

# Euro SSA and Covered Bond Strategy

## Market Performance and Views Given the Italian Election Results

- **After the election:** In the near term, the main driver for peripheral government bond markets more broadly will be the unfolding political situation in Italy.
  - For SSA and covered bond markets specifically, we expect support for core sectors in an environment of renewed EMU turbulence.
- **Euro SSA Strategy:** Issuance year-to-date has been healthy and in line with seasonal trends. In the secondary market, ASW spreads remain relatively stable.
  - Spreads in German agencies have broken recent trading ranges in some sectors given the rally in Bunds.
- **Covered Bond Strategy:** The safe-haven status of certain core covered bond segments is likely to continue to attract interest in times of market turbulence.
  - We continue to expect periphery covered bonds to trade inside the respective sovereign.

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## After the election...

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Unfolding political developments remain  
key for the OBG outlook

Core SSA and covered bond markets are likely to find support in an environment of renewed EMU turbulence. We detail our views on the various market segments below.

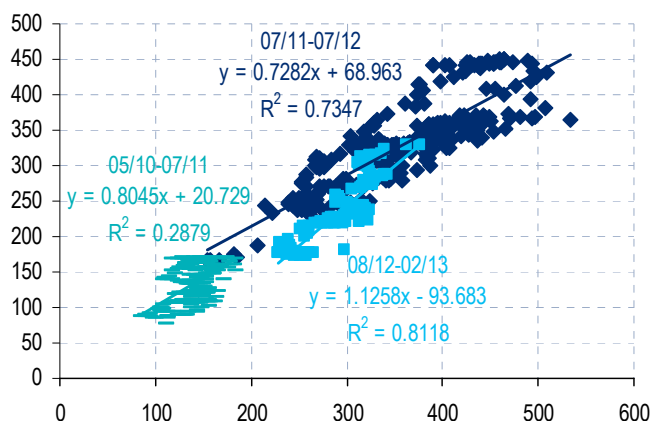
### Peripheral agencies and the covered bond outlook

Clearly, the inconclusive Italian election result has shifted the market focus onto Italy (*Global Political Insights - Italian Election Surprise: Parliament Hung, Drawn and Quartered*). On the open on 26<sup>th</sup> February, 10yr BTP spreads gapped some 50bp and 10yr Bonos spreads were also up around 35bp. In the near term, the main driver for peripheral government bond markets more broadly will be the unfolding political situation in Italy (*European Rates Weekly - Investing in the aftermath of the Italian election*).

### Italian covered bond outlook – politics the dominant driver

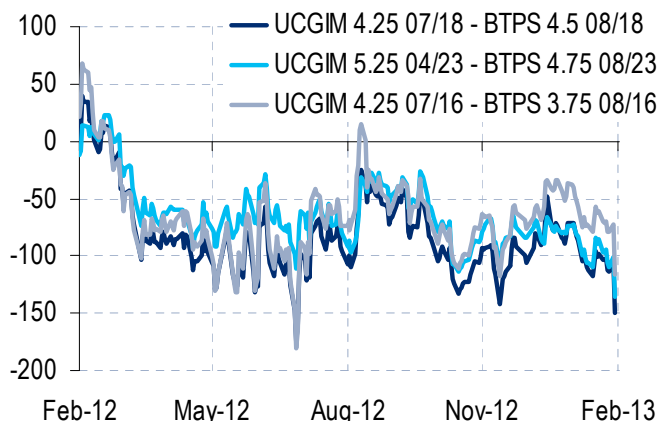
In the Italian covered bond market, yields on OBGs (Italian covered bonds, *Italian Covered Bond Market at a Glance*) were up to 10bp higher on the day when news arrived concerning the inconclusive Italian election. Correlation between OBGs and BTPs remains high (it has actually increased in recent months). The latest dose of political uncertainty is certainly in stark contrast to the relatively stable environment periphery markets have experienced over several months. Going forward, we expect the pause in primary market activity from southern European covered bond issuers to continue in the near term. The recent successful 10yr BTP auction is clearly welcome, but it is too early to tell if a new market equilibrium is emerging and we expect the Italian covered bond market to continue to take its cue from developments in Italian politics.

Figure 1. Correlation between OBG and BTP, ASW-Spreads, bp



Source: Citi Research

Figure 2. UCGIM is trading 100bp richer than BTPs, ASW-Spreads, bp



Source: Citi Research

We generally expect periphery covered  
bonds to continue to trade inside the  
respective sovereign

In the secondary market, given our views on peripheral EMU government bonds, we would not expect the generally good outperformance of OBG vs core European covered bonds to continue in the near term. However, relative to the sovereign, we expect Italian covered bonds to continue to trade inside BTPs (similar to Spain and Portugal). In times of increasing market stress, it is not unusual for covered bonds in periphery markets to outperform their respective sovereigns.

### Non-core covered bond markets - continue to trade inside govies

Elsewhere in the periphery, Spanish Cédulas and Portuguese covered bonds were also trading at slightly wider ASW spreads. The notable difference came from the Irish market, where Irish ACS were much more resilient. Going forward, given Ireland's improving fundamentals (*Ireland — Steps Back to Fiscal Sustainability*),

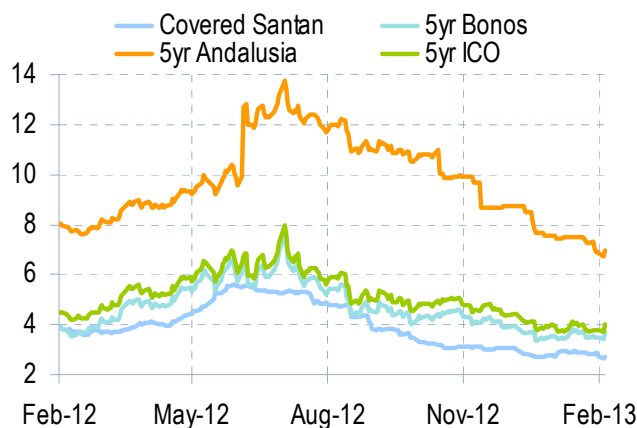
we would expect this dynamic to continue. This is also in conjunction with our broader view on Irish government bonds ([European Rates Weekly - Reassessing the Program Countries](#)). In core markets, covered bonds have tended to trade sideways but with a slight tightening bias.

