

## Sustainable Finance Special Interest Commentary

23 October 2024

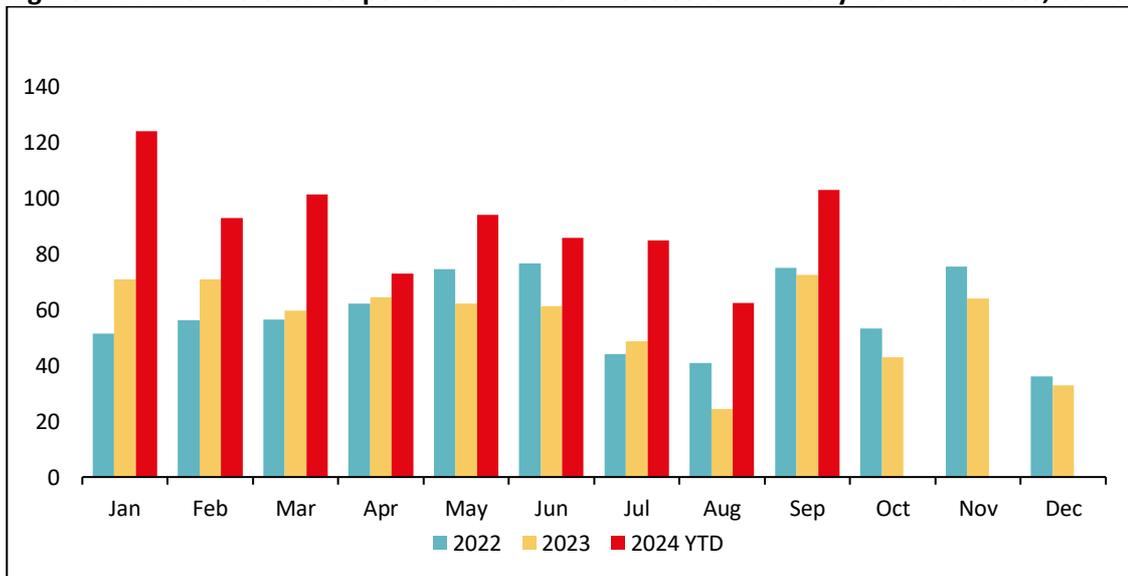
### 3Q2024 Sustainable Finance Update – Globally Warming

Per Bloomberg, sustainable finance bond issuances (comprising mostly green, social, sustainability, and sustainability-linked (“GSSSL”) bonds) totalled USD821.1bn as at 30 September 2024, already surpassing the 2023 global tally of USD674.4bn. Sustainable finance bond issuances are up ~54% compared to year-to-date issuance as at 30 September 2023 and tracking ahead of certain market participants’ expectations from earlier in the year for USD1 trillion in issuance for 2024. In comparison, Asiadollar ex-Japan G3 currency bond issuance is up ~33% y/y while US Corporate bond issuance is up ~40% y/y as at time of writing. This implies a relative outperformance in the sustainable finance bond issuance space so far in 2024 compared to the overall bond market. Within these global trends, issuance of green, social and sustainability bonds up to 30 September 2024 have surpassed full year 2023 levels while sustainability linked bonds continue to lag prior year performance.

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**Figure 1: YTD2024 Global Corporate and Government GSSSL Monthly Bond Issuances, USDbn**



