general behaviour of us as issuers, which is positive.

Zahn, Franklin Templeton: It’s very specific to you given the ESG risk embedded in your portfolio. Disclosure of that from an investor standpoint is really helpful. But how do you look at the ESG risk within your portfolio?

Otto Weyhausen-Brinkmann
KfW

Ruhl, ESM: We cannot issue labelled bonds because of our specific mandate but we have a very socially beneficial purpose. We provide financial assistance to euro-area member states, which essentially supports the people in the five countries strongly.

This has a social purpose in general but we don’t have specific social projects that we can link to a bond. But as it is our mandate to safeguard financial stability for the euro area you can refer to our bonds as stability bonds.

This year we added a special ESG page to our website and we increased our transparency in general. There is the database where you can get all kinds of information about the programmes we gave to member states and we are following up also on our investment side.

We are working towards signing the UN PRI. The change in investors, looking at issuers more carefully, changes the behaviour of issuers and this is a positive development for the future.

Weyhausen-Brinkmann, KfW: I agree with all of you. We have seen in 2019 a strong push in sustainability. First of all, I would like to highlight the EU taxonomy. It’s a big achievement and gives clarity about what is perceived as green and what’s not. Going forward the EU taxonomy will become an integrated part of decision-making and I think it’s very helpful for investors, for issuers, for the entire market so I think that’s positive.

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We are working towards signing the UN PRI. The change in investors, looking at issuers more carefully, changes the behaviour of issuers and this is a positive development for the future.

Zahn, Franklin Templeton: Yes, we have a dedicated green bond fund. It’s an ETF but it’s still the same thing and we do see much better allocations from green issuers, corporate and SSAs, when we tell them this is for our green fund, as opposed to just for our normal European funds. I think that makes sense because it does match things up.

But I also would say that we use green instruments across all of our European fixed income portfolios. If we can buy something that has almost the same yield but it’s green, why wouldn’t I do that? We do also look at it from a holistic issuer perspective, so we don’t really care if there’s a label. We will look at it and say, actually does the whole company work on being green?

It goes back to your point; what does the issuer actually do, as opposed to just the label. We have the ability published on our website. I have not attended a single meeting this year where ESG was not a topic. Investors are looking at it in a more holistic way. It’s not only about issuing green bonds, traditional bonds or other themed bonds, but how the issuer works. Yes, it puts pressure on issuers, so it’s not only what one is lending but also the policies of the issuer. That’s filtering through into KfW as well of course.

I think there’s still a long way to go because ESG ratings are quite heterogeneous and not that easy to compare from one issuer to another, from one rating to another but I think the importance will certainly increase.

Bendiek, NRW: I think this is an important point; issuers are changing their behaviour and making ESG a strategic goal. That makes the ESG rating more and more important so a bit more transparency about ESG ratings would also be helpful for the issuers, not only the investors.

Weyhausen-Brinkmann, KfW: Including the methodology behind the ratings.

Bendiek, NRW: Exactly.

Weyhausen-Brinkmann, KfW: Because the results are not as easy to compare as in the case of a credit rating. Depending on which agency you look at you have different results.

GlobalCapital: How do you decide how green investors are and how to allocate your green bonds? Otto, KfW is one of the first issuers to have a systematic approach to this.

Weyhausen-Brinkmann, KfW: It’s true. When we’re issuing green bonds we also want to have green bond investors investing in the product so we tend to give a higher allocation to green bond investors. I would love to have a single metric where I can just tick a box. Unfortunately it’s not there. There are a lot of moving parts. Many investors have different portfolios; some are green, some might be light green and some might be for other purposes, but they’ve put in one single order; so how green is that?

So our approach is for the lead managers to speak with sales, who speak with the investors. We take a joint approach based on their information, our own information, what we have seen in the past, which information we have gathered from investor meetings and then make that decision.

Bendiek, NRW: We take the same approach.

Zahn, Franklin Templeton: Yes, we have a dedicated green bond fund. It’s an ETF but it’s still the same thing and we do see much better allocations from green issuers, corporate and SSAs, when we tell them this is for our green fund, as opposed to just for our normal European funds. I think that makes sense because it does match things up.
to buy issuers in our green bond fund that are not actually labelled green, because they do meet the carbon transition and are active in the space. I don’t want to go into specific names but there are companies that are very dedicated to reducing carbon emission and they should also be rewarded. So we’re just looking at the holistic approach, not just a label but we do find better allocation when we tell them it’s for our green fund as opposed to our other ones.