**Periphery market covered bond spreads likely to be more volatile relative to core markets**

Going forward, continued headline risk and political uncertainty is likely to weigh on southern European covered bonds. Given this backdrop, it wouldn't be unusual for periphery covered bond ASW spreads to exhibit more volatility relative to core covered bond markets.

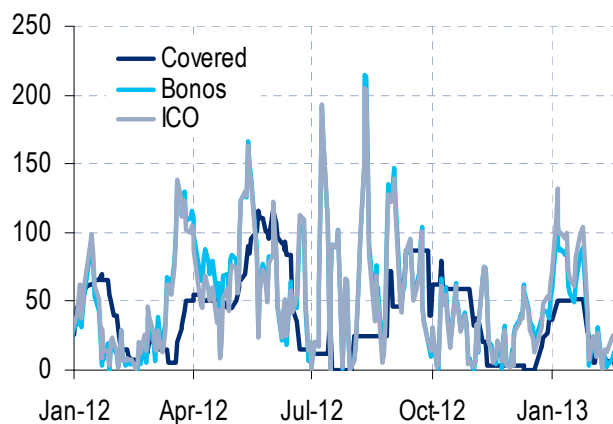
Relative to their respective sovereigns however, we expect southern European covered bonds to continue trading at lower yields. There is little evidence to suggest this dynamic should reverse any time soon. As detailed in the Italian market, during last periods of risk-off, southern European covered bonds have tended to outperform the government bond market. This dynamic is also seen in Cédulas versus Spanish regions and agencies but on a less volatile basis.

Figure 3. Cédulas vs. Regions and ICO, ASW-Spreads, bp



Source: Citi Research

Figure 4. Rolling 4w spread change, bp

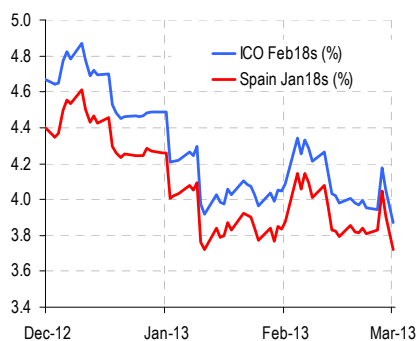


Source: Citi Research

**Spanish agencies and regions – relative stability**

For the Spanish SSA market, the effects from the Italian election are being felt but so far this has largely been seen in rising yield levels rather than spread underperformance. Although ICO's yield curve was some 8bp-12bp wider on 26<sup>th</sup> February, actual spread changes to the Spanish sovereign were relatively muted and a similar pattern was seen in the Spanish regions. Thus, the evidence so far points to a degree of resilience in spreads to Bonos in Spanish SSAs. In our view, higher absolute yield levels in the near term are entirely plausible given contagion from the BTP market. However, insofar as this remains a concern of Italian domestic politics, Spanish agency spreads to Bonos need not necessarily widen. Sustained spread underperformance in the broader Spanish SSA market is perhaps more likely should there be a significant negative surprise to Spanish fundamentals or ramifications from Italian politics develop into broader systemic fears.

Figure 5. 5yr ICO and 5yr Spain (Yield, %)



Source: Citi Research

**Core markets - is the safe-haven trade back? Did it ever go away?**

Core markets clearly stand to be supported by renewed EMU market turbulence. Bunds rallied some 8bp on 26<sup>th</sup> February and Schatz yields dipped into single figures once again. The Italian election result represents a clear reminder that tail

risks remained dormant, not eliminated. In our view, core SSA and covered bond markets remain a fundamentally attractive asset class in times of market stress.

**Core German agencies likely to benefit from renewed EMU tensions**

**SSA markets:** In terms of market moves, core agencies and supras saw opposite spread performance compared with the peripheral markets: ASW spread changes were fairly muted but the strong rally in Germany saw spreads to Bunds widen for core German agencies. This is entirely consistent with the lower beta that SSA credits tend to have. However, should German yields remain sustainably lower in the near term, we would expect the wider benchmark spread to attract buyers ([European Rates Weekly - Investing in the aftermath of the Italian election](#)).

**Idiosyncrasies in core covered bond markets**

**Covered Bonds:** Core European covered bonds should also find increasing interest in an environment of heightened uncertainty. Over recent weeks, all (semi-) core European covered bond indices tightened – albeit at a lower pace compared with January. In case of Pfandbriefe, we highlighted last week that Pfandbriefe trade relatively rich compared to KfW ([European Rates Weekly Covered Bond Strategy](#)). We still prefer stepping up in quality and generally prefer KfW to German covered bonds. In France, we prefer CAFFIL and CIFEUR given the state support that was approved last week and that yield levels are still slightly higher compared with the bulk of French covered bonds. In the Netherlands, SNS is still trading higher than Dutch peers. We continue to favor SNS covered bonds which offer yield pick-ups. For a summary of our weighting recommendation for covered bond segments, please refer to page 8.

**Conclusion – core SSA & covered bonds likely to benefit**

- Periphery market covered bond spreads are very likely to be more volatile in current market environment
- We expect periphery covered bond yields to continue to trade inside their respective governments
- Core SSA and covered markets remain a fundamentally attractive asset class in times of market stress.

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# Euro SSA Strategy

## (1) Trading themes and strategy views

We highlight some of our core views within the European SSA market. In general, given historically low spreads, we prefer relative value between core issuers and EMU sovereigns and switches on domestic curves.