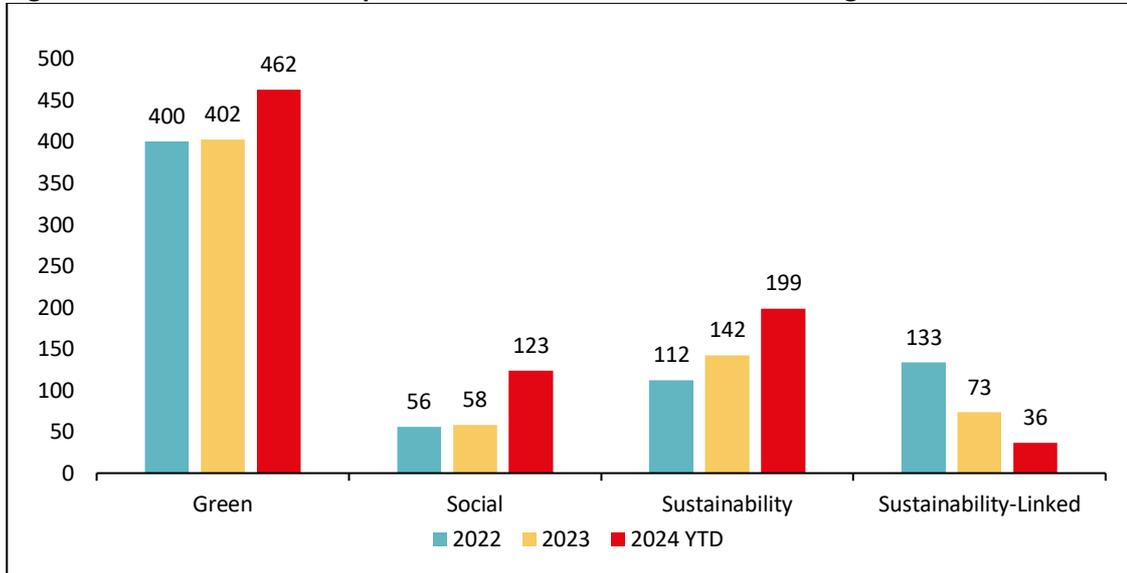
Source: Bloomberg, OCBC Credit Research as of 30 September 2024

While issuance volumes have risen at the fastest pace since the market’s inception in 2007, the issuance composition by industry remained consistent with government and supranational issuers continuing to dominate issuance. As we have mentioned previously, governments and supra-nationals or sovereign issuers have a higher capacity and willingness to issue sustainable finance instruments above general credit market trends amidst an increasing and ongoing need to finance national sustainability policies and agendas towards their net zero pathways. The next largest issuers are Banks and Financials who have a higher capacity to issue than general corporates given their relatively larger balance sheets. Banks and Financials also have a higher willingness given their constant need for funding and the heavy influence of environmental, social and governance considerations on the activities of Financial Institutions. Please see our

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publication *“The amplifying influence of sustainability for financial institutions”* published 30 January 2023 for more details.

**Figure 2: YTD2024 Global Corporate and Government GSSSL Bond Segment Issuances, USDbn**



Source: Bloomberg, OCBC Credit Research as of 30 September 2024

Top government and supranational issuers so far in 2024 include:

