3 December 2020

ECB BMCG
EU issuance – Impact on euro area bond markets

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'3-slide' agenda

1. Issuance: How well were the first SURE bonds absorbed?

2. Pricing: Is the EU trading like a Supra or a Sovereign?

3. Outlook: How will future issuance be spread?

4. Discussion
Strong demand for first deals from broad investor base

Record oversubscription levels
EU SURE allocation, in € bn, oversubscription rate above columns

Large real money interest, official sector active in 30y
EU SURE allocation by investor group, in % of total allocation

Broad domestic interest, subdued foreign long-end appetite
EU SURE allocation by investor group, in % of total allocation

Source: EU, Commerzbank Research
Pricing: Is the EU trading like a Supra or a Sovereign?

EU issuance creates more competition for core than for semi-core

Strong post-issuance performance
EU SURE primary and secondary levels, mid asset swap spreads, in bp

EU slicing through supra peers, approaching core sovereigns
Mid asset swap spreads, in bp

EU establishes new benchmark curve
ASW curves, in bp

Source: EU, Bloomberg, Commerzbank Research
€160-200bn EU net issuance expected each year through 2024

Outlook: How will future issuance be spread?

Front-loaded loan funding…
Estimated funding profile according to sectoral legislation drafts from 30 May, in € bn

… would mean most flow support for periphery
Estimated 2021 EU support by country, in € bn

South and East benefiting the most
Estimated EU support, in % of GDP

Source: EU, Commerzbank Research

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Discussion points:

• Is the initial ‘EUphoria’ exaggerated and how can the positive momentum be maintained?
• Is there a risk that heavily oversubscribed orderbooks make a proper allocation nearly impossible?
• Could bond futures improve market functioning?
• Should the EU consider T-bills, foreign currency funding and interest rate swaps for NGEU
• Should the ECB adjust its asset purchases to account for EU?
• How could transparency be improved?
• Can the ESM approach be applied to the EU and how could the role of the ESM evolve?
• How relevant is it that EU funding can only be temporary?
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Overweight (OW) We expect outperformance versus the benchmark in spread and/or total return terms
Marketweight (MW) We expect performance in line with the benchmark in spread and/or total return terms
Underweight (UW) We expect underperformance versus the benchmark in spread and/or total return terms

Benchmark: Unless stated otherwise, the benchmark is the iBoxx € Corporate for IG-rated names/instruments, and the iBoxx € High Yield core cum crossover LC for HY-rated names/instruments

II) Outright recommendations:

Buy We suggest entering / expanding positions in the relevant names/instruments
Sell We suggest reducing / closing positions in the relevant names/instruments

Time Horizon: Unless stated otherwise, the time horizon for our recommendations is three months.

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<thead>
<tr>
<th>All covered instruments</th>
<th>The proportion of issuers in each of these categories for which Commerzbank provides investment banking services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overweight</td>
<td>39%</td>
</tr>
<tr>
<td>Marketweight</td>
<td>46%</td>
</tr>
<tr>
<td>Underweight</td>
<td>15%</td>
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</table>

*Source: Commerzbank Research*

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<table>
<thead>
<tr>
<th>All covered instruments</th>
<th>The proportion of issuers in each of these categories for which Commerzbank provides investment banking services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long/Buy</td>
<td>35%</td>
</tr>
<tr>
<td>Neutral</td>
<td>23%</td>
</tr>
<tr>
<td>Short/Sell</td>
<td>42%</td>
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