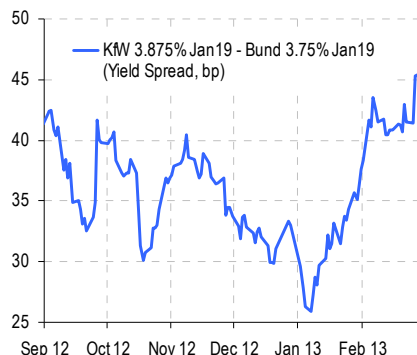
### Long KfW vs Germany

The rally in Germany has driven some KfW spreads out of recent ranges (Figure 6). The spread widening reflects the flight to quality dynamic in Bunds rather than any credit-specific fundamental change. We continue to advocate buying on dips in core markets and, in this case, we look for such spreads to narrow in the near term. Further details of this theme can be found in our [European Rates Weekly - Investing in the aftermath of the Italian election](#).

### Long KfW vs Austria/France

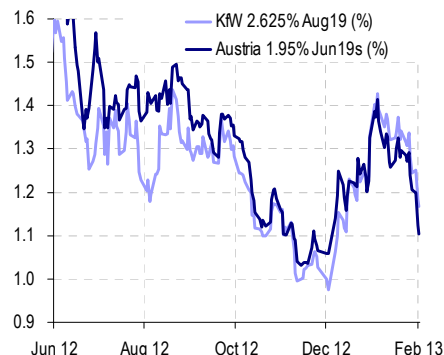
Compared with other EMU sovereigns, we have highlighted that spread pick-ups into KfW can be found vs Austria (Figure 7). We also continue to see better medium-term risk reward in long KfW vs France positions (Figure 8). Further details can be found in our note [Assessing relative value in German agencies](#).

Figure 6. KfW has cheapened to Germany



Source: Citi Research

Figure 7. KfW trading wide to Austria in cases



Source: Citi Research

Figure 8. KfW-OAT spreads historically tight



Source: Citi Research

### Long EU vs other supranationals

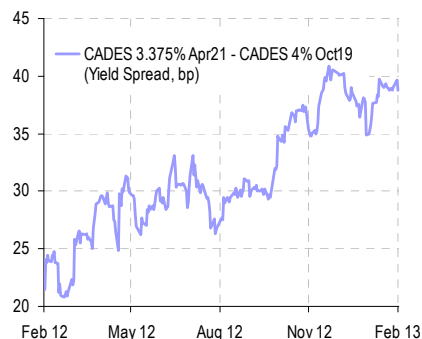
In terms of supply, the EU has much less issuance to do in 2013 (€4.7bn) compared with other supranationals. All things being equal, we continue to expect a degree of outperformance of EU bonds over the course 2013 within the core European SSA sector. Further details of this theme can be found in our [2013 Outlook](#).

### Extension trades in core agencies

Relative value switches on individual curves remain a key method of enhancing returns. Extension trades in core agencies are likely to remain a popular theme in a generally low-yield environment and we continue to look for interesting spread differentials such as in CADES Apr21s vs Oct19s (Figure 9).

A similar theme can be found in Dutch agencies such as in the 8yr-10yr sector of Neder Waterschapsbank but liquidity might not be as deep. In RENTEN and KfW, extension trades have generally worked well and we would wait for better entry levels than currently observed in the market.

Figure 9. CADES 12s vs CADES 19s (bp)



Source: Citi Research

## (2) Primary market activity

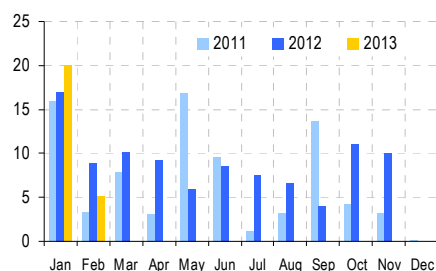
The market continues to absorb SSA supply and volumes from the core issuers are in line with seasonal trends. We detail supply data and provide completion rates for core issuers.

**Supranationals:** Euro supranational issuance in February totaled over €5bn (Figure 10). Supply came in forms of taps and benchmark issuance from the core supranationals.

**KfW remains the main contributors to overall European agency supply**

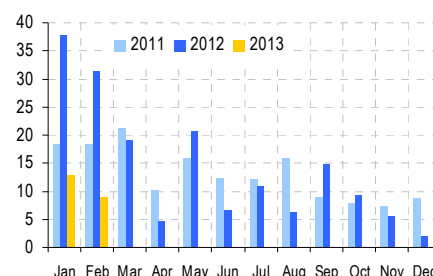
**Agencies:** Euro agency supply totaled over €7bn in February (Figure 11) with the largest issue being the new KfW 0.5% Feb16s (€4bn).

Figure 10. EUR Supranational Issuance (€bn)



Source: Citi Research, Dealogic DCM Analytics

Figure 11. Non-US Agency EUR Supply (€bn)



Source: Citi Research, Dealogic DCM Analytics

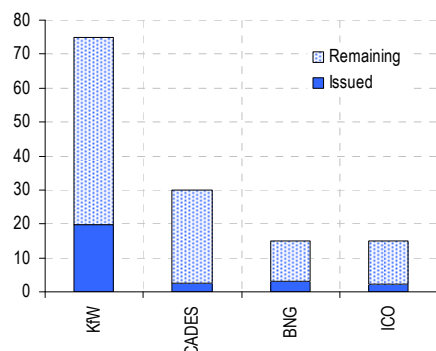
**Many SSA issuers are making good progress in terms of their supply pipelines**

**Completion Rates:** Aggregating across all currencies (Figure 12), the larger credits have already issued over a quarter of their 2013 issuance targets. Monthly issuance for KfW is shown in Figure 13. Typically, Q1 tends to be the larger quarter in terms of supply as with many other fixed income markets.

