

GlobalCapital

SSA Issuers Roundtable

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Getting ahead of funding risk and the digital frontier

The SSA market has been embroiled in different themes this year, from front-loading issuance in an effort to get ahead of possible political and interest rate volatility, to taking its usual place as the crucible of bond market innovation — this year through greater exploration of distributed ledger technology and digital bond issuance, and the latest variations in ESG financing.

We brought together some of the highest profile issuers in the market with representation from the buy-side and investment banks in Frankfurt in mid-September to discuss not just these developments but also what one participant called “the elephant in the room.”

The biggest borrower on the block, if not the blockchain, is the bloc itself: the European Union. Front and centre of much of what goes on in the SSA bond market, participants including the European Commission also debated the latest twist in issuer’s quest to be seen as a sovereign issuer and the growth of Europe’s capital markets.



GlobalCapital: Issuance has resumed with full vigour since mid-August. What have the panellists made of both primary and secondary markets since then.

Marco Zimmermann, EIB: In euro SSA markets, the persistent tightening of swaps spreads has put SSA valuations on a steady widening path. While in the beginning of 2024, historically wide valuations were quite appealing to investors,

we are now seeing that with swaps spreads continuing to grind tighter, and possibly quite a bit further than expected, investors have become more cautious.

In dollar SSA markets, tighter swap spreads are a theme as well, although in this market investors have remained consistently receptive to new issues, even though valuations versus US Treasuries remain tight.

Anne Flori, Council of Europe Development Bank (CEB): We are

quite well advanced in our funding programme. That’s the theme this year. Everybody has been front-loading, be they investors or issuers. That has made investors more selective, and they have been requesting more generous new issue premiums, especially in the euro market.

Investors — and this started earlier with the end of QE — are also increasingly differentiating between credits. They no longer look at all supras or all agencies from

one jurisdiction in one basket, but they look at each credit on its own in deciding whether to get involved or not. And we notice this in most markets.

Everybody, investors and issuers, is very much advanced in their funding and investments and wants to avoid not only the potential volatility around the US elections but also the current French political situation, this triggering a difficult position to be in — at least in the euro market — for French issuers given the OAT volatility.

GlobalCapital: Jong Woo, the World Bank did something like 20% of its annual funding target in one day recently.

Jong Woo Nam, World Bank: Yes, it was close to that amount. Our fiscal year runs from July to June, so unlike other issuers which use the calendar year to do their funding programme, no matter how much we front-loaded at the beginning of the year, our funding programme resets to zero in July. We don't have the luxury of front-loading and being a bit quieter towards the end of the year.

We decided to come with multiple trades on the same day in August because we'd been hearing that, while primary issuance is usually slow during the summer months, there were decent two-way flows in the secondary market. That gave us the confidence to bring a two and a 10 year tranche in dollars and a seven year euro on the same day.

We also did a few private placements and raised almost \$10bn in one day.

The market has been quite receptive, especially in dollars. At the beginning of the year, people were saying that we could see some fatigue at some point because of the amount of supply. But I think that, at least for the dollar market, it still feels quite robust and strong.

August was much more heavily loaded with primary issuance, while September was relatively slow in both currencies.

Marjan Divjak, Slovenia: The level of rates and the shape of the curve is evolving, aligning to expectations of central banks cutting rates and, to an extent, underlying curves are steepening. The curve could sell off from here until the end of the year and into 2025.

So, we are facing a period driven by this sentiment that we still haven't found firm ground in terms of economic performance and the expectations of rate cuts.

Things can reverse and this should have implications for our views on how to proceed with funding programme execution until the year-end and into the new year.

This market backdrop is constructive, we've heard about spread tightening bias and the level of rates is currently very favourable from the funding perspective. But things can change also in the context of the expectations of the US elections and other potentially less favourable or more adverse

political developments here in Europe.

Davide Iacovoni, Italy: Since the market resumed after the summer break, we have seen a very positive market backdrop. We have seen a very receptive primary market, with investors with a lot of ability and inclination to be engaged in several transactions. Even the liquidity situation in the secondary market looks decent.

This is despite a lot of factors that should play the other way, like geopolitical uncertainty. We are still in the midst of two bad conflicts in or around Europe and there is also still uncertainty regarding the next steps in the ECB's monetary policy.

Overall, one should be quite positive about what's going on in the market. From our perspective, we carried out a very successful transaction in the 30 year segment in September, which is a difficult segment overall with a lot of duration risk and a lot of volatility. Despite that, we saw strong demand and a lot of new investors.

Regarding front-loading, we did have that in the first and second quarters. This is not because we bet on how rates will evolve but because we could profit from good demand, so we decided to issue a little bit more than we planned.

And then we moved down a little bit in terms of issuance in Q3, also because there was quite large volatility, especially at the end of June after the European elections and the call for new national

Roundtable participants



Jong Woo Nam , Senior Financial Officer, Treasury, World Bank	<i>Moderator:</i> Ralph Sinclair , London Bureau Chief, <i>GlobalCapital</i>	Anne Flori , Senior Funding Officer, Council of Europe Development Bank	Marco Zimmermann , Global Head of Treasury and Capital Markets, European Investment Bank (EIB)	Jörg Warncke , Head of Rates Developed Markets, Union Investment	Jörg Graupner , Senior Funding Manager, Treasury, KfW	Siegfried Ruhl , Hors Classe Adviser, Directorate General for Budget, European Commission	Bernd Loder , Head of SSA DCM, DZ BANK	Marjan Divjak , Director-General, Treasury Directorate, Ministry of Finance, Slovenia	Davide Iacovoni , Director General — Public Debt, Treasury Department, Ministry of Economy and Finance, Italy
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election in France. This caused some volatility that affected the Italian market, so we can say that on an ex-post basis we took advantage of the front-loading that we had been doing in Q1 and Q2.