GlobalCapital: A few years ago, green bonds were the only products in this sector. Now, there are many new themes: social, sustainable, SDG, blue etc. Does this dilute the product, or are you happy to see a broad range of products?

Zahn, Franklin Templeton: You have to go back to what is actually being done, what the proceeds are being used for. Once you can see what the proceeds are being used for that helps drive whether or not we think it makes sense.

The other area that’s starting to develop is blue bonds. I don’t think anybody here issues a blue bond, as far as I’m aware. Those are the ones that help with the ocean. I think these are areas where you’re going to see more and more of this development.

I hope we don’t get too many colours because I think that starts to cloud the environment but I think if you could show that these particular proceeds will be used for an area that people care about and want to make an impact on that actually is quite helpful.

There are all types of bonds, but it’s good to focus on the big themes like carbon. That’s easy to measure and that’s one of the reasons people are focused on it.

Bendiek, NRW: I’d like to ask a question for the impact investor. We’ve seen a number of KPI-linked transactions: issuers who face a step-up coupon if they don’t deliver on their sustainable goals or their targets regarding improvements to their carbon footprint. How do you look at these products? Is it a good development, or is it diluting the green segment?

Yvernault, Fidelity: I don’t think we need to have necessarily a green label on many of these transactions but we definitely need to increase seriously the disclosure for the use of proceeds. We are lending less to borrowers who are less transparent about their use of proceeds.

All our portfolios are now allotted a quarterly score, no matter if there is ESG on the label or if they’re just a solution or even if they’re not a publicly listed fund but simply a mandate for a given client.

It is not linked to the desire of the client to force us necessarily into responsible investment. Some are obviously ultimately higher-score permanently but even the lower-scored ones are being pushed up and I think our CEO has been on the record multiple times to say we’re all responsible and we all have a part to play as investors.

So this is the reality; it is not something that we’re going to back-track on. All the agreements or prospectuses for the new funds being listed are being meticulously scrutinised by all the regulators around the world for their ESG situation, and I believe there’s probably more scandals upcoming.

There’s been some recently and I’m sure there will be more going forward but I definitively say people who can ignore ESG for the foreseeable future are being very, very short-termist. We have the opportunity to be recognised as investment companies by being part of the infrastructure promoting movement in the right direction.

It’s not only asset managers. It’s also investment banking and the entire investment community which is coming together. It’s also the insurance and pension plan regulators all over the world as well. I don’t see the movement back-tracking.

I think it’s going to push all the issuance more or less, especially for public deals, to be making more thorough disclosures and improving the issuers’ ESG policies. Obviously we’ve heard around the table some people who are being impacted from board decisions on this topic. I think it’s a trend which is here to stay. I don’t see how we can close our eyes and think it’s for others or for the generations to come.

Everything is being scored ultimately and we have to respond to questions about why we have lowered the score quarter by quarter for our funds. Ultimately we are only investing in companies which, if they have a low score, are at least on the right trajectory.

Part of the solution is having the right outlook, not focusing on particular ESG notation but how this issuer handles ESG policy.

Bendiek, NRW: But would you prefer to see the use of proceeds format remain the dominant choice, or should the structure be linked to ESG performance?

Yvernault, Fidelity: We need to move from these very murky waters where we have no appreciation of whether an asset is green enough or renewable enough. Obviously it’s very hard to have a set guidance but the fact that there’s no real taxonomy or real guidance in terms of what constitutes green or renewable makes it a little bit difficult for myself and other investors.

Obviously we have been one of the pioneers for saying covered bonds need to be covered bonds. There needs to be a strict rule on why it’s a covered bond and not something else. I think the same applies if eventually you want to benefit from this green label. For it to be something issuers benefit from, there has to be quite strict rules.

We know it’s a market which is in the process of evolving as we speak. That means, like any other evolving markets, clearly we’re missing some rules of the game as we speak. But I think the rule of the game is to have some proper green programmes in place that we can lend money to in order to bring about a better environment altogether — a better set of borrowers to lend our client money to basically.

Zahn, Franklin Templeton: We have seen some selective bonds that have a step-up or step-down in coupon depending on what the issuer’s ESG score does. My big-
gest concern with that is that some of the scores that are being put about are calculated by the issuing company. I’m sure that there’s nothing untoward happening, but I think if you’re going to do that format, then a secondary party should be involved in calculating it. There’s nothing wrong with the format though.