**Upcoming cash flows:** Going forward in March, the main redemption to note for the core European agency market.

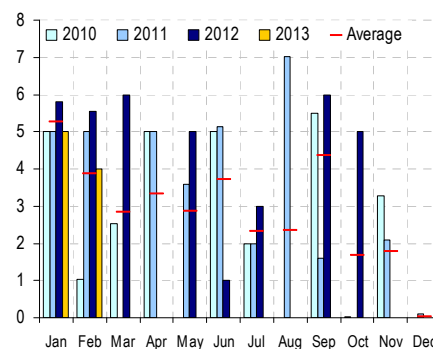
■ NEDBNK: €1.05bn also on 12<sup>th</sup> March (NEDBNK 4% Mar13s)

Figure 12. YTD European Agency Supply (Select Issuance, all currencies, €bn)



Source: Citi Research, Issuers, Dealogic DCM Analytics

Figure 13. KfW EUR Supply tends to be higher in Q1 vs other quarters (€bn)



Source: Citi Research, KfW, Dealogic DCM Analytics

### (3) Secondary market performance

In the secondary market, yields and spreads remain generally compressed. We expect some reversal of the spread widening to governments that was driven specifically by Bund rally.

#### February total returns

€ iBoxx Supranationals 0.87%

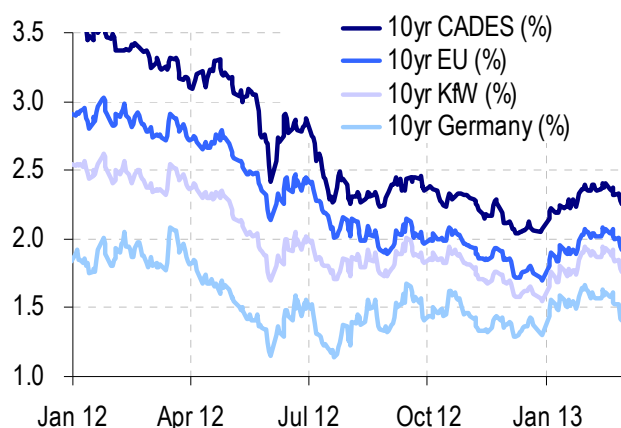
€ iBoxx Agencies 1.03%

Core SSA issuers continue to trade relatively well and the main iBoxx indices have generated positive returns for February. Yields may be slightly higher on a year-to-date basis (Figure 14), but ASW spreads remain around historically low levels and relatively stable (Figure 15).

#### Rally in Bunds has driven some German agency spreads out of recent ranges

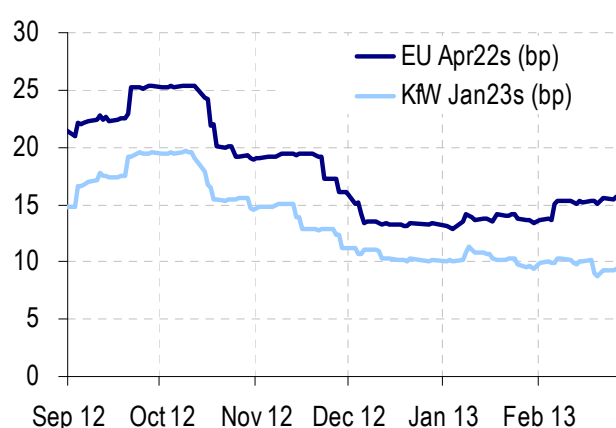
In general, the risk-reward of many SSA spreads to benchmarks (periphery and core) looks historically unappealing and we much prefer relative value here between issuers and on the curves. However, there has been some cheapening in the German agency market. This has been driven primarily by the recent rally in Bunds given the market turbulence emanating from the Italian election. German agency spreads to Bunds in some maturity sectors have broken out of recent ranges to levels where buying interest is likely to emerge.

Figure 14. Core SSA and EMU yields still relatively low (bp)



Source: Citi Research, Yields based on Citi's modeled fitted cash curves

Figure 15. ASW spreads remain relatively stable (bp)



Source: Citi Research

#### Rally in Bunds has driven some German agency spreads out of recent ranges

Over February, core yields have fallen around 15bp-20bp, spreads to swaps are relatively unchanged whereas spreads to governments have generally widened (Figure 16). This is entirely consistent with the low beta characteristic of the core SSA sector given how rallies in underlying government bonds tend to be stronger at first than moves in SSA yields. We do not expect significant and fundamentally inspired spread widening to governments in the near term for core SSA issuers.

Figure 16. Select 10yr Core SSA Bonds, Details and Performance in February

Issuer	Issue Date	Select Bond	Maturity	Amt Outstanding (€bn)	Yield		Spreads to Swaps		Spreads to Germany	
					Level (%)	Feb Change (bp)	Level (bp)	Feb Change (bp)	Level (bp)	Feb Change (bp)
EU	25-Apr-12	EU 2.75% Apr22	04-Apr-22	2.70	1.74	-17	12	1	28	4
KfW	09-Oct-07	KfW 4.625 Jan23	04-Jan-23	3.00	1.72	-19	0	-2	26	2
CADES	11-Apr-11	CADES 4.125% Apr23	25-Apr-23	5.02	2.32	-6	56	10	85	14
BNG	19-May-11	BNG 3.875% May23	26-May-23	1.50	2.09	-18	32	-2	62	3

Source: Citi Research, Bloomberg



# Covered Bond Strategy

## (1) Trading themes and strategy views

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The information provided below should be seen as a weighting recommendation of covered bond segments in order to outperform the iBoxx covered bond index in the medium term.

As it can be seen, we remain relatively defensive given the current market context. Moreover, in Figure 17 and Figure 18 we recommend specific trades within segments or a country's capital structure.