At the beginning of this year there was a belief that rates would have been much lower than they are now. They are going down but there was an expectation that the speed of reduction would have been much quicker. It has not really materialised, so front-loading was not so bad also from a pure cost perspective.

Jörg Graupner, KfW: I just want to take the opportunity to ask you a question on Italy because you have just had, I think, one of the biggest order books ever last week. How would you describe the huge order books, huge demand or the composition of the order because my observation is that we have much smaller order books right now?

Iacovoni, Italy: Probably one of the driving forces was the expectation that sooner or later the downward rate movement will actually arrive, so you feel like this level of rates is still too interesting not to be involved in such a transaction. This was quite a driving force.

The other thing was probably this transaction was expected for quite a long time. There was a lot of expectation it could be in the market even before summer, so it was kind of an accumulation of interest, but, to be honest, it went far beyond our expectations.

I can tell you the quality was really high. We had more than 10% of the transaction bought by

Nordic or Scandi accounts, which is not common for us as they normally participate for 3% or 4%. On the other side, in terms of other investors, we had around 30% go to official institutions, central banks, insurance companies and pension funds — again this is a very large share for us. I can tell you that, of course, there was interest from hedge funds, but the underlying quality behind that was really, really strong.

So I think on one side it's rate expectations, on the other, there is some growing confidence on Italy right now for several reasons which we can discuss later if you want. The combination of these elements played quite a role, but as I said, it really went far beyond our expectations.

Graupner, KfW: I just want to say something about our own transactions. Our observation was that we had a much smaller order book, compared with the orderbooks during the period of QE. Potentially this is also driven by the price at which we're actually trading. Of course, this is always a bit tighter here if we're looking at levels. But I don't want to stress the size of the orderbooks, it's more a question of quality instead of quantity. We have seen very well absorbed new issues with very high quality orders in the book.

But it's important again I think, and this is also a given for some of our participants around the table, that we have very strong fair value, a very strong secondary market level, reliable quotations. This is proven. This is always the case here for dollar transactions but also for euro transactions.

The huge supply that we have seen since the summer break has also influenced the secondary market's performance. This is less of a given than previously maybe, but it is huge supply that puts investors in position to choose the right product and there is less outperformance on the secondary market.

GlobalCapital: Siegfried, the EU waited a bit longer than the others to restart benchmark issuance this autumn, but it's been a great success. What are your observations of the market?

Siegfried Ruhl, European Commission: The timing of our transactions this year is similar to previous years: we started after the summer break with a €5bn auction of a five year and a 10 year bond, of which we finally allocated €4.5bn. It went pretty well. As part of our general issuance strategy, we announce the dates of the transactions in our six-monthly funding plans, along with the total volume for the period. We keep some flexibility on a transaction-by-transaction basis, choosing the bonds and fixing the volume closer to the execution of the transaction.

But it's not an approach where we opportunistically take advantage of specific situations in the market. This is mainly due to the issuance sizes we have to execute. It's €140bn this year. Such large amounts require us to be frequently active in the market and to act with a more strategic, long-term view.

We did €75bn in the first half of 2024, and announced a €65bn target for the second. When planning our transactions, we take into account the expected market absorption capacity, which is stronger in the first half of the year, when we have almost a full six-month window. Absorption capacity is normally lower in the second half of the year because August and December are traditionally less active.

Following the first auction after summer, we had our first syndicated transaction last week and issued €10 bn via a new 7-year and a tap of our 2050 green bond. Considering the transaction Davide mentioned, Italy's €8bn 30-year bond, took place on the same day as our €5bn tap of the 2050 green bond, we see that the European capital markets are strong. The absorption capacity

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Anne Flori, CEB



is impressive at the moment, especially at the long end.

You saw around €20bn issued in the euro market last week, thereof €13bn in two long-end bonds, and both trades went well and performed well in the secondary market, so the market is in a good shape and is clearly able to absorb supply.

This gives us confidence for the rest of the year. It shows that despite political risks and some speculation about inflation data following the ECB and Fed rate discussions, investors trust and have confidence in the European capital markets and see it as an anchor of stability in which they are happy to invest. That's also confirmed by the feedback we received during our recent Asian roadshows.

GlobalCapital: Jörg, you're from the other side of the fence, the buy side. What's your view of the dynamic between the primary and secondary markets for SSA bonds?

Jörg Warncke, Union Investment:

We noticed, of course, that spreads have widened versus swaps at the long end because of the front-loading of issuance this year. This might be a situation to take advantage of for the rest of the year. Generally speaking, the SSA market is heavily influenced by EU supply. And this will be the case next year, too. We examined a steady increase in the new issue premium over the course of this year, so it was attractive to focus on the primary market. There was some repricing of the secondary market. So the primary market lead the secondary market and going forward we need to see if there will be sufficient demand for EU paper. The Dutch pension reform could lead to reduced demand for long paper though and it is my understanding, that there will be even more EU issuance next year.

Also, there are lots of other arguments for further of core yield curves, so we are not going into the long end very forcefully, only for relative value reasons really. In the short end, I think forwards have gone a bit too low. My opinion about the future really is that inflation will not be in the way of yield cuts, but growth in the eurozone might pick up a bit and the US is much better than what the latest data on labour markets might have suggested.

