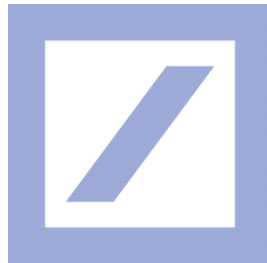


# EUR Jumbo Covered Bond Market – Stuck in Financial Market Turmoil

Bernd Volk, CFA

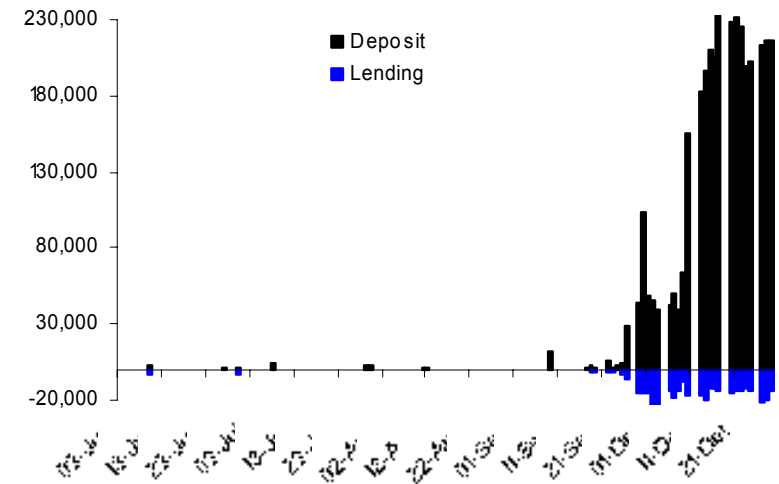
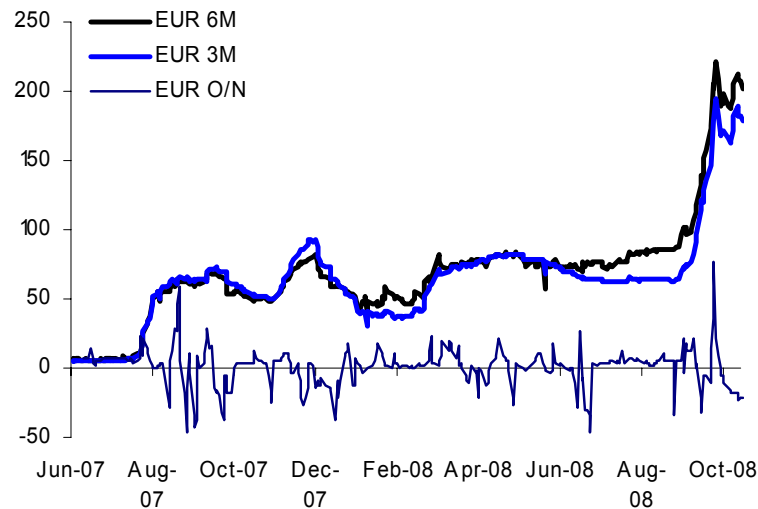
November 2008



A Passion to Perform.

# Money market situation in Euroland, US and UK still fragile – despite some improvements

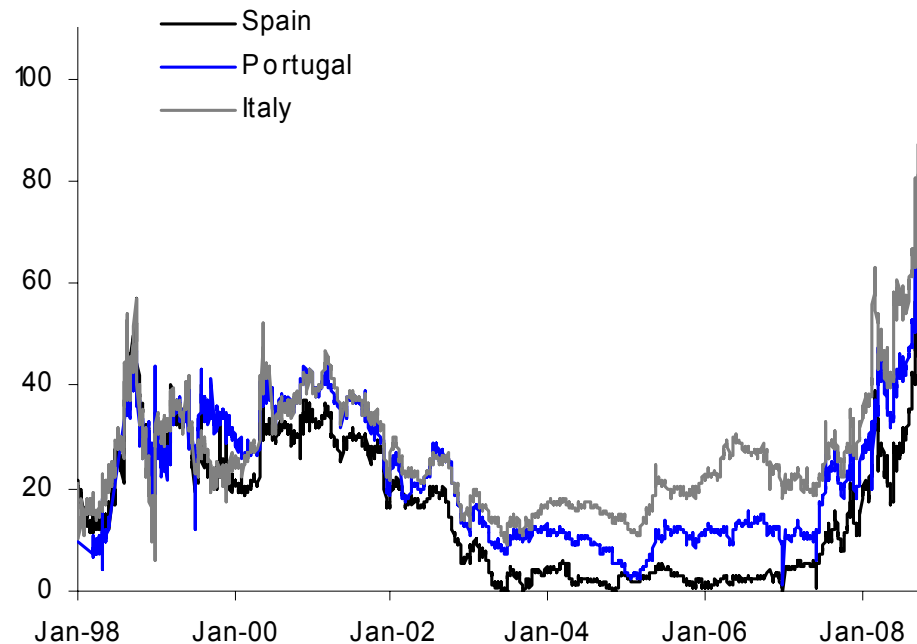
High Euribor rates and overnight deposits of banks at the ECB signal ongoing mistrust between banks