Figure 17. Citi Recommendation Overview

Covered Bond Segment	Recommendation	Rationale
Australia	Overweight	Non-Euro diversification, strong banking system
Austria	Underweight	Positive demand-supply pattern, but already rich
Belgium	Underweight	Diversification, but rich versus other covered bond segments
Denmark	Neutral	Weak property sector, strong sovereign
Finland	Overweight	Well functioning housing market, strong sovereign
France	Neutral	Attractive demand-supply pattern, Potential widening as OAT are expected to widen as well
Germany	Neutral	Safe haven bid, very attractive demand-supply pattern
Ireland	Overweight	Bottomed out housing market, Macro level improvements
Italy	Neutral	Political uncertainty, Headline risk
Netherlands	Underweight	Weak housing market, constant outflows on government bond market
Norway	Overweight	Strong sovereign, potential issuance cap for covered bonds
Portugal	Neutral	Headline risk, contagion risk
Spain	Neutral	Weak housing market, headline risk
Sweden	Neutral	Housing market development, favourable demand-supply pattern
Switzerland	Neutral	Overheating property market, strong sovereign
UK	Overweight	Non-Euro diversification, demand-supply pattern

Source: Citi Research

Figure 18. Summary of trade ideas

Country	Trade Idea
Germany	Switch from German Pfandbriefe to KfW
Netherlands	Prefer SNS Covered Bonds to other Dutch Covered Bonds
France	Prefer CAFFIL; further performance should be expected
France	Prefer CIFEUR: State aid has been approved by European Commission
Italy	Prefer Italian OBG to Italian BTPs
Spain	Prefer Spanish Cédulas to Bonos
Ireland	Prefer Irish ACS to Irish Government bonds
Portugal	Prefer Portuguese covered bonds to Portuguese government bonds

Source: Citi Research



## (2) Primary market activity

In several ways, February has been a “historic” month for covered bond supply given various landmark details (including SEB AB and Commerzbank). We detail issuance trends in the covered bond market and recent investor activity.

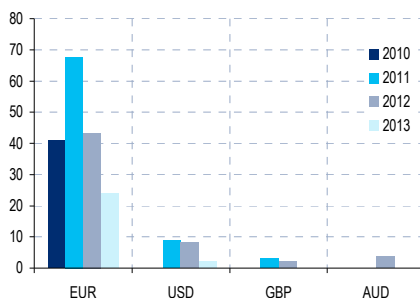
Several landmark deals have recently come to market

The European covered bond market restarted again last week after a 14-day pause, albeit at €24bn of EUR benchmark covered bonds this is perhaps smaller than expected. Last week, four benchmark transactions were placed. In many respects, some of these transactions were historic. First, SEB AB issuance last week represented the first euro-denominated Swedish covered bond deal in nearly a year. Secondly, Commerzbank recently issued an SME-backed structured covered/collateralized bond in benchmark-size. Although this security is not treated as favorably as covered bonds backed by mortgages or public sector loans from the perspective of ECB repo operations as well as risk weighting, interest has been large enough to encourage the thawing of SME-backed bond supply. Austrian and Italian banks already announced their interest in this asset class, for example. Furthermore, the decision to add Commerzbank’s SME bond to certain indices should also help in the development of this asset class.

Issuance also came from France, Denmark and South Korea

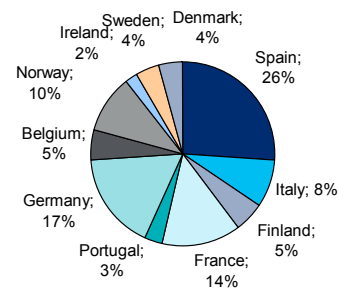
From the French sector, there was around €3.3bn in supply last week (Socgen SFH and a tap of BPCE SFH). Furthermore, Denmark’s largest EUR benchmark covered bond issuer Danske Bank issued a 7y recovered bond at +30 versus midswaps. Moreover, in the USD covered bond market, a long-awaited covered bond from South Korea reached the market. Like the first deal from this country, the bond is based contractually. In the upcoming months we expect Korean politicians to introduce a covered bond law to ease the banks’ reliance on the issuance of senior bonds.

Figure 19. Primary market issuance, 2010-2013 year to date, bn



Source: Citi Research

Figure 20. Split of primary market activity 2013, %



Source: Citi Research

Relatively low levels of USD, AUD and GBP supply for their own separate reasons

The first quarter is typically the time of highest primary market activity. Last year, LTRO and issuer diversification by currency led to much lower euro issuance than expected. This year, however, the LTRO has partly been paid back and primary market activity in USD, AUD and GBP has been relatively low albeit for different reasons. In the UK so far this year, the absence of GBP covered bond supply can largely be attributed to the BoE’s Funding for Lending Scheme (FLS). FLS will not be finished until 31<sup>st</sup> January 2014. UK covered bonds should generally issue significantly less than other segments. For the USD market, the lack of Canadian covered bonds due to fundamental shifts in their cover pools should find an end later this year.

## Covered bond supply in March vs February

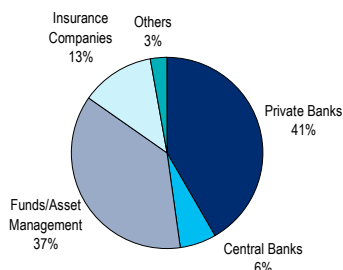
## No supply from the periphery markets in February

In March, we expect supply to increase relative to February, although the environment of bank deleveraging and the thawing of senior unsecured markets (seen in January and February) should generally put downward pressure on supply volumes going forward.

## Primary market investor activity

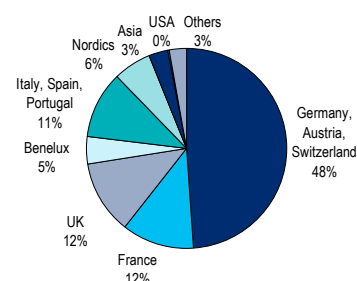
The lack of peripheral market covered bond issuance in February partly explains the smaller number of accounts on average involved in new issues when compared to January. The average B/C ratio was 1.75 (compared to 2.8 in January) and the number of accounts involved was lower (128 and 84 in January and February, respectively). Interestingly, there was a larger participation of central banks in the Commerzbank SME transaction. Having said that, the share of German speaking regional accounts were relatively low (49% versus average of 67%).