"The level of rates and the shape of the curve is evolving, aligning to expectations of central banks cutting rates and, to an extent, underlying curves are steepening"

Marjan Divjak, Ministry of Finance, Slovenia



So, we have the scenario of a soft landing and with that in mind, you can hardly justify the levels on the forwards, so yields might end up a little bit higher than what's priced in and for that reason, we are not strong buyers of long dated bonds right now.

Also, we have new, very popular products, termed mutual funds, with a lot of inflow every day but they are termed at seven years and below — nothing beyond seven years. For that reason we have no natural demand for the long end.

GlobalCapital: Bernd, what about the SSA asset class overall? A lot of people have told us that demand in euros is quite a lot stodgier and they were going to do dollar deals even if the prices weren't necessarily better.

Bernd Loder, DZ BANK: I agree. First of all, the market was remarkably stable, so everything was working. But to some extent, the euro market was a little bit crowded. With Bund-swap-spreads tightening and volatility at the short end, the majority of issuers were very much focused on the seven to 10 year maturity bracket. The dollar market for Europe-based issuers is also a little bit more expensive, so basically, they issue in euros as well.

Everyone is looking at the [US presidential election on] November 5 and thinks investors are closing down their books, which I don't think is the case, but you only have a few weeks until you have to be done with your funding, of course. The market is stable enough to absorb everything, but it comes at

a higher cost. And the performance of recently issued bonds was not so great after summer break.

So basically, I agree with what Jörg said. The order books on average, apart from the EU and Italy, are, on average, a lot smaller compared to the beginning of the year, but the quality is a little bit better. For bank treasuries, it's great to add on as SSA bonds are cheaper against swaps. For asset managers it's a little bit more difficult.

But as Anne was saying, the market now is fantastic as differentiation and relative value considerations are back again. October 2023 was the turning point. With yields rising, investors got a lot of cash inflows so that's money to spend and it is a very good time to focus on the SSA space again.

GlobalCapital: In the run-up to the November 5 election in the US, do you think the market is going to be more open than many had anticipated earlier in the year?

Loder, DZ BANK: On geopolitical shocks, there really was no game changer. I think it's open until the end of November. Basically, the market is structurally supported by €130bn-€140bn of redemptions are coming up, so I am positive there is a structural demand.

Zimmermann, EIB: For the EIB, front-loading as a matter of prudence is the standard *modus operandi*, as is the case for many SSAs.

2024 is hence comparable to what we did in previous years. Pre-summer, we had 75% on the books, now we have over 85%,



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Davide Iacovoni, Ministry of Economy and Finance, Italy

with a funding authorisation of up to €65bn. Hence, I would not be surprised to see our name in the market again. The euro and dollar are core markets for us, but we’re also looking at other currencies.

Flori, CEB: I am not disclosing any secrets here, but I don’t think we are going to be in the market with another benchmark given where we are in our funding. We ended up being front-loaded versus other years but that was because conditions were very conducive and demand stayed strong all the way to the summer, hence why we printed larger benchmarks than the usual, above €1bn.

We are more exclusive, if that’s the right word, so we can afford to be quite nimble and that’s probably what we are going to do until year-end for the rest of the funding we have to do. We are going to answer some specific investor demand as well.

But in a way, I’d say we’re lucky enough to be rather immune from all the geopolitical tensions, be it the French situation — we don’t talk about it that much, but I think it’s an issue — or the US elections.

GlobalCapital: Jörg, are you at a similar stage to the EIB?

Graupner, KfW: Absolutely. I want to go back to what Bernd said. If I understood you correctly, you mentioned that the market will be open until the end of November. My observation, independent from the US election, is that isn’t what we have seen in recent years. More or less, the end of October was when

many of the issuers were done with funding activities, besides of course the EU. The bigger issuers were more or less done and I got the impression that the market was not really very receptive in the months after October. I would love that you will be correct, but it is not my expectation.

More or less it’s the same situation for KfW as the EIB, but we have done right now €67bn as of today. We have a funding target of €80bn, so we expect some more bigger transactions in benchmark style, in euros and potentially in dollars, if the market is attractive enough.

Divjak, Slovenia: We normally start early in the year. This was also the case this year. The first week of January is the Bank of Slovenia’s standard issuance window, so with this we normally fulfil quite a significant part of our funding needs for the year.

We reopened the 10-year benchmark bond, and we will do it again in the coming weeks. The situation for the Republic of Slovenia in the capital markets is good.

But the thing is, in terms of the figure for our headline funding needs, we are well behind our schedule, given the fact that we are experiencing a better than expected budget performance and we have some legacy cash reserves, and so on and so forth.

That is why this year, as in previous years, we are consciously meeting our financing needs in terms of liquidity reserves and the general government debt level at the end of the year as a percentage of GDP, which we have set as our target.

So, we still have some funding to do this year. The strategy is to maintain as much flexibility as possible as far as funding programme execution is concerned. This is also the case for this year and for the next years. In the medium term at least, this flexibility will reduce to an extent. As to your question, yes, we are always ready to execute funding.

Iacovoni, Italy: I have to say we are at quite an advanced stage of our programme so far, including this 30 year transaction I was referring to before. Our funding plan is more or less completed for three quarters, and in terms of syndications, we are done for the year.

We will be focusing a lot in the last months of the year on auctions and with quantitative tightening, we have seen a little bit of a wider spread in relative value between between off and on the run bonds in our market, and so in our issuance we will probably keep a little bit of a stronger focus on off the run bonds to profit from this situation.

The other area we will be focusing on is of course liability management transactions. Normally when we get to the end of the year, we try to help smooth the redemption profile of the following years by buying back bonds and reopening other bonds in exchange or simple buy-backs, depending, of course, on the available cash balance.