I also think the step-ups and step-downs that we’ve seen so far in most bonds have been relatively modest. I feel that two basis points or something like that is not really a significant penalty for failing to achieve the ESG score that you were after. I don’t think it’s quite enough to make sure the management and the board are focused on the topic.

GlobalCapital: Last year, we were very concerned about the backdrop this year, but it was better than expected. How do you feel 2020 will be?

Ruhl, ESM: I’m always optimistic. I was optimistic last year and we opened this year the market on the first Monday with a €3bn seven year bond and it went quite well. I’m also optimistic for 2020. It might not be a copy of 2019 — there is a different environment — yet already we see some opportunities. At the end of 2018, the market was over-positioned for the end of QE, as we saw in the first weeks of 2019 when market participants had to close their shorts. At the moment, it feels that the market has over-positioned to the restart of the QE. The market seems to be a bit long in total but this is something that will be digested over the coming weeks.

There is investment need from the investor side. If I look specifically at the ESM, at the moment we don’t have any active programme. We don’t need fresh liquidity. All our funding needs are there to roll over maturing debt. There are the overall needs of investors. We estimate 46% of our eligible debt is in the hands of the European system of central banks. As well as other investors they have the roll-over needs so there should be stable demand for our transactions also in 2020.

GlobalCapital: The trade war is part of the story, but people seem concerned about a slowdown in global growth. What do you feel the spillover effects for the SSA market will be?

Ruhl, ESM: We haven’t been affected negatively by these global trade wars so far. If there’s any effect, it may be a positive one for the euro area. We see some global investors increasing their investments in the euro area capital markets so central banks are shifting reserves to the euro, which is a very good signal. It shows that there’s a lot of trust in the euro and the euro area.

From this perspective we haven’t seen any negative impact on the capital market in Europe so far.

Weyhausen-Brinkmann, KfW: We see the trade war this year, there have been points of high volatility in the market; just one single tweet can move rates up and down quite significantly, which is a problem if you’re in the primary market. In dollars, we usually have this two day approach; going out to the US, then Asia and Europe and pricing in the US hours. This volatility can be quite challenging, so on a smaller transaction more recently we’ve actually switched to an intra-day execution to reduce the amount of time we’re actually out in the market. But I think to reach investors across all regions we have to live with a two day execution and the increased volatility.

Zahn, Franklin Templeton: I think in general SSAs are well-positioned for the environments we discussed: slower growth, political volatility etc. I don’t think that will come from Europe this year but it might come from somewhere else. In that environment, issuers you know will pay you back and give you a little bit of extra spread are attractive, and they will benefit from that safe reputation if we do get a risk-off environment. Maybe they’ll underperform sovereigns, but not by much.

GlobalCapital: Do you have plans to issue bonds benchmarked against ESTR?

Bendiek, NRW: We’re certainly looking at it. We’re not quite in a position to do it right now. Some back-office issues need to be resolved and we would like to see the market develop a little bit further. In general, we don’t like to be the pioneers; we would leave that to the bigger issuers such as KfW and EIB.

But it is definitely an interesting market; we always have a significant need for short-term financing. It’s about shaping our maturity profile. Much as we like duration, we cannot and do not want to do all our issuance at the ultra-long end of the curve. Otherwise our funding programme would shrink to a size which is not appropriate, in our view.
So we need the short tenors and €STR would be a form that lends itself to shorter tenors. If the market is constructive and back-office issues are settled we will certainly look at it more closely.

**GlobalCapital:** As one of only two benchmark €STR issuers, do you have any advice for issuers following in your footsteps, Otto?

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**Sami Gotrane**

**SFIL**

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**Weyhausen-Brinkmann, KfW:** Yes, we had a couple of things to be sorted out before we were able to issue as well. For us, it was a contribution to the development of the €STR market. Sonia is much further developed so far, but €STR will also develop and I think it’s important to bring products out that investors can invest in and that can be traded. I’m pretty sure in 2020 we will see other issuance.

**GlobalCapital:** We aren’t seeing much floater issuance. Is there a problem with demand for €STR, given we expect rates to remain low?

**Gotrane, SFIL:** We have only done one floating transaction; it was three years ago and for the time being we have no interest in doing more. On the €STR side it’s very interesting. What we will do on our side is monitor the development of the derivative market using €STR, because we want to do that at the same time.

We think that if we can move our derivatives to €STR we could potentially also contemplate doing an issuance in that format to make sure that we will have the development at the same time of the cash market and the derivative market.