Figure 21. Investor Type Distribution, ytd



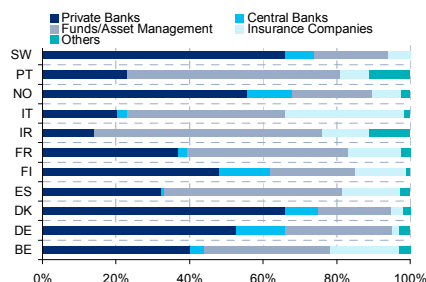
Source: Citi Research, CBR, The Cover

Figure 22. Geographic Distribution of Investors, ytd



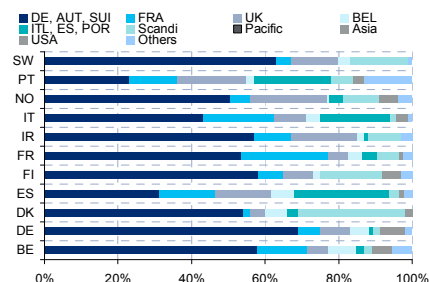
Source: Citi Research, CBR, The Cover

Figure 23. Investor Type and Covered Bond Region



Source: Citi Research, CBR, The Cover

Figure 24. Geographical Distribution and Covered Bond Region



Source: Citi Research, CBR, The Cover

### (3) Secondary market performance

Covered bonds continued to tighten versus swaps over February, but at a slower pace than at the beginning of the year. We detail secondary market performance across the various European covered bond markets.

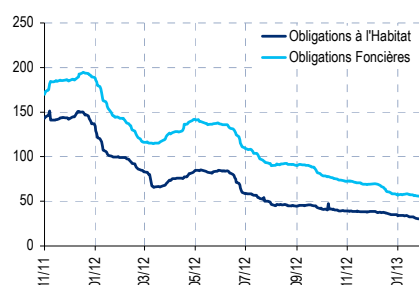
**No supply from the periphery markets in February**

Over the last month, the difference in tightening moves between core and peripheral covered bonds decreased. The biggest movement came from Portuguese covered bonds. In core markets, the Dutch covered bond index performed very well, mainly due to the state support for SNS bank which helped Dutch covered bond yields to converge. Still, Sweden and Germany – both safe-havens with an attractive demand-supply dynamic for buy and hold investors – remain the countries with the lowest covered bond yields.

**Idiosyncrasies in the French covered bond market**

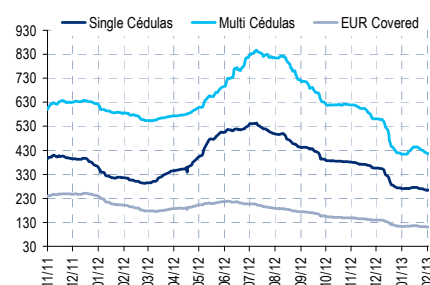
Moreover, even though French Obligations à l'Habitat developed attractively over the last month, they were outperformed by Obligations Foncières that benefited from solutions for CAFFIL and CIF Euromortgage. During the last year there was a spread difference of up to 50bp, which is back to 25bp between both French segments now. Nevertheless, due to the state's involvement in both cases we opine that both issuers can trade tighter than all other French covered bonds. The state aid for CIF Euromortgage has been approved by the European Commission this week. For secondary market performance of covered bond indices, please see the appendix.

**Figure 25. French Covered Bond Segments, Spreads (bp)**



Source: Citi Research, Markit

**Figure 26. Spanish Covered Bond Segments, Spreads (bp)**



Source: Citi Research, Markit

**Some covered bond segments continue to trade historically expensively to their respective SSA markets**

More broadly, some covered bond segments are trading rich versus their respective SSA markets. In Belgium, covered bonds from KBC Group are now trading nearly flat to OLOs. Spanish Single-Cédulas from Tier-1 issuers are still trading at all time lows versus Bonos. Multi-Cedulas on the other hand outperformed the Single-Cedula market over recent months. However, the difference is still significant.

### Regulatory news

**Liquidity Coverage Ratios**

It's not only the Commerzbank SME covered bond deal that might have made last week a historical one for the covered bond market. A draft document of EU regulators showed the planned inclusion of covered bonds as Level 1 assets within the Liquidity Coverage Ratio (LCR). This should support covered bonds even further. Before that, covered bonds were supposed to be Level 2 assets which would imply a 40% cap and a 15% haircut for covered bonds. A trilogue of European Commission, European Council and European Parliament came to the conclusion to put government bonds and covered bonds with certain characteristics (trading on transparent markets, ongoing turnover) on the same level.

#### Level 1 asset definitions and Basel III

So far, however, market participants have to wait for the EBA to define assets with “*extremely highly liquidity and credit quality*” (i.e. Level 1 assets) in the upcoming days. Their definition will be key to see how covered bonds will be treated under Basel III within liquidity coverage calculations. It might, however, become clear that the transparency initiative that was initiated by the European Covered Bond Council gains importance as the trilogue wants transparency measures for covered bonds to be included in CRD IV and updated every six months (value of asset and liabilities in the covered bond program, geographical distribution of assets, currency and interest rate risk, potential maturity mismatches, percentage of loans in arrears for more than 90 days). This improvement in transparency is much welcomed.

#### MBS waiver from the ECB

Another positive, albeit repetitive decision came from the ECB. The so-called MBS waiver was prolonged until 2017. This allows issuers to include self-originated MBS for up to 100%. As it has been prolonged again, issuers whose cover pools are composed mainly of internal RMBS don't have to change cover pool compositions.