And the other area where we will be focusing is probably on some retail bonds. We already did quite a lot of activity this year, and we are looking at the market and seeing if there is the room for potentially another transaction there in the next weeks. But this is still under evaluation because our cash borrowing requirement was expected to be slightly larger this year. With the available tax revenue data, the situation has improved, so we need to appraise exactly if there is room for a retail transaction. We are still in the evaluation process.

For next year, I think there will be again some focus on the long end for sure, with some bonds that need to be launched, new lines, new benchmarks, and I would say not just in the conventional space but also in the inflation-linked space.

GlobalCapital: The consensus expectation is that central banks are going to keep cutting rates.

What does the panel think the demand will be for long-dated bonds?

Warncke, Union Investment: I said earlier that, for several reasons, my expectation is that curves are going to steepen that bit more. One of the big reasons is supply and quantitative tightening. I think the government supply next year, which comes on top of what we saw this year, will be in the order of €65bn. So that's one argument for a steeper curve.

Another one is Draghi's plan of €800bn of investments in the eurozone for competition. This is not imminent of course, but it opens the fantasy for a lot more supply in the future. And then looking at the core yield curve and the flatness of it right now compared to history, there is not enough term premium in it.

So, on the basis of value, there are no good arguments for an asset manager to take advantage of long-dated bonds. It might be a different thing for a liability-driven investor, but that's not what we are.

And then not from my perspective but from a general perspective, I would say there's one very big reason for this flat yield curve right now, which is too flat actually. That is liquidity, the oversupply of liquidity from the past. It's still huge and this money has to be put somewhere. That is, in my opinion, the main reason for these international flat curves.

With quantitative tightening and the reach for cutting central bank balance sheets, this oversupply of liquidity must go away over time. And then at a certain point, it should also increase term premium, in my opinion.

And then there's still another argument and that is the inflation risk premium. Right now, everybody seems to agree that inflation is falling. But what are falling are goods prices, not service prices. They are pretty stubborn. So, if goods prices recover and oil prices rise, we are in a different situation, but this is not reflected in the inflation risk premium at all. I would say the inflation risk premium is negative right now, so with that, the long end is quite expensive, in my opinion.

GlobalCapital: Bernd, is that an outlook you see reflected

across the investor base and how do you see demand shifting for long-dated debt?

Loder, DZ BANK: It was just Italy and the EU populating the long end and therefore the investor base needed to buy long dated bonds had to buy into this. Another point why it was so successful is that the credit curve for Italy and the EU was quite steep, a little bit tighter now but it's still a good yielding investment, so I think this is part of the reason why it was so successful.

For many other issuers the steep credit curve makes it hard to justify issuing long and ultra-long dated debt.

Jong Woo Nam, World Bank:

We also had a flat yield curve during the pandemic but saw an increase in demand for duration from many investors. During these two to three years, we took advantage of market conditions and increased the duration of our borrowing portfolio to smoothen our redemption profile.

I think the demand kind of softened a bit lately with the uncertainties over monetary policy and central bank decisions and geopolitical events, but it could come back. But as everybody mentioned, it's still investor-specific, depending on what they're looking for. From our perspective, we have a natural need for duration because the loans we give to our borrowers are quite long-dated.

GlobalCapital: Siegfried, the EU is not an opportunistic

issuer and you have structural demand for long-dated bonds. As demand shifts around, how do you view the rest of the year in terms of how you will approach which bond you tap or where you decide to issue new debt?

Ruhl, European Commission:

We may appear a bit boring, but on the other hand, this makes us very predictable and, therefore, reliable. We will continue with our strategy to be present on all parts of the curve. Market participants know that our issuances have, in the past, had an average duration in the area of 13 years. We will continue with this approach. We see a strong demand for long-end bonds — in particular for green bonds. Besides some sovereign green bonds, the long-end supply of green bonds is limited as the development banks usually have shorter maturities here. Investors are happy to have the opportunity to invest in our longer-dated NGEU Green Bonds.

In keeping a regular presence on all parts of the curve, our focus on the long end will be to increase the outstanding volume of bonds while in shorter maturities we will be bringing new bonds as well — we actually did this last week with the new seven year bond. At the long end, our curve already has quite a number of bonds, but they need more volume to reach our final target of around €20bn. We don't expect any new long-end bonds, but we will tap the existing ones. With this we should be able to get the remaining roughly €37bn, which we need until the end of the year.

"It's important... that we have very strong fair value, a very strong secondary market level, reliable quotations"

Jorg Graupner, KfW



“... the European capital markets are strong. The absorption capacity is impressive...”

Siegfried Ruhl, European Commission



GlobalCapital: One of the things that has been going on in the background is EU's the campaign to be seen as a sovereign issuer. Do you think you are winning people over to that argument?

Ruhl, European Commission: The idea is for EU bonds to be treated like sovereign bonds; like a safe asset. It's a win-win situation in which our investors and we, as the issuer, can benefit. The nature of the EU bond market has changed significantly over the last four years. We have grown from €50bn outstanding at the end of 2019 to now roughly €550bn outstanding. Our market is highly liquid, we are developing the ecosystem for EU bonds on a continuous basis. The last achievement was the implementation of quoting arrangements in November last year. This pushed the secondary market liquidity of EU Bonds even further; in January around €120bn of EU bonds were traded in the secondary market. And the next step, launching our repo facility, is right ahead of us.

So it's a super deep, liquid market, and the EU is triple-A rated. We have been talking for the last 10-15 years about the need for more liquid safe assets in European capital markets, and EU bonds are a new, large scale safe asset. But it's one thing to provide such an asset and another thing for markets to treat it like such an asset. We do what we can as an issuer, and our primary dealers are supporting us here.