Quelle: Deutsche Bank

# AAA Bond Markt – state guaranteed bank bonds and non core government bonds set the spread

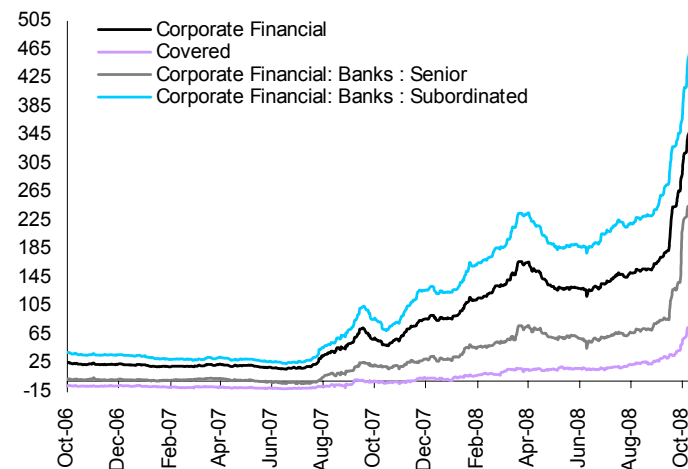
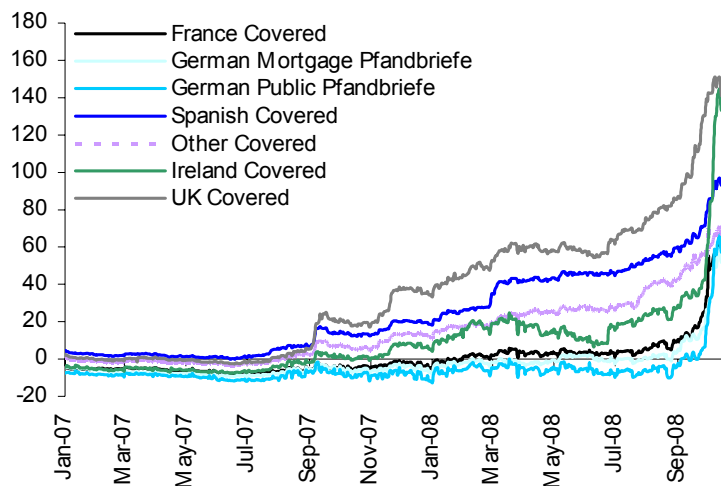
Greece, Austria, Spain, Italy, Portugal bonds and agency bonds widened – ongoing supply pressure due to higher budget deficits and government bailouts of banks