## Covered Bond Glossary

### New Issuance February 2013

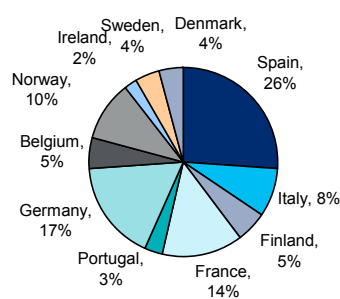
Figure 27. EUR benchmark covered bond issuance in February

18-Feb-13	EUR	SEB	Sweden	1.5	25-Feb-20	1000	ms + 15	Aaa/NR/NR	XS0894500981
20-Feb-13	EUR	Societe Generale SFH	France	1.75	05-Mar-20	1000	ms + 33	Aaa/NR/AAA	FR0011431014
21-Feb-13	EUR	Commerzbank AG	Germany	1.5	28-Feb-18	5000	ms + 47	Aa2e/NR/AaE	DE000CZ439A8
21-Feb-13	EUR	Danske Bank	Denmark	1.625	28-Feb-20	1000	ms + 30	NR/AAA/AAA	XS0896159257
28-Feb-13	EUR	Credit Agricole SFH	France	1.625	11/03/2020	1250	ms+35	Aaa/NR/AAA	FR0011440528

Source: Citi Research

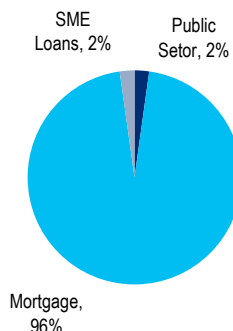
## Primary Market 2013

Figure 28. EUR Benchmark covered bonds: Geographical distribution, %



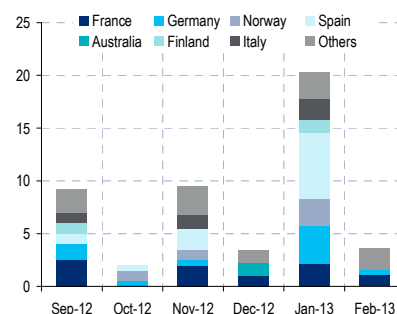
Source: Citi Research

Figure 29. EUR Benchmark covered bonds: Distribution by Collateral, %



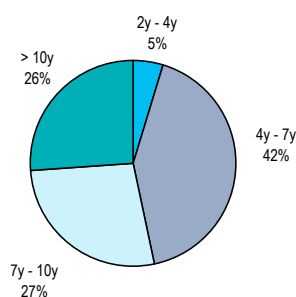
Source: Citi Research

Figure 30. EUR Benchmark covered bonds: Issuance by month



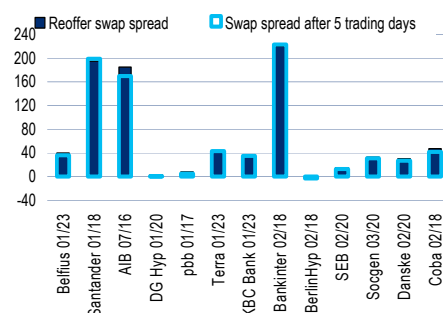
Source: Citi Research

Figure 31. EUR Benchmark covered bonds: Issuance by maturity, %



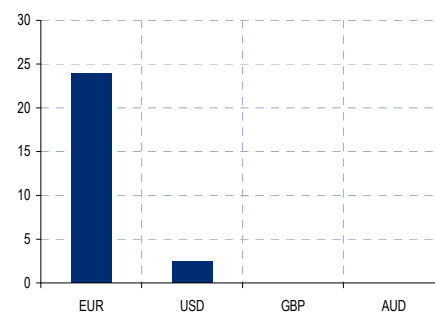
Source: Citi Research

Figure 32. EUR Benchmark covered bonds: Deal performance after five trading days



Source: Citi Research

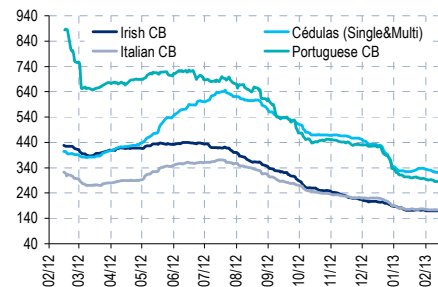
Figure 33. New benchmark covered bond issuance by currency, bn