However, market participants also need to take a few steps. A safe asset can only fulfil the role of a safe asset if it is accessible to as wide as

possible a range of investors. And this is where EU bonds' treatment like a sovereign bond and inclusion in sovereign bond indices is key. The management of many assets is linked to sovereign bond indices, investment policies are oriented toward sovereign bond indices. Some passively managed money is linked to sovereign bond indices. Those portfolios can't buy us at all. Actively managed portfolios can buy us but only within limits, and it's a demand to generate alpha and not a strategic, structural demand.

The market for EU Bonds has, as I mentioned, developed like a sovereign bond market, and is now even more liquid than most of the European sovereign bond markets. The EU as an entity is something between an SSA issuer and a sovereign bond issuer. We have some of the rights of a sovereign because member states transferred these rights to us in the EU Treaties. I just came back from Asia, where we were asked by a central bank: why should we see you as a sovereign? And we could give an easy answer: because the EU is negotiating a free trade agreement with your country and not 27 single countries. That's just one example.

We are a member of the WTO, we have the right to implement and enforce the law, just to mention a few more points in which we are comparable to a sovereign.

So, if the market now makes this step to treat EU bonds more like sovereign bonds, the whole market will benefit. The European capital markets will become more attractive. Investors will have another investment alternative which

helps them diversify their portfolios, to diversify counterparty risk in their portfolio and to diversify currency risk by using the opportunity to invest more in the euro, using EU bonds as a liquid and safe asset. The next step will be implementing our repo facility. This will help to strengthen the role of EU bonds as liquid and safe collateral.

The weight of these considerations means it's really only a question of time. We will grow over the upcoming years to almost €1tr of outstanding debt. We are already the fifth largest issuer in the European capital markets. We will maintain this position for the upcoming decade, and from our perspective, it's a question of time. Markets will go in the direction of treating the EU more like a sovereign issuer.

GlobalCapital: Two index providers — MSCI and ICE — recently turned down the opportunity to have the EU in their sovereign bond indices. What conclusion did you draw from that?

Ruhl, European Commission: Well, the feedback those index providers gave was that there was no clear picture in their market consultations. This means, on the one hand, that there was support but it also means that some investors were reluctant. A consultation is not a vote. Including EU Bonds in sovereign indices is a major change of index rules and the threshold for support is very high. We don't know further details but if index providers are going to change index composition or rules, they want to have very strong support from the market; close to consensus.

So, our positive takeaway is that there is support. We also see that we have to do more, and this is what we are doing. We are developing our market further and we are explaining the role of the EU as an issuer. This is what is needed to convince market participants about the benefits for them and that the EU will play a solid, major, and important role in the long run in the capital markets.

Graupner, KfW: From a SSA issuer point of view I would say it's a challenging situation to be in the same camp as the EU, because the EU brings every year a huge net supply into the market, comparable

with some bigger sovereigns. An index inclusion would generate demand, but that would of course be at the expense of others that are currently in the index.

Ruhl, European Commission: I fully understand the perspective of the portfolio managers who can use EU bonds to outperform the benchmark as long as they are not part of the benchmark. I also discuss it with other fund managers, and there is also the perspective that an asset manager has a fiduciary responsibility versus the asset owner. From this perspective, the asset manager should recommend that the asset owner includes EU bonds in the benchmark. EU bonds are triple-A rated and are attractive yielding assets, meaning that it is in the interest of the asset owner to make them a strategic part of the bond portfolio.

Graupner, KfW: That's the aim and you could suggest to the customer, the asset owner, to include an SSA benchmark in the strategic goal of the fund.

Ruhl, European Commission: The ICE took the first step by creating new indices combining government bonds and EU bonds, so asset owners and asset managers can now decide if they want to switch the benchmark. And each asset manager and asset owner can decide to deviate from a standard index and customise it.

Warncke, Union Investment: Our case is that SSAs are not in the benchmarks and, in many cases, we don't use SSA benchmarks for our funds as benchmarks. As you said earlier, SSAs and also EU bonds are a substitute for something else. We are happy to have the substitutes because sometimes we don't agree with the budgetary plans of other countries, so then we need something where we can fill that gap, so we make use of SSAs. For that reason, SSAs make up a big share of our funds, even though they are not on the benchmark and that's perfectly alright.

GlobalCapital: Davide, as a sovereign issuer, would you welcome the EU into a sovereign bond index?

Iacovoni, Italy: Yes. I think it is important to get to this conclusion. I completely agree with what

"We examined a steady increase in the new issue premium over the course of this year, so it was attractive to focus on the primary market"

Jorg Warncke, Union Investment



Siegfried was saying. I think it is beneficial for all countries in Europe to have a safe, very liquid asset, and if they manage to achieve this role, it will be a crucial moment, in our opinion, for Europe because you will have a new risk-free curve and that would really be representative of the credit of the EU as such, to price all the other assets with respect to that.

So it is extremely important and the actions that have been put in place by our colleagues at the Commission are going in the right way. In my opinion, we probably need a bit more time but the index providers will have to recognise the efforts. I agree that liquidity of the EU bonds is definitely higher than many other sovereigns. Of course, it is not higher than Italy but this is due the size of our debt and a very long lasting commitment focused on liquidity of the secondary market. But definitely this is something that is already good and in my opinion it will improve, so I completely agree with the efforts and the direction that our colleagues took.

Divjak, Slovenia: I couldn't agree more with what Davide said and what actually was said before. We would very much welcome EU being included in different sovereign indices.

What the implications would be are that the spreads of EU bonds would tighten. This is my expectation and this should have also very positive implications for other issuers, including Slovenia.