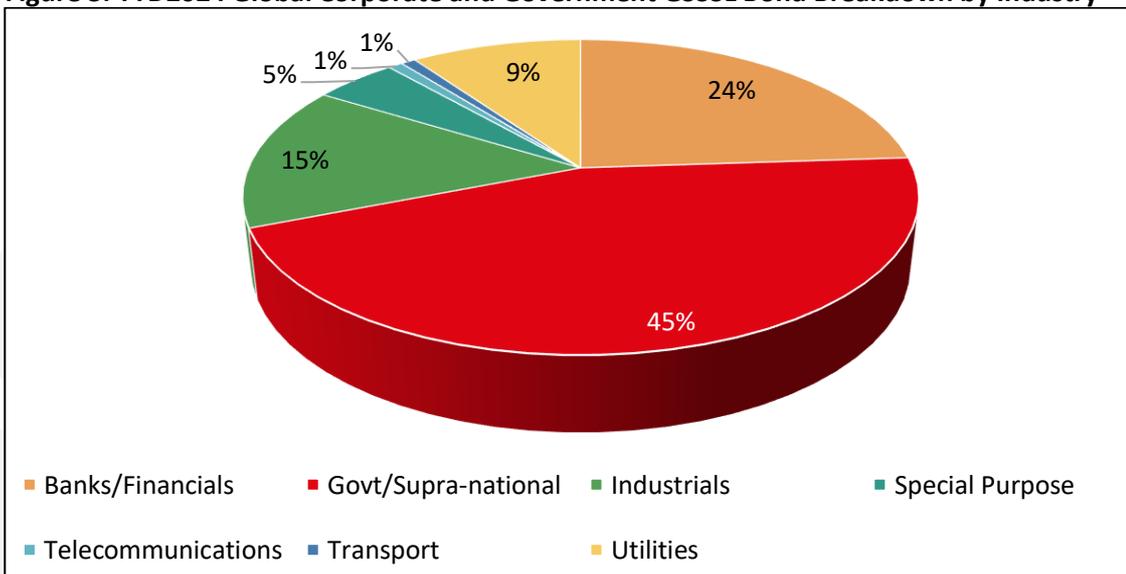
- (i) The **European Union (“EU”)**, issuing a EUR12bn (~USD13bn) Long 25Y Green, Fixed note bond. This was issued under the NextGenerationEU green bond framework, whereby the funds will be used for nine broad categories of expenditure, including energy efficiency, clean energy and climate change adaptation. NextGenerationEU is the European Union’s ~EUR800bn recovery plan aimed at supporting member states in recovering from the COVID-19 pandemic. Launched in 2021, it focuses on building a greener, more digital, and more resilient economy through grants and loans. The plan funds’ investments in renewable energy, digital infrastructure, and reforms to promote long-term growth, and are aligned with the EU’s climate and digitalisation goals. The repayment of EU borrowings allocated to NextGenerationEU will start as of 2028 and happen over a long-time horizon until 2058.
- (ii) **Italy Buoni Poliennali Del Tesoro**, issuing EUR9bn (~USD9.8bn) in Green, Fixed bonds. This is in accordance with Italy’s Framework for the Issuance of Sovereign Green Bonds (“Green BTP”). Launched in 2021, it finances public projects with positive environmental impacts, such as renewable energy, pollution prevention, and biodiversity protection. Aligned with international standards, it supports Italy’s ecological transition and the UN’s Sustainable Development Goals, with annual reporting on the use of proceeds and environmental outcomes.
- (iii) The **French Republic**, issuing a EUR8bn (~USD8.7bn) 25Y Green, Fixed bond. This is in accordance with France’s Green OAT Framework. Launched in 2017, it supports projects aimed at tackling climate change, protecting biodiversity, and reducing pollution. These sovereign green bonds, issued by Agence France Trésor (“AFT”), finance government expenditures on renewable energy, sustainable transportation, water management, and similar green initiatives. It also aligns with France’s commitment to the Paris Agreement and the UN’s SDGs.

The **European Investment Bank (“EIB”)** snagged the fourth and fifth largest issuance spot, issuing (iv) a EUR6bn (~USD6.5bn) 10Y Green, Fixed note and (v) a EUR5bn (~USD5.5bn) 10Y Green, Fixed note (Climate Awareness Euro Area Reference Note) that was the most subscribed issue in Europe’s primary market that week with the orderbook exceeding EUR34.5bn. The funds will be directed towards the EIB’s lending activities that significantly contribute to mitigating climate change, aligning with the evolving sustainable finance legislation of the European Union such as the EU Taxonomy Regulation. Until the disbursements are made, the funds will be invested in money market instruments.

The top five issuances are from Europe. It is possible that the driving force behind Europe dominating the sovereign green bond space is both political willingness and regulatory developments. The EU has been ramping up on green projects through the ongoing implementation of initiatives like the Europe Green Deal and Re Power EU which can be funded by green bonds. In addition, Europe continues to have the more developed and transparent sustainability regulation frameworks that helps address the increased scrutiny of sustainable investments in recent years.

The **Japan Government** had the next largest issuances and the sixth and seventh largest issuances globally, issuing JPY799.5bn (USD5.3bn) on 14 February and JPY799.8bn (USD5.3bn) on 27 February. The JPY800bn issue was notable as the world’s first sovereign climate transition bond to finance the development of clean energy resources to help Japan cut greenhouse gases to zero by 2050 and become a carbon-neutral society. The 10-year transition bonds were issued to fund low-cost wind power generators and airplanes that use alternative fuels and were reportedly sold at a lower yield than Japan’s regular debt, signalling strong investor demand. Japanese Prime Minister Fumio Kishida intends to sell JPY20tn (USD140bn) of “Japan Climate Transition Bonds” over the next decade to attain the goal of cutting greenhouse gases to zero by 2050. This is a concern for the country given its low energy self-sufficiency and higher proportion of hard-to-abate sectors. The 10-year transition bond was followed by a JPY799.8bn 5-year transition issue later in February. Since then, the country has issued two further smaller transition bonds in May and July 2024 and is scheduled to issue two more in late October 2024 and January 2025. Please see our publication *“Transition Bonds: In the shadows of Sustainable Finance”* published 27 May 2024 for more details on transition bonds.