Quelle: Deutsche Bank

# Spreads of Covered Bonds increased massively – in line with spreads of senior bank debt

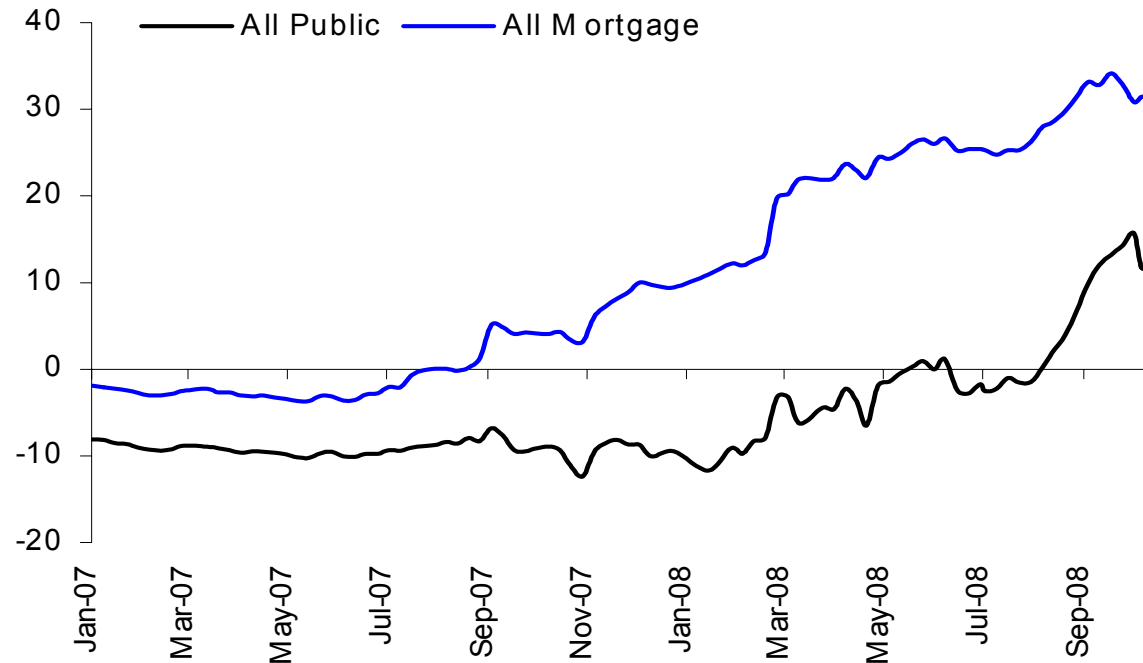
Covered bonds relatively stable with senior bank and subordinated bank bonds



Source: iBoxx, DB Global Markets Research

# Spread between mortgage and public sector Covered Bonds increased

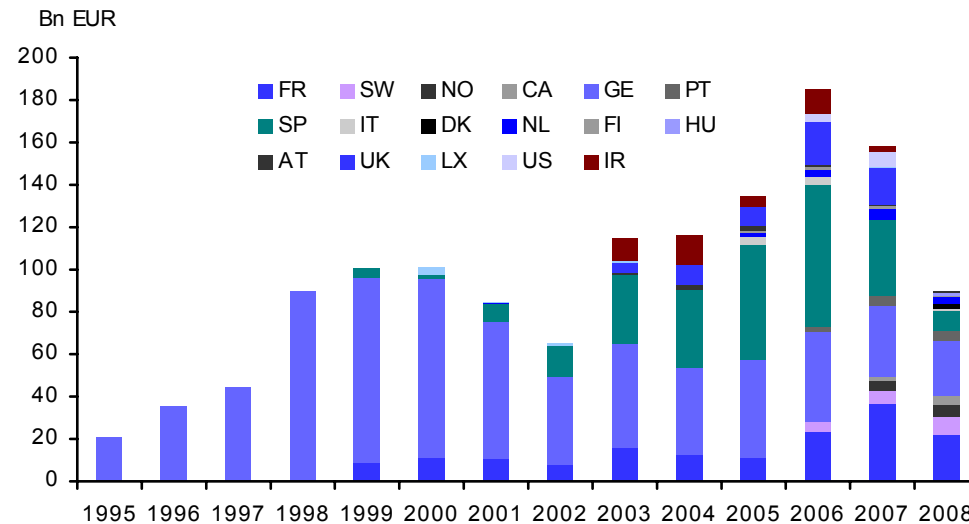
Charts are typically too optimistic regarding real spreads due to historical wide bid offer spreads



