BofA SECURITIES

European Rates Watch

German 2024 funding plan – Germany still stands out

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GE: Germany

C&R: coupons and redemptions

WAM: weighted average maturity

Gross bond supply of around €275bn, down vs 2023

The German finance agency (Finanzagentur) released its 2024 funding plan on Dec 19th. The agency targets c. €275bn of gross bond issuance, a decline of c.€16bn vs 2023 (Exhibit 1). This will be split as follows: €247.5bn of conventional bond sales via auctions, €17-19bn in green bonds (including the syndicated tap of a long bond) and the syndication of 2-4 other long-dated conventional bonds. As announced in November, the plan does not include any inflation-linked issuance (see our note: Bye bye DBRi).

More bonds (€79bn net supply), less bills (-€35bn net supply)

€275bn gross bond issuance implies that the stock of German bonds will rise by €79bn in 2024. This is larger than the €44bn net funding needs required to cover the deficit and defense spending plans in 2024, as the agency will, in parallel, cut significantly its stock of bills (from €147bn now, to €112bn by end of 2024) – Exhibit 2. Unlike in recent years, the Finanzagentur does not rely on secondary market sales or repo borrowing to cover its financing needs. Such activities will only be used to support market liquidity.

But GE still stands out: one with largest supply drop vs '23

As the November constitutional court ruling challenged the use of special funds and thereby lowered German funding needs, we argued that the Finanzagentur will mostly reflect the reduced needs via lower bill issuance. We were not expecting the lilt to be this significant (Global Rates Weekly, 24-Nov). The 2024 bond issuance number has surprised us to the upside. However, even with this upside surprise, Germany still stands out as the country where issuance will decline the most vs 2023 (Exhibit 1).

Exhibit 1: BofA projections for gross and net issuance in 2024 across countries & chg vs 2023
Germany still appears as the issuer with largest decline in gross and net bond supply in 2024 vs 2023

	Gross supply			Net of redemptions			Net of C&R, buybacks & ECB		
	2023	2024	Change	2023	2024	Change	2023	2024	Change
Austria	35	33 *	-2	7	9	2	11	14	3
Belgium	45	41	-4	24	13	-11	22	14	-8
Finland	22	17 *	-5	11	8	-3	14	10	-3
France	303	305 **	2	153	136	-17	129	140	11
Germany	291	275	-16	105	79	-26	142	133	-9
Greece	10	10	0	5	8	3	3	7	4
Ireland	7	8 *	1	0	0	0	0	0	0
Italy	340	353*	13	74	80	6	63	101	38
Netherlands	46	40	-6	14	7	-7	18	15	-3
Portugal	13	12 *	-1	3	6	3	1	6	4
Spain	179	183 *	4	87	70	-17	77	89	12
Total EGB	**1291**	**1277**	**-14**	**484**	**417**	**-67**	**482**	**530**	**48**
EU	120	150	30	117	147	30	115	145	30
Total EGB+EU	**1411**	**1427**	**16**	**600**	**564**	**-37**	**597**	**675**	**78**

Source: Debt agencies, Bloomberg, ECB, BofA Global Research. (*) BofA Projections, (**) before netting for buybacks.

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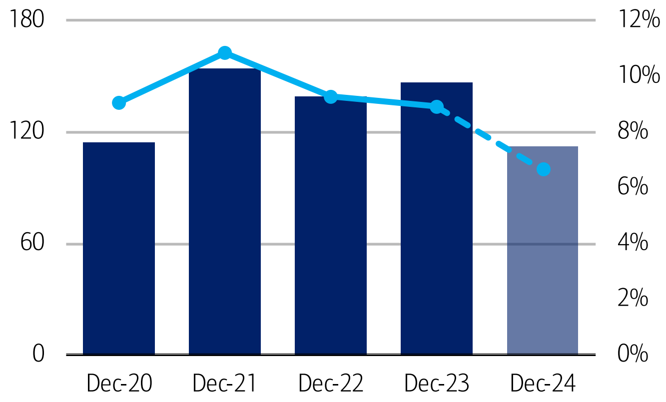
Green bonds: a new 5y, and more frequent auctions

The Finanzagentur will conduct more frequent green bond auctions (10 in total, one per month, except in June and December). One of these will be for the launch of a new 5y green bond. We expect other auctions to focus on 10y, 5y and 7y sectors, where outstanding amounts are lowest. There will also be one syndication, to tap a long dated green bond (presumably the 30y launched this year). Twin bonds will not be tapped at the same time, to avoid an unnecessary significant increase in own holdings.