**Figure 3: YTD2024 Global Corporate and Government GSSSL Bond Breakdown by Industry**



Source: Bloomberg, OCBC Credit Research as of 30 September 2024

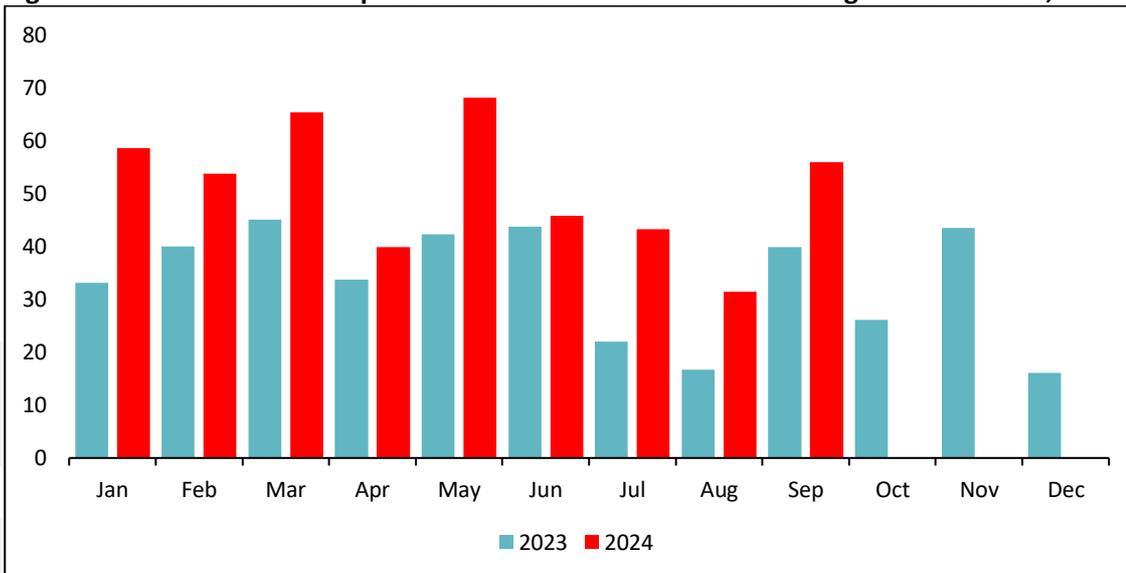
**Green bond issuance remains strong amongst GSSSL bonds and Governments.**

In the first nine months of 2024, green bonds remained by far the highest sought after sustainable finance instrument with ~USD462.4bn issuances in the global Corporates and Governments sector. This is not surprising given the five largest issuances for the year to date from Governments including supranationals were green bonds. The next largest sustainable finance instrument issued was sustainability, followed by social and sustainability-linked, almost the same ranking as 2023.

It is worth mentioning that Qatar has made a significant move towards green bonds, issuing a bond offering split into two tranches: a USD1bn 5Y bond and a USD1.5bn 10Y bond, both with premiums above U.S. Treasury bonds. The issuance aligns with Qatar's broader agenda of addressing climate change and promoting sustainable development despite the world's 9<sup>th</sup> highest GDP per capita income country having a heavy economic and fiscal reliance on the hydrocarbon sector. The issuance of these green bonds is a crucial part of Qatar's economic strategy, which includes the ambitious North Field expansion project aimed at boosting liquefied natural gas (LNG) production. Qatar aims to reduce greenhouse gas emissions by 25% by 2030, demonstrating its commitment to sustainability and responsible environmental governance.