Source: DB Global Markets Research

# EUR Jumbo Covered Bond issuance collapsed – the primary market is shut

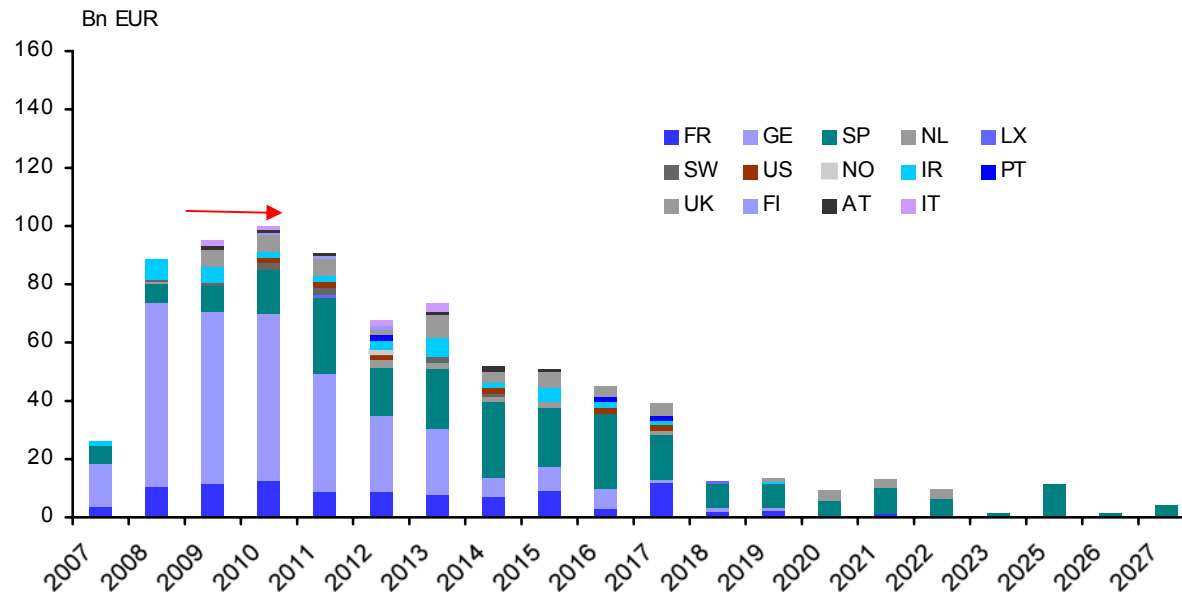
EUR Jumbo covered bond issuance peaked in the 2006



Source: DB Global Markets Research

# Maturity profile of EUR Jumbo Covered Bonds as of beginning of crisis\*

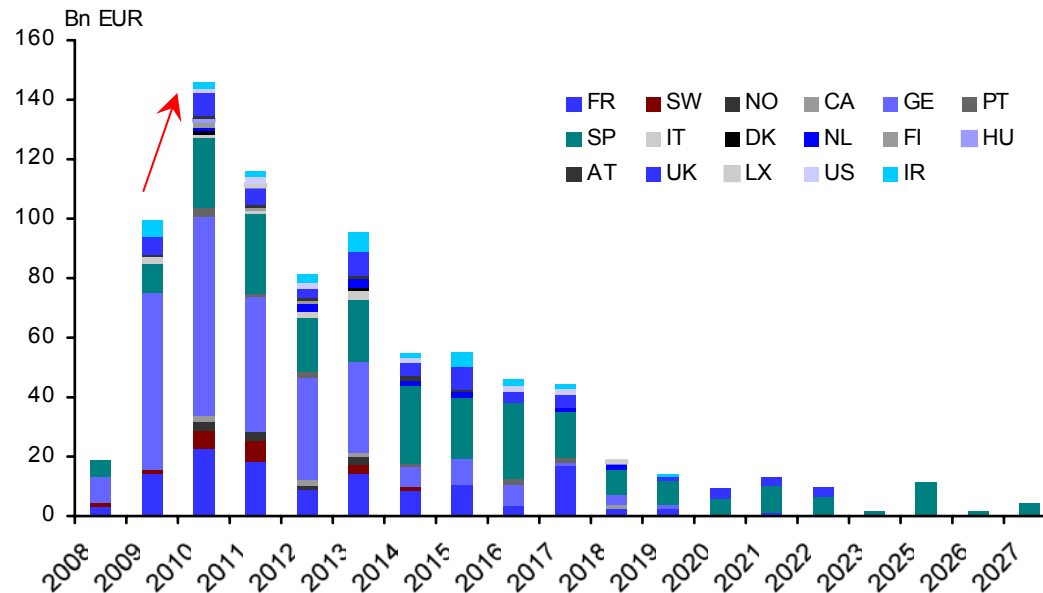
Refinancing needs looked easily manageable



\*as of 31 Sept 2007, Source: DB Global Markets Research

# Redemption profile of EUR Jumbo Covered Bonds as of 31 Oct 2008

2010 funding needs increased 45% ( EUR 145 bn) due to high short term issuance in H2 2007 and 2008