GlobalCapital: Another aspect for the whole SSA market of the EU's enlarged programme

of the last couple of years has been how to position one's own issuance programme in response. Anne, as one of the more exclusive borrowers in the market, how are you continuing to adapt to that? A lot of smaller issuers were mindful of trying to keep out of the market at the same time as the EU. Has that situation changed?

Flori, CEB: On our side, we fear no one really. Our funding programme is such that, as you say, we are exclusive enough to be able to not be in the market at the same time than larger issuers like the EU and we also have access to a large number of currencies to alternate. For euro benchmarks as this is the question, we can seize the window when it's the right one for us so there's no point in us going head-to-head, be it with the EIB or the EU who, given their issuance sizes, take some market focus. It could be a bit counterproductive and not the best strategy if we can avoid it, especially as we issue four benchmarks a year. Of those, two are in euros, and therefore we can afford to be flexible.

What we've done this year, and I actually mentioned this earlier already, given the scarcity of available windows and the volumes issued by the EU and other peers in H1, and also being aware that markets can be closed without much notice, is that we actually seized the demand when it was there and printed larger transactions rather than adding on a new benchmark. Therefore, we increased the size of three of our four benchmarks to over €1bn and that's also how we worked around the busy

primary markets. But otherwise, it's not such a big concern, competition is just there and it is part of the markets. We, at CEB, are somewhat distanced from the EU as the direct comparable mostly used is EIB. But in any case, we just view peers' issuance as a fact to take into account and navigate around it when picking the right window.

Zimmermann, EIB: Broadly speaking, the emergence of the EU as a super-sized borrower is a positive development for the entire SSA market.

You could argue that the size of that market has grown and also that the market got a bit more energetic.

Equally, as already mentioned, it creates its own set of challenges, in particular around issuance windows. There might be some congestion. However, I think the transparency that is provided by the EU helped the market, which has broadly adapted to the paradigm and finds a way through the more crowded market.

Graupner, KfW: I would say the same. With the EU as a more important issuer than some years ago we have to consider the various activities. However, I don't want to leave the impression that we have to hide. We have been a reliable and permanent issuer for many years. What sets us apart is that we have a healthy maturity profile, and we act as a professional bank.

Of course, the market has always viewed that, having seen the upcoming supply from a term perspective and given we are just hearing or seeing that we potentially have the same tenor planned as you, you don't want to

go head to head with the EU. We have already done a transaction last year, if I remember correctly, on the same day but with different tenors. But usually the attention is so huge on an EU transaction when you are out in the market, you don't want to be at the same time with a new issue on our side.

Ruhl, European Commission: We spoke earlier about the depth of the European capital market and its capacity to digest supply. We should not dramatise the topic of competitive supply or if issuers are going head to head. It's a matter of fact that we have the EU as a new issuer with a large supply, sovereigns as large issuers, and some larger and some more exclusive SSA issuers. And everybody has to issue the bonds. At one point it's just unavoidable that sometimes you go on the same day, it's not a big problem, it's not a big competition because the European capital markets are strong enough and deep enough. The best example was the €13bn issued in the long end in one day last week, which was properly absorbed by the market without issues.

GlobalCapital: Jong Woo, have you had to adapt your issuance strategy to work around the EU? You obviously have access to so many markets.

Jong Woo Nam, World Bank: It's definitely something that we are looking at carefully because we don't issue in euros as much as other issuers, so we don't necessarily have to be at the same time as the big euro issuers. But I think the frequent issuance by the EU has definitely

narrowed the available issuance windows. The windows are always there, it's more a matter of which clean window you want to take. In these cases, we try to avoid issuing head to head since we can always explore other markets because we issue in 20-30 different currencies, and about seven to eight core markets in public benchmark format. So, in those cases, we can look at other currencies like sterling or Aussie, Canadian dollars, and so on.

GlobalCapital: Bernd, you can perhaps speak for all the SSA issuers that are not here. How have your conversations been with them about how they approach the market around the EU now and also around when there's so much front-loading going on? Is it a concern for the smaller issuers about getting noticed?

Loder, DZ BANK: The EU is the big elephant in the room and the liquidity is as described. Now, many stakeholders in the market are looking at the EU's pricing as the curve is adjusting in real time. Not so liquid names are a little bit sticky as it takes time to adjust. So this is good news for the market and the price discovery process. We have a new, liquid curve and it really depends on each issuer if and how to navigate around it.

I see Jörg's point in a flight to quality environment to be able to enter the market at any time.

But if you think a little bit strategically it might make sense to avoid a clash with the EU and I do acknowledge issuers worry about what the EU might be doing, right or wrong. But for sure there's a lot of attention about the EU from sending out the RFP until execution day.

GlobalCapital: Jörg, do you as an investor — and obviously you don't speak for all investors — see an EU mandate appearing on the screen and find that it is all you can think about for the next 24 hours, or do you look at other deals too?

Warncke, Union Investment: Well, we are not panicking if there are two big issuers at the same time. We either stay away or just don't order so much or do the opposite. But we really appreciate the coordination that is taking place and we notice



that. We don't like this congestion, too much material coming at the same time. For that reason, spreads are widening also on the secondary market. We don't like that kind of technical volatility in spreads. So around that we are observers and take advantage whenever there is an advantage to be taken.

GlobalCapital: Let's talk about digital bonds. We've just had the ECB Trials and two of the issuers here have issued digital bonds, I think, as part of that. We've also had the first genuinely bookbuilt distributed ledger technology (DLT) bond from the Asian Infrastructure Investment Bank. Marjan, could you tell us a little bit about what your experience was of issuing digital securities for the first time?