The largest green bond from a Banks and Financials related issuer was Kreditanstalt fuer Wiederaufbau's EUR4bn (USD4.3bn) KFW 2.875% '32s. This issuer though is also a government related entity as Germany's state-owned investment and development bank, having issued a total of ~USD12bn through 30 September 2024 across 7 issues. Other large green bond issuers from the Banks and Financials related sector include co-operatives Cooperatieve Rabobank UA (EUR1.5bn RABOBK 3.775% '28c27s) and BPCE SFH SA (EUR1.5bn BPCECB 3.125% '34s) with National Australia Bank Ltd's EUR1.25bn NAB 3.125% '30s the largest privately owned Banks and Financials related issuer. The largest corporate related issuer of green bonds was the recently nationalised Electricite de France SA (EUR1.25bn EDF 4.75% '44s).

**Figure 4: YTD2024 Global Corporate and Government Green Bond Segment Issuances, USDbn**

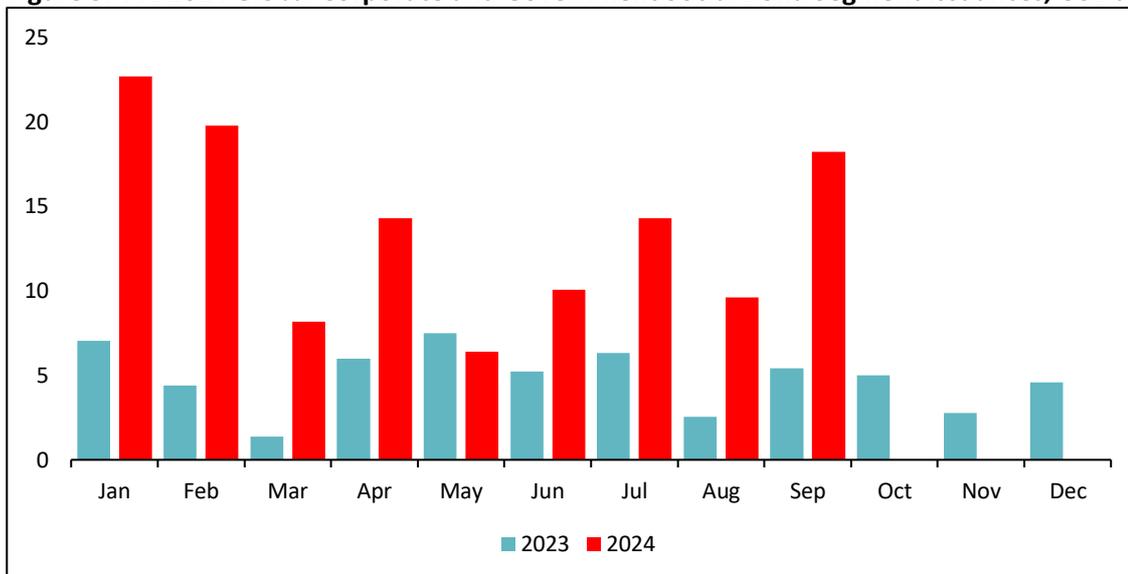


Source: Bloomberg, OCBC Credit Research as of 30 September 2024

**Social bonds**

Social bonds saw a significant y/y increase in issuance by ~170% to USD123.4bn (9M2023: USD45.7bn). Issuances came in strong in both January and February, with the top issuances for the year-to-date coming in these two months. **Caisse d'Amortissement de la Dette Sociale ("CADES")**, owned by the French Government, issued two EUR4bn (~USD4.3bn) bonds in January and one USD4bn bond in February, all of which are Social, Fixed bonds. The proceeds from the issues will be used solely to finance and/or refinance eligible social expenditures as set out in the CADES Social Bond framework. CADES is the world's largest issuer of social bonds and was established to fund and redeem France's social security debt. Unsurprisingly, social bonds are dominated by government and supranational issuers as well as state owned banks including the African Development Bank, Netherlands' BNG Bank NV and India's National Bank for Agriculture and Rural Development. Of note is that social bond issuance is now the third largest issuance amongst the GSSSL landscape after lagging in 2023.