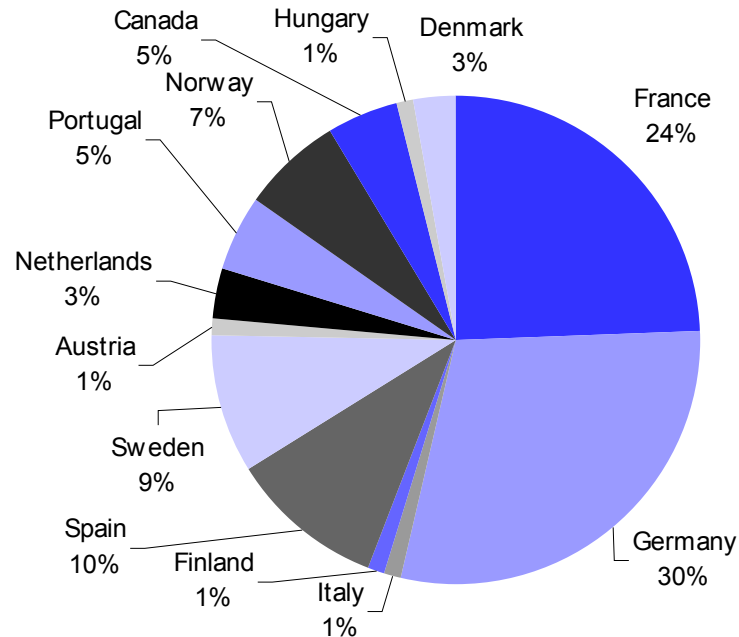


Source: DB Global Markets Research



# Countrywise issuance of EUR Jumbo covered bonds in 2008ytd

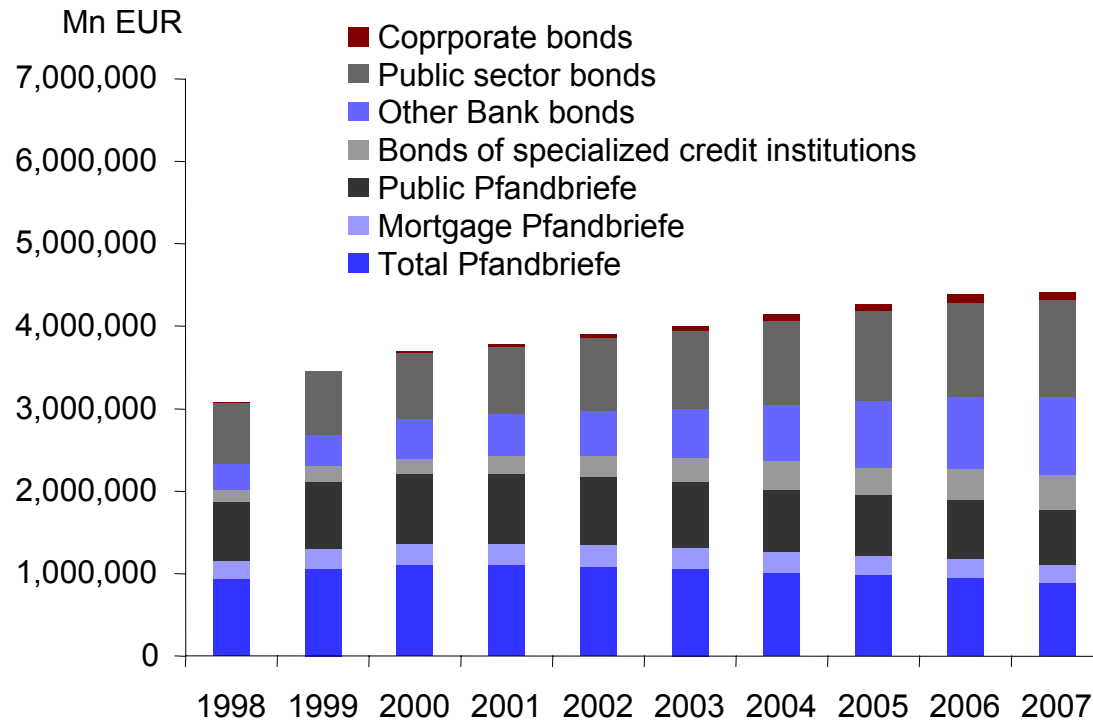
Germany and France were the two largest issuers again