**GlobalCapital:** New technologies for primary market bond issuance are often tested out in the SSA market. There have been promises of innovations for years, but we seem to actually be getting close with some of these ideas. What initiatives are you most excited about?

**Ruhl, ESM:** We’re constantly looking at new technology and, as an issuer, new technology in the primary markets is particularly interesting. It’s not about just having something new and different. It should serve the needs of the issuers and all market participants.

What is important for a public sector issuer? Reliability, trustworthiness, safety and efficiency. Here we think the European distribution of debt instruments service, this initiative — in short EDDI — of the European Central Bank is an opportunity of the market and this is why we think it’s important.

It is a front-to-back, straight-through processing system that will make the whole transaction more efficient, reduce operational risks and allow for settlement in central bank money. That is particularly important for us, specifically because of our role as a crisis resolution mechanism.

It will be provided by the European Central Bank. This is a trusted institution so it will be reliable and available to everyone. Data will be managed in a very careful way. From this perspective it satisfies the key public issuer needs: reliability, trustworthiness, safety and efficiency. Finally, it reduces the execution risk.

One of the most important advantages of EDDI for investors and banks is that it keeps the current structure. The roles and responsibilities don’t need to be changed because the current structure works quite well. The ‘how’ can be improved, not the what, where and when.

EDDI brings the current process on to a technical state-of-the-art level. It increases and improves the communication with investors and increases the transparency and the public governance, which is also very important. We’re talking here about infrastructure and it’s important that this is managed in a neutral way and not driven by commercial objectives.

So ultimately EDDI offers the opportunity for a higher degree of standardisation and the strengthening of the euro area capital market and therefore finally it supports the objective of a capital market union.

The ECB has now to decide if they want to go ahead with this initiative. We expect that there might be an update in the first quarter of 2020.

**Yvernault, Fidelity:** I think this initiative is only positive. We haven’t had transparency about liquidity, and what is available to buy. It’s very hard for us to test any systematic rules on new issue and bond purchase unless they have been purchased, because otherwise they’re not in the security database.

Any transparency and electronic communication of all this information, which we can quickly pass through what is an increasingly complex network of rules and conditions for every customised mandate that we are given to manage is positive from the investor’s point of view.

It can only mean that we can participate in more deals rather than fewer deals going forward.

It also means that, as the head of systematic investment at Fidelity, I need to create a rebalancing set of transactions that are liquid and can be implemented in the market. So any additional information in terms of what is available, where I can source it, who is the market-maker or who has got positioning is positive for me.

**Hertlein, LBBW:** I agree with that notion as well. From the perspective of everyone around the table — investors, issuers and banks — technical advancement in how we process both the front-office issuance and investments in bonds as well as back-office, post-trade processes (blockchain is the technology that’s been discussed there) can only be beneficial to everyone involved.

Yes, even before the EDDI initiative grew in importance on the commercial side, organisations have been working to come up with ideas and platforms or market standards to improve those processes.

So it remains work in progress and let’s see in 2020 where we’re going with the ECB initiative and the private sector initiatives.
Gotrone, SFIL: We believe that blockchain could be something that could help on the private placement side for us as an issuer. It will require us to fix various problems and overcome certain challenges internally to manage, but it could be useful for private placements.

Global Capital: On the topic of private placements, how has 2019 been? Have you noticed changes in the patterns of demand for MTNs and private placements?

Gotrone, SFIL: It was a difficult year for us. The feedback we had from our dealers was that a lot of usual buyers of private placements prefer public issuance, perhaps for accounting or for regulatory reasons. We’ve seen a major shift.

This year, we printed just €400m, well below the average of €800m that we usually print. I don’t know if it could change next year, but it’s certainly something we’ve noticed and is really challenging and tough on our side.

Bendiek, NRW: We see the same development, especially from the insurance community, moving more into public bonds rather than private placements. We used to have a decent Schuldschein business and we still have some business there but it’s not very large.

What we do see in terms of structured products is demand for very long tenors, sometimes longer than we can accommodate. Although we like the long tenors, we need to hedge the risks and we can only use derivatives with a tenor of up to 50 years. There was demand for even longer structured products, which we could not issue.

Weyhausen-Brinkmann, KfW: On our side, actually 2019 was more positive in terms of structured and private placements than 2018. Just recently, we were able to do some larger callable bonds. This is really market-dependent. When the yield curve is moving and volatility high, structured products are available, so we have to react quite quickly but we’re happy, as I said, with these debt products.