**Figure 5: YTD2024 Global Corporate and Government Social Bond Segment Issuances, USDbn**



Source: Bloomberg, OCBC Credit Research as of 30 September 2024

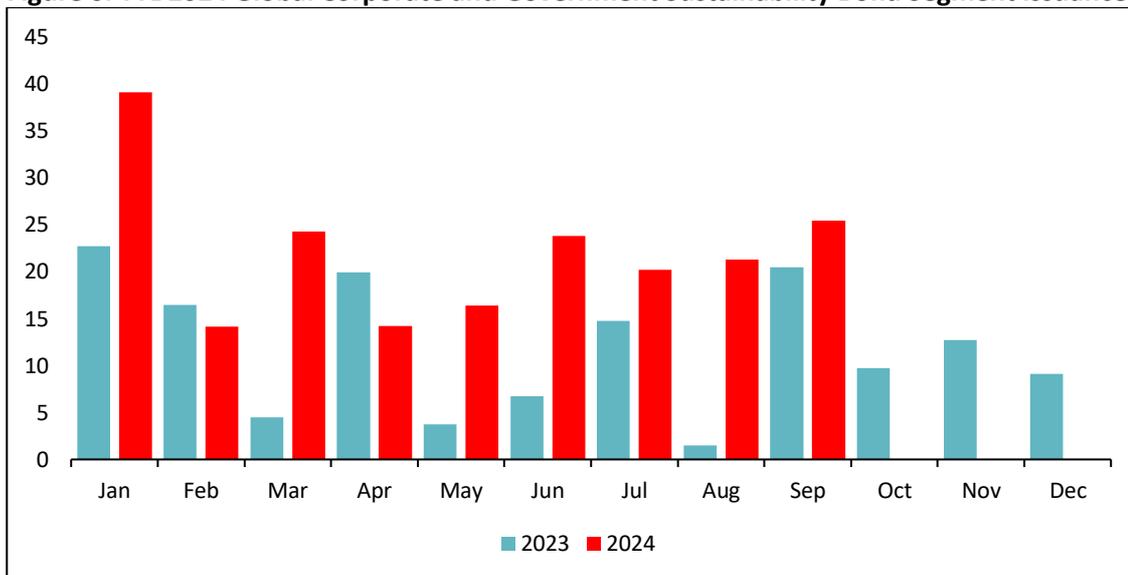
**Sustainability Bonds**

In the first nine months of 2024, sustainability bonds issuance also grew significantly by 79% y/y to USD198.6bn (9M2023: USD110.7bn). Issuances came in strongest in January, with the top issuance coming from **International Bank for Reconstruction & Development ("IBRD")** with a USD5bn 7Y Sustainability, Fixed note. Funds will be used for "sustainable development" projects, programs, and activities in IBRD member countries. The other top issuers for the year-to-date include:

- (i) The **Republic of Peru** that issued a PEN15.4bn (~USD5bn) 15Y Sustainability, Fixed bond, for which the Government can use the proceeds to finance new Eligible Green or Social expenditures and/or refinance existing Eligible Green and/or Social Expenditures, as stated in the Peru Sustainable Bond Framework. There is also a second-party opinion report on Peru's Framework by Sustainalytics, a Morningstar company which evaluated the credibility, impact and alignment with various sustainability guidelines and principles.

- (ii) **International Development Association (“IDA”)**, an extension of the World Bank, that issued a USD4bn 5Y Sustainability, Fixed. The proceeds are to be used for supporting the financing of a combination of green and social, i.e. “sustainable development”, projects, programs and activities in IDA member countries.
- (iii) **Inter-American Development Bank (“IDB”)** that issued a USD4bn Sustainability, Fixed note, whereby the bond proceeds are invested in accordance with IDB’s conservative liquidity policy until used for project disbursements. Similar to the Peru Government, IDB also has a Sustainable Development Bond Framework that they adhere to.