Source: DB Global Markets Research

# Pfandbriefe — important part of the German bond market

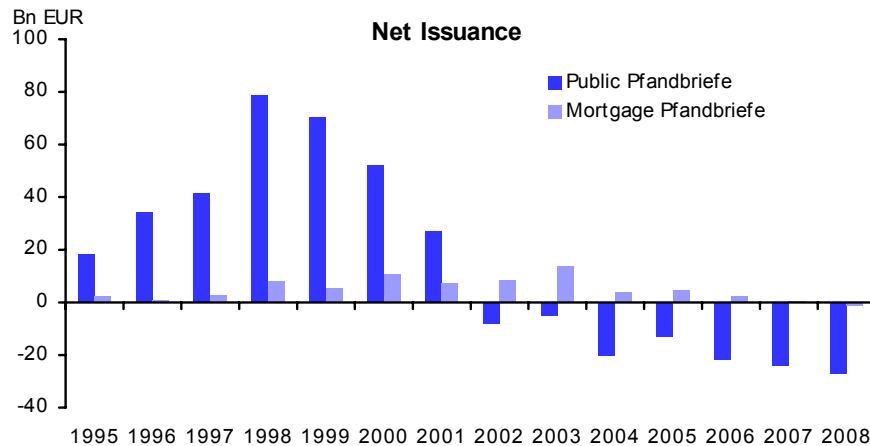
Pfandbriefe have a 24% share of the total German bond market



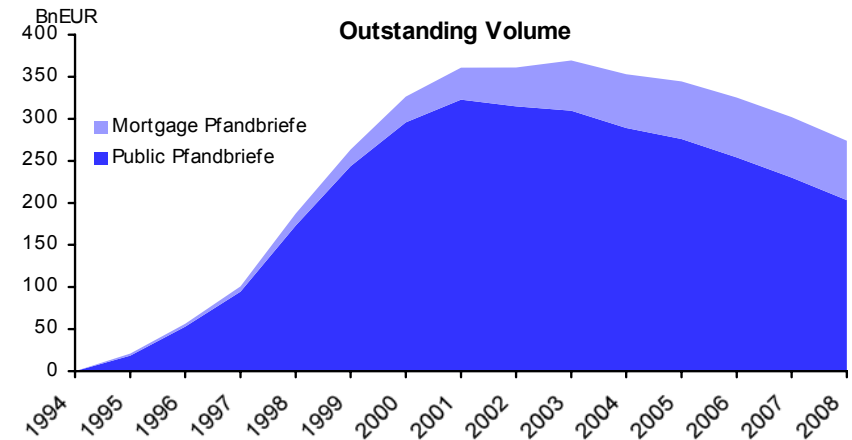
Quelle: Deutsche Bundesbank

# German Pfandbrief market still dominated by public Pfandbriefe

Negative net issuance of public Jumbo Pfandbriefe since 2002



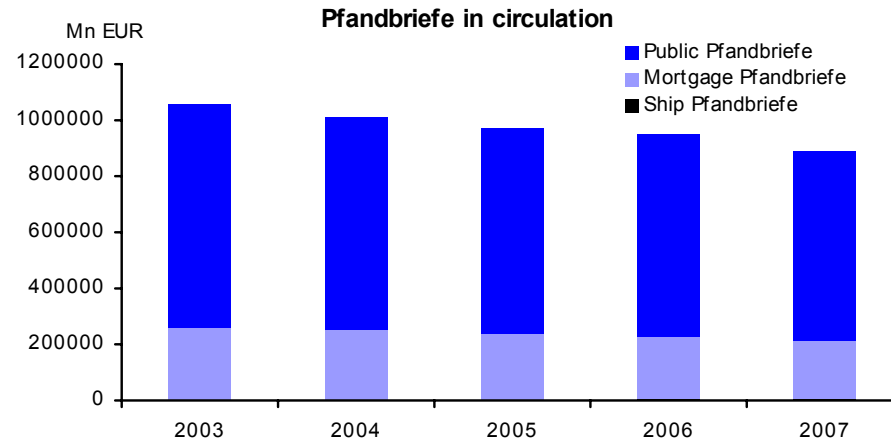
Outstanding volume of German Jumbo Pfandbriefe falling due to negative net issuance