WAM of German supply to rise as bill supply is cut

When it comes to the maturity of issuance, comparing the conventional auction plan to what was completed in 2023, we find: (1) a sharp reduction in 7y auctions, (2) some reduction in 5y and 30y auctions, vs (3) an increase in 2y & 10y auctions (**Exhibit 3).**

Exhibit 2: Bubill stock is projected to decline to €112bn
Share of Bubills as % of tradeable debt (ex own holdings) will drop to c. 7%



Source: Finanzagentur, BofA Global Research

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Exhibit 3: Conventional auctions: 2024 plan vs what was done in 2023
Significant reduction in conventional bond supply via auctions in the 5-7y

	2023	2024	change
2y	71.5	76	4.5
5y	54.5	48	-6.5
7y	31	15	-16
10y	62.5	70	7.5
15y	15.5	16.5	1
30y	27	22	-5
total	**262**	**247.5**	**-14.5**

Source: Finanzagentur

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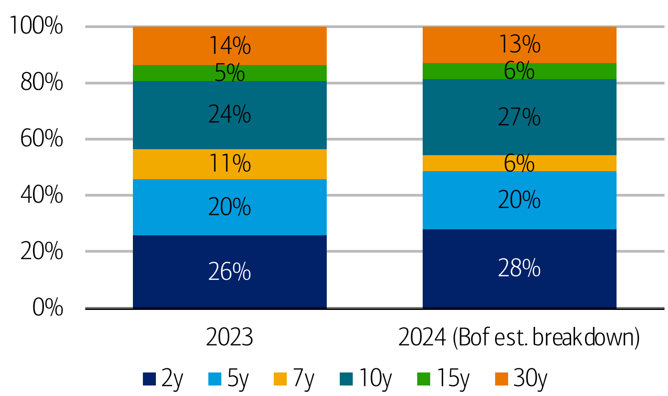
Including our estimated breakdown of syndications and green auctions, the variation by maturity is still similar (Exhibit 4). This implies limited change in the WAM of bond issuance. However, when combined with the significant reduction in bill issuance, the result is an increase in the WAM of overall German supply in 2024.

Exhibit 4: BofA estimate of bond issuance breakdown by maturity
Share of 2y and 10y supply likely to rise vs drop in 7y



Source: BofA Global Research. Based on BofA estimates for split of syndications & green auctions

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30y supply still significant, on demand & inverted curve

The 30y bond supply will remain significant in 2024, representing around 12% of bond auctions and a little more after accounting for long-dated syndications (which should total €12bn). The Finanzagentur justified this reliance on long-end issuance by (a) strong demand recorded at long end syndications in 2023, in particular from Pensions and insurance, which are expected to continue to show interest in long-dated Bunds at current yield levels, and (b) an inverted curve that makes long end issuance attractive, in a context where the Finanzagentur considers that risks of higher long-dated rates in the future as non-negligible.

Changes likely limited during the year, unlike in 2023

The Finanzagentur signaled limited potential for a reduction in issuance at upcoming quarterly updates, given the increased budgetary pressures. That said, it flagged that small variations in funding needs would be covered by secondary market operations (either sale of own holdings if needs are increased, or greater retention of bonds at auctions if needs are lower), and repo/reverse repo activities. It is also worth noting that the Finanzagetur insisted on its intention to stick to the issuance plan by maturity, even if market developments resulted in higher long-dated real rates for example.

Bilateral and tri-party repos to be possible in 2024

Currently, the Finanzagentur conducts its repo/reverse repo transactions in a centrally cleared way, but, next year, it will diversify in the reverse repo in particular with bilateral and tri-party repos. The agency noted that it was positively surprised in 2023 by how well the cleared repo market had behaved. The overall volume was seen to have significantly increased in 2023, with amounts being well received, reducing the pressure to rapidly add bilateral and triparty transactions in 2023.

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