**Figure 6: YTD2024 Global Corporate and Government Sustainability Bond Segment Issuances, USDbn**

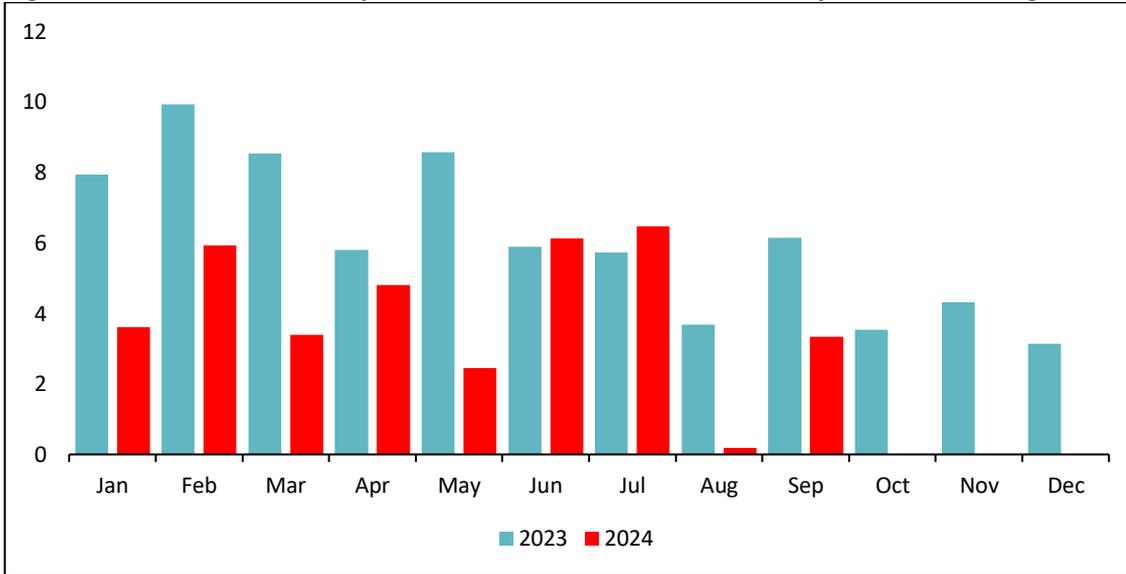


Source: Bloomberg, OCBC Credit Research as of 30 September 2024

**Sustainability-Linked bonds remain under pressure.**

Sustainability-Linked bonds (“SLBs”) remain on a downward trend although in June and July, there was a significant issuance, primarily due to **Enel Spa’s (“Enel”)** USD2bn issuance. The issuance of Sustainability-Linked Bonds (SLBs), which link interest payments to the achievement of sustainability goals, reached USD6.6bn in June. This is the highest amount since September 2023, when companies and governments raised USD7.5bn. Italian vertically integrated utility Enel, in particular, received a significant amount of investor orders of nearly USD11bn for its SLB sale, which the company sees as a positive sign for the market’s confidence. Enel is the first and largest issuer of SLBs but notably missed its emissions targets on ~USD20bn of bonds earlier this year. SLB investor familiarity with Enel as the largest SLB issuer, as well as the company’s commitment to sustainability likely drew the large investor interest for its recent SLB sale. Investors may also have been attracted by the possibility of receiving higher coupons in the future if Enel misses its emissions targets again. Per Bloomberg, the missed emissions target cost Enel around EUR83mn in additional interest. Of note is that corporates are the main issuers of SLBs given the that key performance indicators referenced in SLBs are more appropriate to corporates than governments or supranationals.

Figure 7: YTD2024 Global Corporate and Government Sustainability-Linked Bond Segment Issuances, USDbn