In the dollar market, we were able to print a couple of private fixed-rate bonds. CNH was, as a niche currency, outstanding for us. We have raised more than €830m equivalent in that market, which was an absolute record for us.

The only thing which suffered a little bit on our side was the yen market, in particular Uridashi, which were clearly below the volume of 2018.

Hertlein, LBBW: We at LBBW have been fortunate again in the past year, 2019, to help facilitate numerous transactions for the issuers at the table here present — and we’ll work on continuing to do that in the future.

Specifically in the euro market, obviously the continuing very low or at times negative rates make things difficult. As we discussed earlier, when the entire swap curve is in negative territory, that certainly does not help demand among investors. Also including the other important insurance and pension community from Germany, when 60 years outright is negative you won’t see a bespoke transaction going through the market at that point.

Bendiek, NRW: At one point we sold a ticket for a 100 year bullet transaction with a fixed coupon of 0.85%. That’s how low yields got at one point.

Global Capital: What do you see as the big risks this year, either for the primary market, or macro-economically?

Hertlein, LBBW: Disappointment in the outcome of the trade war or the US-China negotiations that are ongoing. I think a lot of positive outcome is priced in so that would be a risk factor.

Bendiek, NRW: Brexit still is a risk. From my understanding, even if the elections lead to a stable majority there will be another timeline and another running down the clock until the end of 2020 in order to reach a new trade agreement, which is a short time frame.

So maybe some market participants are too complacent right now about the risks related to Brexit. I’m not saying that the SSA issuers are heavily affected, not the ones from Germany, anyway, but it could certainly distort the market to a certain degree.

Zahn, Franklin Templeton: I think the other big risk is US politics. I think that’s going to be something that’s going to dominate the headlines for a lot of 2020. Depending on who gets Democrat nomination, I think that’s something that could move bond markets quite significantly.

I think the other one that is a risk is obviously Brexit but given the new government, whichever one it is, they all have very big spending plans and nobody’s planning to rein in spending.

So I just question whether or not we’re going to see a big fiscal splurge around the world. That could push up long end yields much more than we expect. But I think that’s one of the other risks that people aren’t really focused on. They just thinking, ‘we’re going to be down here for a long time’.

Ruhl, ESM: Of course there are the aforementioned risks but I’d like to focus on the opportunities. There’s always a flip-side of the coin and the flip-side of the risk is the opportunity. The opportunity is now for Europe to be the safe haven. We have seen, as I mentioned, shifts of investments to Europe and the euro area.

The opportunity for us is that this continues. Within Europe or within the euro area, the situation is very positive. The euro and the euro area are at a 10 year high regarding support from citizens in Europe. We have a new Commission with new objectives so the crisis is behind us. The new Commission can focus on the future.

Climate and digitalisation are core topics here — there are a lot of opportunities ahead of us and we should take them. GC
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LBBW – serving our clients with excellence.

State of Saxony-Anhalt
Joint Lead Manager
EUR 1,000,000,000
0.75% January 2029
January 2019

Joint Lender #56
Joint Lead Manager
EUR 1,000,000,000
0.625% February 2029
February 2019

State of North Rhine-Westphalia
Joint Lead Manager
EUR 1,760,000,000
+ Initial 290,000,000
2.15% March 2119
March 2019

The Flemish Community
Joint Lead Manager
EUR 750,000,000
1.5% April 2044
April 2019

Region Wallonie Belgium
Joint Lead Manager
EUR 500,000,000
0.25% May 2026
EUR 500,000,000
1.25% May 2034
April 2019

SFL
Joint Lead Manager
EUR 1,000,000,000
0% May 2024
May 2019

KfW
Kreditanstalt fuer Wiederaufbau
Joint Lead Manager
EUR 5,000,000,000
0% July 2024
June 2019

State of Lower Saxony
Joint Lead Manager
EUR 1,000,000,000
0% July 2026
July 2019

State of North Rhine-Westphalia
Joint Lead Manager
EUR 1,500,000,000
0.8% July 2049
July 2019

Joint Lender #57
Joint Lead Manager
EUR 1,000,000,000
0% September 2029
September 2019

KfSF
Joint Lead Manager
EUR 3,000,000,000
0% July 2023
October 2019

IsDB
IsDB Trust Services Ltd
Joint Lead Manager
EUR 1,000,000,000
0.037% December 2024
November 2019

Breaking new ground