Source: DB Global Markets Research

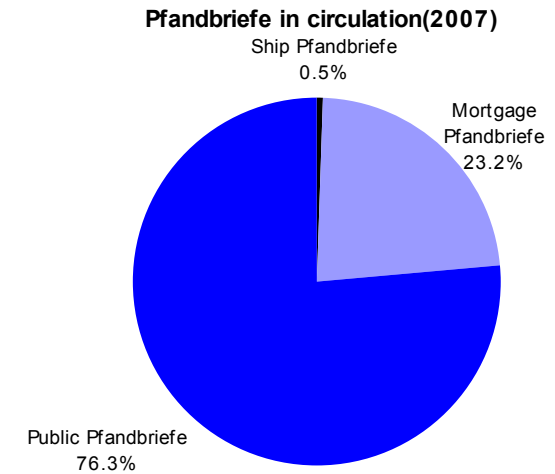
# German Pfandbrief outstanding over the years

**Total outstanding volume of Pfandbriefe shows a consistent downtrend**



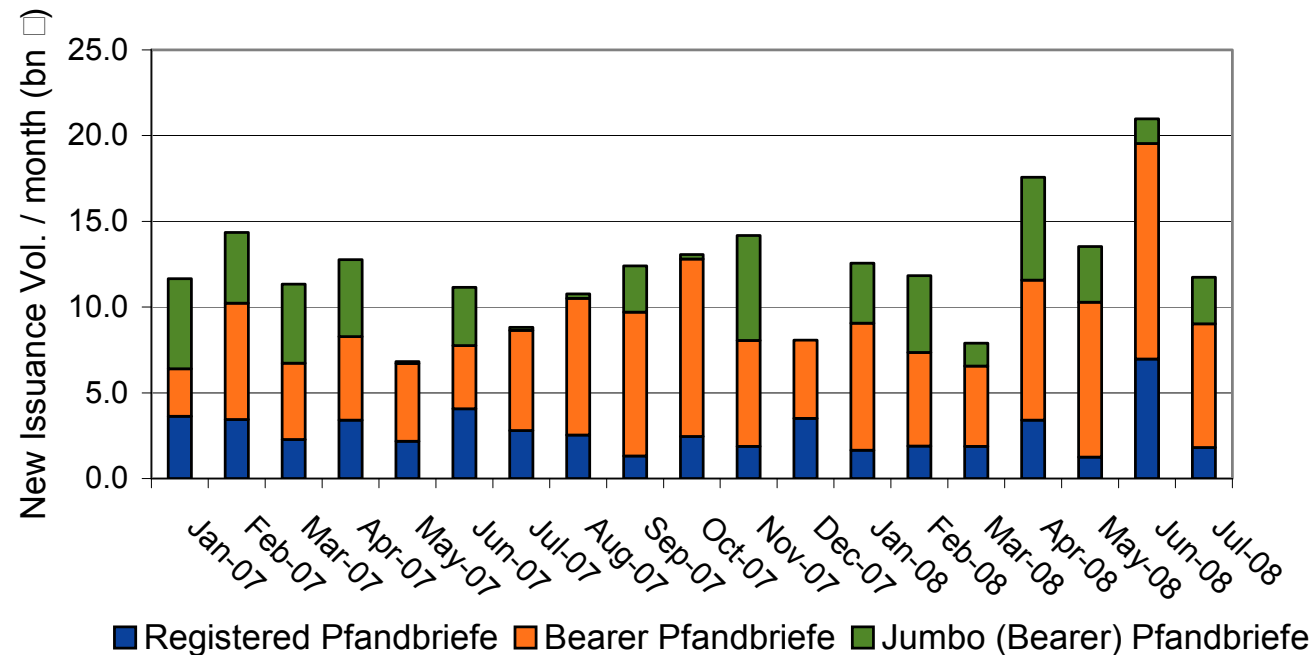
Source: DB Global Markets Research

**Public Pfandbriefe accounted for more than 75% of the total Pfandbrief market in 2007**



# Pfandbriefe — new issuance held up since beginning of crisis – until recently

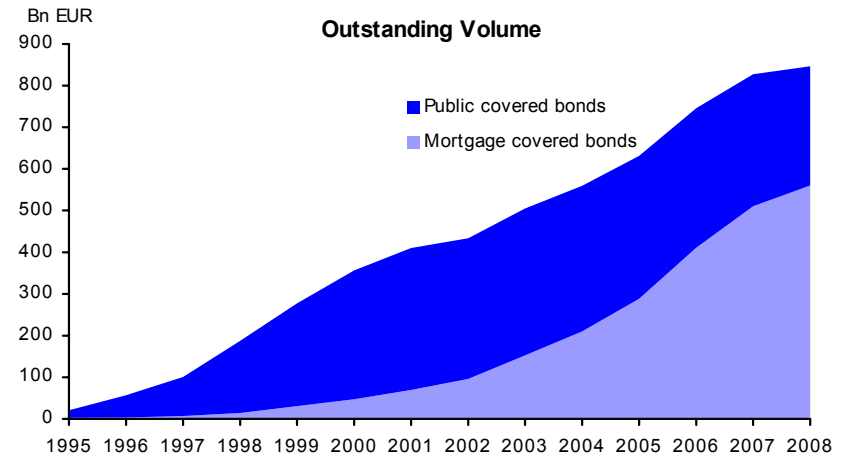
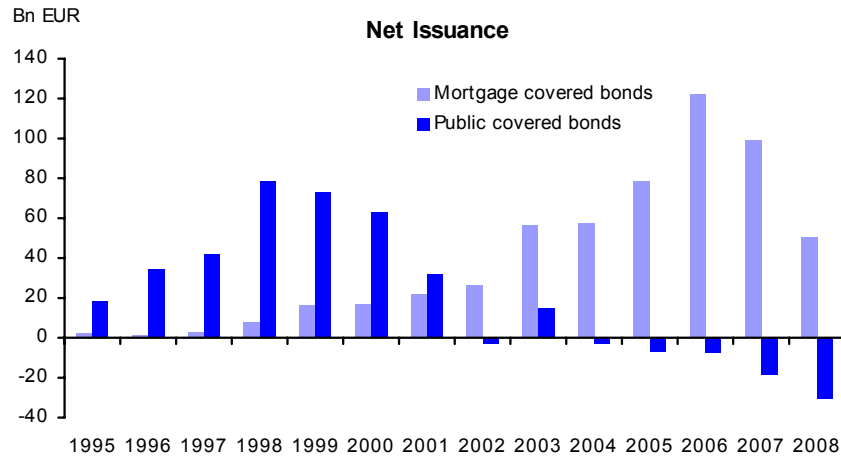
New issuance of Pfandbriefe (even private placements) collapsed in recent weeks



Quelle: Deutsche Bundesbank, vdp

# Public sector covered bonds still dominate in terms of outstanding volume

## Share of mortgage covered bonds increased in the recent years



Source: DB Global Markets Research

# Summary

- After recording record issuance in 2006 (EUR 185 bn), EUR Jumbo covered bonds issuance has come down to EUR 90 bn year to date. At this stage, the primary market for Jumbo covered bonds is shut. Given widening spreads of non-core government bonds, agency and sub-sovereign bonds and massive generally massive supply of triple A bonds upcoming (also state guaranteed bank bonds, this is unlikely to change.
- Negative net issuance from Germany since 2002 leads to a decline in outstanding volume of Pfandbriefe. This was mainly due to state guaranteed public sector bank bonds in the public Pfandbrief cover pools.
- Year 2008 was dominated by short term issues, with EUR 33 bn being issued in the form of instruments 1-3 years. This high short dated supply leads to massive refinancing pressure going forward. This short term issuance has resulted in heavy built up for redemptions in the year 2010.
- The spreads of high quality German Pfandbriefe have also taken a hit with the worsening of the credit crisis. Even public Pfandbriefe have experienced widening of spreads.
- In October, new issuance of Pfandbriefe (even private placements) collapsed totally.
- Whereas the private placement market is likely to recover, Jumbo covered bonds will continue to compete with upcoming massive supply of state guaranteed benchmark bank, non-core Euro sovereign bonds and agency bonds.
- While outstanding issues seem safe (for different reason) – the primary market for EUR Jumbo covered bonds will continue to be very challenging in 2009. Against the backdrop of massive state intervention, initiatives by issuers to tackle this problem are equally challenging.

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