Divjak, Slovenia: It was a great experience. We are still part of the ECB experimental project, so of course, we needed to understand these technologies more in detail. Of course, we have experts in the office on that but, as I mentioned, we needed to understand these principles better.

I personally understand much better what the benefits of this technology are and how these can really advance the capital markets in future.

GlobalCapital: What in your mind are the top three benefits? And what were the hardest parts to get done when you were doing this new issue?

Divjak, Slovenia: In this process, to be very honest with you, I can see as a benefit that when we have this network developed enough, different investors, and I have retail investors in mind here, we will be able to access the management systems and trade the tokens.

We used the bonds management system to issue the Republic of Slovenia tokenised bond on the counter blockchain. By examining the platform's functionalities, the potential advantages for both issuers and investors become clear. Currently, access is restricted to those approved by the administrator. However, once the system becomes public, anyone can join the network, and the integration of various blockchains will reveal the true benefits.



"For the EIB, front-loading as a matter of prudence is the standard modus operandi, as is the case for many SSAs"

Marco Zimmermann, EIB

Graupner, KfW: It was also a lesson learned for us doing digital transactions. We have done one transaction for €100m and another for €50m. When you ask me about the difficulties, of course, as already mentioned, the investors are not yet connected to this technology. We have done this transaction with the help of DZ Bank in this case and it has managed some topics, some targets from the investor base, what they usually have to do, but they were not directly connected to the DLT.

Technically, I don't know but we have also taken part in that issue and another one and it was a great experience. A lot of effort.

Indeed, this is a lesson learned. We have a long way to go. But some advantages that I just want to highlight here are that we have done this transaction without using a central clearer. This is, of course, a given when we are just using these DLT techniques. We also had a very much shorter period between the transaction and the settlement. We have here T+2 or T+1 and it is also possible to do this transaction at T+0. This is a very huge advantage that could be established.

But, looking further forward, there is no secondary market in place and we have some difficulties having accepting these kinds of issues by the ECB as a repo. There are some open questions right now and this is not solved. As we say, this is a lesson learned. There is a long way to go and it was a pleasure working with DZ and also with Union.

Divjak, Slovenia: Currently, investors are not fully prepared

to participate. We had a limited number of investors initially, but our focus is now on the secondary market. During this four month experimental period, which concludes in November with the final coupon and principal payment, we aim to observe secondary market trades. A key advantage of the DLT platform we are using is its ability to display all trades on the blockchain.

The ability to view all trades in real time is a significant advantage. Although there is a brief lag while the block is added to the chain, it is short, allowing you to see all trades with digital bonds on the screen promptly. This is a crucial benefit for issuers.

Zimmermann, EIB: Maybe a general comment and then specifically on the ECB Trials. The EIB has been experimenting with digital bonds since 2021. For us, the key for digital bonds to become a useful funding tool is scalability. That puts us in a position where the ecosystem aims to design a bond product which allows us to generate material demand on a sustainable basis. So, for us there's an element of working together with the ecosystem, which is very crucial.

I think the ECB Trials are a push forward for the capital markets in the eurozone. By considering offering a cash solution for digital securities across the eurozone, the ECB is basically building a kind of standardisation. Such standardisation for these types of securities could help to drive the enhancement of legacy infrastructure. This is an area where we can then apply more agile technology, where we can offer the benefit of efficiency gains, and, last

“... we can afford to be quite nimble and that’s probably what we are going to do until year-end for the rest of the funding we have to do”

Anne Flori, CEB



but not least, where we can reduce the need for intermediation.

If you put all that together, you see that it also lowers the entry hurdles for smaller economic capital markets actors, and that is actually a nice link to the Capital Markets Union. EIB will continue to experiment further with digital bonds, to make it a theme that facilitates a broader and deeper Capital Market Union with lower entry hurdles.

GlobalCapital: Bernd, what was your recent experience of the deals for KfW and Slovenia? What do you think is preventing mass adoption of the technology and when do you think we’ll get it?

Loder, DZ BANK: As Marjan was saying, it’s a great technology. I think it’s here to stay and it’s a fantastic move. Our team is very busy with incoming calls, advising issuers and investors about this technology and how it works. As Jörg was saying, a lot of lessons learnt and obviously there are many obstacles which are all being addressed, like listings, like ECB eligibility. I think it’s just very interesting. I think it’s a technology which will sustain us and a lot of groundwork has been done. It is important to highlight that investors at this point primarily participate in such transactions to build knowhow and get familiar with the technology. Economic reasons are secondary.

Obviously, all issues have happened at the short end of the curve so far. Not too many investors are around, but I can tell you a lot of investors are very interested and are

following closely. I expect in the next year or maybe two years that this work will progress and it will pay off.

GlobalCapital: What do you think is holding investors back? Is it the lack of a single system they can use or a lack of interoperability between systems? Or do you think it’s too expensive for them?

Loder, DZ BANK: There are a few things. I think what they’re missing are the ECB eligibility and trading opportunities, and to some extent the economical aspect. Investors want to make money so it’s like a new adventure and has exploratory character. Investors are looking at it but it has to pay off too. The comparison to green bonds is a little bit far away though. How far are issuers and investors willing to pay for it and to be ready to invest in this technology? You must not forget it’s a lot of work to be put into such a project, and a lot of people from various departments are working on it for many months.

Jong Woo Nam, World Bank: We haven’t been involved in this ECB trial, but we’ve been quite heavily involved in digital bond issuance from 2018. Every single trade that we’ve done in the past has evolved over time. From each trade, we could learn what was missing and what could be improved.