Source: Citi Research

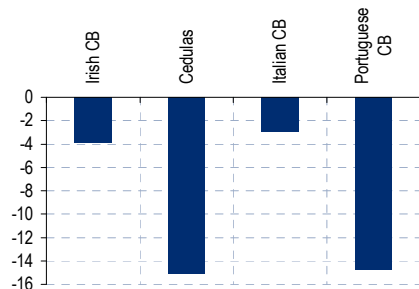
## Secondary Market 2013

**Figure 34. Secondary Market Performance, ASW-Spreads, bp**



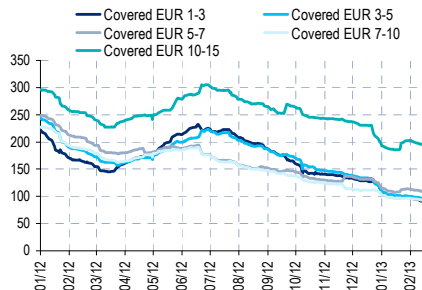
Source: Citi Research, Markit

**Figure 37. ASW-Spread change during last month, bp**



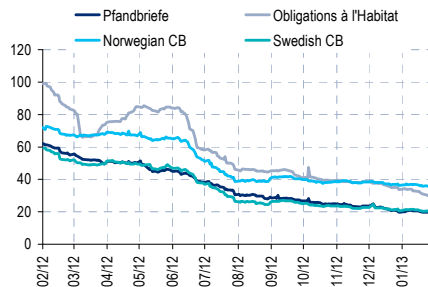
Source: Citi Research, Markit

**Figure 40. Covered Bond Tenors, ASW-Spreads, bp**



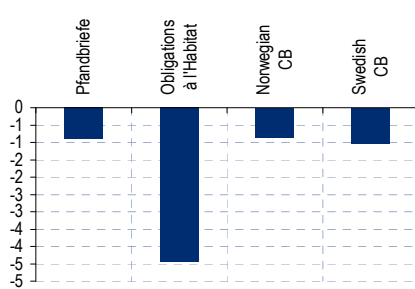
Source: Citi Research, Markit

**Figure 35. Secondary Market Performance, ASW-Spreads, bp**



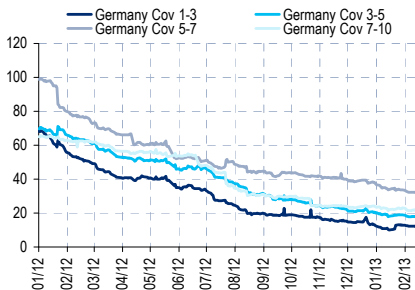
Source: Citi Research, Markit

**Figure 38. ASW-Spread change during last month, bp**



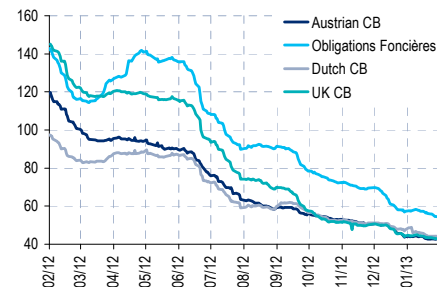
Source: Citi Research, Markit

**Figure 41. Covered Bond Tenors, ASW-Spreads, bp**



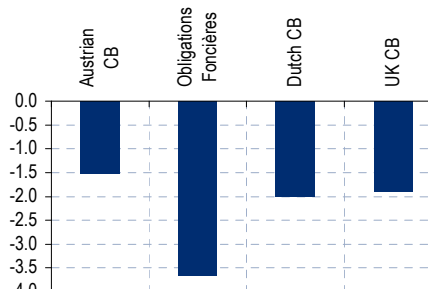
Source: Citi Research, Markit

**Figure 36. Secondary Market Performance, ASW-Spreads, bp**



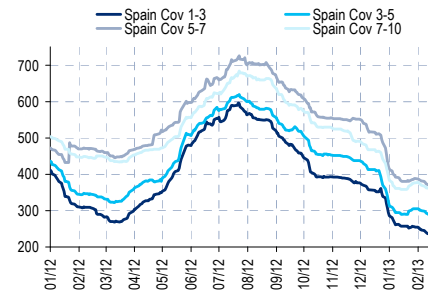
Source: Citi Research, Markit

**Figure 39. ASW-Spread change during last month, bp**



Source: Citi Research, Markit

**Figure 42. Covered Bond Tenors, ASW-Spreads, bp**



Source: Citi Research, Markit

## Redemptions March 2013

Figure 43. Redemptions of EUR Benchmark covered bonds in the upcoming month

Issuer Name	Ticker	Coupon	Maturity	Announce	Country
Cie de Financement Foncier SA	CFF	5.375	02.03.2013	07.02.2001	FR
Lloyds TSB Bank PLC	LLOYDS	2.875	11.03.2013	03.03.2011	GB
Dexia Kommunalbank Deutschland AG	DEXGRP	1.875	11.03.2013	02.03.2010	DE
AyT Cédulas Cajas IV Fondo de Titulización de Activos	AYTCED	4	13.03.2013	07.03.2003	ES
Bankia SA	BKIASM	3.5	14.03.2013	07.09.2010	ES
Norddeutsche Landesbank Girozentrale	NDB	3	15.03.2013	08.07.2005	DE
DEPFA Deutsche Pfandbriefbank AG	PBBGR	4	15.03.2013	20.02.2008	DE
Abbey National Treasury Services PLC/London	ABBEY	2.5	18/03/2013	11/03/2010	GB
ING Bank NV	INTNED	4.25	19.03.2013	13.03.2008	NL
Hypothekenbank Frankfurt International SA	HYPFRA	2.25	25.03.2013	16.03.2010	LU
CIF Euromortgage SA	CIFEUR	3.625	25.03.2013	09.03.2006	FR
Northern Rock Asset Management PLC	NRKLN	3.625	28.03.2013	22.03.2006	GB

Source: Citi Research

## Covered Bond Performance

Figure 44. iBoxx Covered Bond Indices: Total Return, %

Segment	Absolute	Δ 1m	Δ ytd	Δ 1y
EUR Covered	192.27	1.0%	1.1%	8.8%
Pfandbriefe	185.53	0.8%	0.1%	4.5%
Mortgage Pfandbriefe	191.30	0.8%	0.0%	4.6%
Public Sector Pfandbriefe	183.75	0.7%	0.1%	4.4%
French Covered Bonds	208.47	1.1%	0.5%	9.6%
Obligations Foncières	141.63	1.2%	0.6%	10.0%
Obligations à l'Habitat	128.98	0.5%	0.2%	3.9%
Spanish Covered Bonds	186.69	0.9%	3.7%	11.1%
Spanish Single Covered Bonds	123.85	0.9%	2.7%	8.2%
Spanish Multi Covered Bonds	128.12	0.8%	6.2%	18.4%
Austrian Covered Bonds	134.96	0.9%	0.3%	6.6%
Dutch Covered Bonds	143.41	1.2%	0.2%	7.9%
Italian Covered Bonds	124.71	0.7%	1.4%	12.1%
Irish Covered Bonds	140.70	0.8%	1.1%	13.9%
Canadian Covered Bonds	124.74	1.3%	0.1%	6.9%
Norwegian Covered Bonds	134.60	1.0%	0.0%	6.6%
Portuguese Covered Bonds	139.59	1.2%	3.5%	30.0%
Swedish Covered Bonds	131.61	0.7%	0.0%	4.3%
UK Covered Bonds	142.71	1.0%	0.3%	9.2%

Source: Citi Research



## Appendix A-1

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