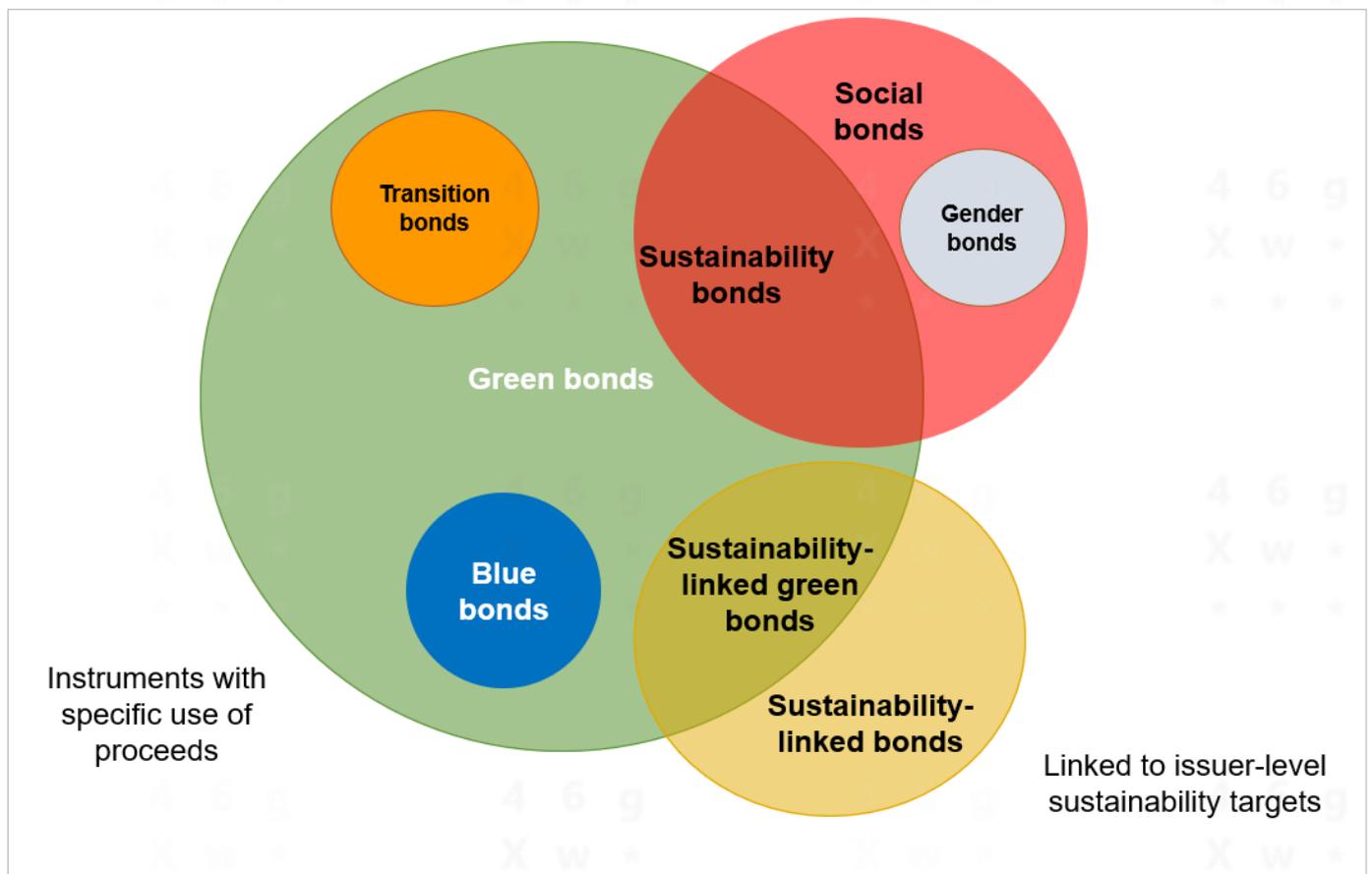
Source: Bloomberg, OCBC Credit Research as of 30 September 2024

**Table 1: Definitions**

	Icon	Type of bonds	Definition
1.		Green bond	Proceeds from these bonds are specifically allocated to financing new and existing projects or activities with positive environmental impacts.
2.		Social bond	To qualify as a social bond, the proceeds must be used to finance or refinance social projects or activities that achieve positive social outcomes and/or address a social issue.
3.		Sustainability bond	Sustainability bonds are issues where proceeds are used to finance or re-finance a combination of green and social projects or activities.
4.		Sustainability-linked bond	These bonds are structurally linked to the issuer’s achievement of climate or broader United Nations Sustainable Development Goals (“UN SDG”) targets. Sustainable performance target (“SPT”)s that are not met then results in an increase in the instrument’s coupon rate. Conversely, a SPT that is met or exceeded could result in a decrease in the instrument’s coupon rate.
5.		Gender bond	A type of social bond where proceeds are used to support the specific purpose of raising awareness on gender inequality and women empowerment.
6.		Blue bond	A type of green bond where proceeds are used on projects or strategies leading to a healthy and productive ocean and marine life environment.
7.		Transition bond	A hybrid of green and sustainability-linked bonds where proceeds are used to reduce an issuer’s environmental impact through decarbonising fossil fuel and hard-to-abate sectors that would not normally qualify for green bonds.

Source: OCBC Credit Research

**Figure 8: Classification of GSSSL bonds**



Source: OCBC Credit Research

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