For example, in 2018, we did a digital blockchain bond that was in a closed system. At the time, central bank digital currency or digital tokens were not available and weren’t well recognised. Investors would

enter the system and place orders, and we could see the orders coming in real time and then everything was settled within the system.

But because it was a closed system, when we tried to reopen the bond and do secondary trading, unless the participants were pre-registered in the system, it was a bit hard to onboard the participants on the day. When we reopened the bond, there were new investors who wanted to join, but the same day was a bit too short to onboard them.

On the second trade, we issued using the Euroclear’s DFMI system. That was the first trade we did through a system that was integrated with a large infrastructure provider. The system was still evolving, so right now it’s only the front end that is done on the DLT platform and the rest, for example, like secondary trading and coupon, final redemption payments, all happens in the traditional Euroclear system. From that standpoint, it removes one of the barriers for investors to join.

The biggest issue is maybe not the digital technology itself but it’s more on the regulatory or legal frameworks that need to be in place for investors to comfortably join these trades. The technology is there, it just needs a bit of time to evolve.

And for the last trade we did, we worked with the Swiss National Bank and the SIX digital exchange. In this case, we tried the use of the w-CBDC (Wholesale Central Bank Digital Currency), which was issued by the Swiss National Bank. We did the initial settlements using the CBDC. But then again, for a coupon and final payments, it still happens through the fiat currency format.

I think all the trades that different issuers are experimenting with are helping the market to evolve. In the beginning, we might not see the efficiencies or cost reductions because it requires lots of effort. But over time, I think it will provide these benefits. I am not saying that the current system is not working; I think the current system with all the dealers and infrastructure providers is working very smoothly. But with the use of DLT, we can potentially achieve efficiency. Instead of replicating the same data across different systems or different intermediaries, we could potentially have a single source of continuous verified data that we can use without replication.

The technology has lots of potential to enhance the capital markets, it just requires some more time to get there. It's not going to be like ChatGPT, which changed everybody's life in one day.

GlobalCapital: I want to talk about green issuance and outcome bonds in particular. Jong Woo, this is a reasonably recent thing that the World Bank has done where the payout is variable; the investor shares in the risk of a specific environmental project. How is this product developing? What's the investor uptake like? And then I'm going to ask the other issuers about them because I know the World Bank is keen that other issuers take this structure on.

Jong Woo Nam, World Bank:

We started to develop these outcome bonds to respond to the growing number of investors who are keen to have an instrument that has a direct link to a specific development project, but still has the characteristics of highly rated triple-A SSA paper.

In this case, the proceeds from the bond are used for any World Bank sustainable development projects, like any other World Bank bond issuance. In that sense, the use of proceeds is exactly the same as the regular bonds. But instead of receiving regular coupon payments from the World Bank, they receive a minimum guaranteed coupon that is lower than the coupon from ordinary World Bank bonds of a similar maturity.

So, the foregone coupon payment, which is the difference between the ordinary return and the minimum fixed guaranteed return, is channelled through another project. Sometimes, it could be a World Bank project, but it could be an outside project which would otherwise not have happened. That's where the concept of 'additionality' comes in compared to regular SSA paper.

These bonds are new. We started issuing these outcome bonds about three years ago. We started with a bond called a Wildlife Conservation Bond, which is more commonly known as the Rhino Bond. The payout from the bond is linked to the growth rate of the rhino population in two national parks

in South Africa, which is a very hard underlying asset to measure and some investors could not participate because there's no such index in their systems.

At the beginning it was quite challenging to secure the investors because it was a new asset class, but after that trade was printed, we received so many requests for information from investors. We subsequently followed with another outcome bond linked to the emissions reduction for a project in Vietnam; and then a plastic waste reduction bond which involves plastic recycling and plastic waste collection in Ghana and Indonesia. Then more recently, we issued Amazon reforestation-linked bonds.

So, on all these bonds, investors would assume project risk for a portion of the coupon payments, but in return they can participate in these high impact projects directly. And if the project goes as planned, they will receive a total return that is slightly higher than the ordinary return on a World Bank bond. The coupon payments can be linked to, for example, a carbon credit. In the case of the plastic bond, it was something called a plastic credit, which is relatively new. In some other cases, it could also be linked to a payment from a donor. Some donors are willing to support a project, but only if the project is successful. Donors would transfer the project risk to the capital markets and allow the project to move on.

So, these are the types of outcome bonds we have issued so far. As you mentioned earlier, we would be happy if other issuers

took part, and come up with more innovative structures. Because these bonds, unlike our typical bonds, are quite unique in the nature on each bond; there is lots of room to innovate. We would be happy if more issuers came into this market and grow the market together.

Ruhl, European Commission:

Fighting against climate change and making Europe the first climate-neutral continent are core political objectives of the European Commission. And the market for sustainable finance is a core element here because hundreds of billions of euros are needed to finance that. This is also why 37% of investments under the Recovery and Resilience Facility — by far the largest programme funded by NextGenerationEU — need to be invested for climate purposes or in green investments. This future-oriented part of the programme also gave us the opportunity to issue 30% of our NGEU funding in the format of green bonds. We took this opportunity to strengthen the European market for sustainable finance, which has been leading globally for many years. It is larger even than the dollar market.

We want to strengthen this position through our issuance. We will grow to be the largest issuer of green bonds globally, at least based on currently available information. We have €65bn outstanding so far and this will grow in the direction of €200bn over the next two to three years, so we are certainly a strong supporter of this market. GC

"The biggest issue is maybe not the digital technology itself but it's more on the regulatory or legal frameworks that need to be in place for investors to comfortably join these trades"

Jong Woo Nam, World Bank

