Media Release

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Green Bond Pricing in the Primary Market

Climate Bonds Releases Third Report in Series

London 22/02/2018 11:00 GMT: Climate Bonds Initiative has released "Green Bond Pricing in the Primary Market" report analysing the performance of green bonds at issue July - September 2017. The report covers USD15.4bn, slightly over half of the combined face value of labelled green bonds issued in the third quarter of 2017.

The report is a continuation of our ongoing assessment of green bond pricing. A preliminary 'Snapshot' briefing paper examining Q4 of 2016 was produced for the 2017 Climate Bonds Annual Conference.

The first Green Bond Pricing Report examining eligible green bonds from 2016 and Q1 of 2017 was released last August, followed by a report covering Q2 2017 published in November 2017.

Highlights from Q3 2017:

- 12 EUR and 7 USD labelled green bonds issued in Q3 2017 were analysed
- Upsizing at issue added USD2.4bn
- 47% of green bonds were allocated to green investors
- Two supranational issuers extended the green bond pricing curve in EUR
- Green bonds on average achieved larger spread tightening during book-building than vanilla bond equivalents
- Green bonds achieved at least the same oversubscription as vanilla equivalents
- Half the green bonds in our sample priced on or inside their secondary curves
- Green bond buyers cannot automatically expect a new issue premium
- EUR-denominated green bonds had larger price improvement than corresponding indices after 7 and 28 days

Detailed Findings:

- On average, green bonds achieved the same or higher levels of oversubscription than comparable vanilla bonds, according to data from the last two quarters.

- For the first time, all EUR green bonds in the Q3 sample tightened more aggressively during the book building process – from IPT to final pricing – than vanilla equivalents. On average, USD green bonds tightened more during the book building process than vanilla equivalents. These indicators suggest that the green angle could be helping to achieve tighter pricing.

- Half of the green bonds did not exhibit a new issue premium. This is compared to 40% in the Q2 2017 pricing report and to 60% in the January 2016 - March 2017 edition. Green bonds investors cannot automatically expect to receive a new issue premium.

- 47% of green bonds were allocated to green bond investors. The other 53% were allocated to a mixture of investors who specifically target green bonds and those for whom the green label was not relevant to investment decisions.

- 90% of green bonds tightened 7 days after announcement, 85% after 28 days. Around half of the sampled bonds tightened more than their corresponding basket after both 7 and 28 days.

- 79% of bonds tightened by more than their corresponding index after 7 days, and 74% after 28 days. All Climate Bonds pricing reports points to green bonds, particularly EUR denominated, consistently tightening by larger percentages than corresponding indices in the immediate secondary market.

Peer Stein, Global Head Climate Finance, Financial Institutions Group IFC:

“Green bonds are one of the fastest growing asset classes within debt capital markets, with increasing interest from emerging markets issuers. This research will help green bond issuers and investors alike as it sheds more light on pricing dynamics and issuer diversification.”

Tony Trzcinka, CFA. SVP and Portfolio Manager, Impax Investment Management LLC:

“This CBI report highlights the continued strong interest from investors in this fast-growing green asset class. It also shows that there is a diverse investor base of both green and traditional investors that are interested in a more sustainable future.”

Max Bronzwaer, Treasurer, Obvion NV:

"The green bonds market has been growing incredibly fast, and now we're seeing interesting developments in pricing. The analysis remains preliminary, but shows close examination is well worthwhile. We hope the paper encourages potential green bond issuers to explore this market.”

Sean Kidney, CEO, Climate Bonds Initiative:

“With seven quarters worth of data, we are now starting to see evidence of green bonds benefiting both issuers and investors. Meeting increasing investor demand in various markets, while expanding the issuer base will widen the pool available for analysis.”

“If the positive growth forecasts for 2018 are reached we can expect an impact on green pricing. Climate Bonds will continue its analysis and monitoring of green bond behaviour in the primary and secondary market and expand its sample base of green and vanilla performance comparisons.”

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Notes for Journalists

Green bond Pricing in the Primary Market July-September 2017 was prepared jointly by the Climate Bonds Initiative and the International Finance Corporation (IFC). Support and funding was provided by ImPax World Mutual Funds, Obvion Hypotheken, and Rabobank. Additional funding was received from the Ministry of Finance of Japan and the Government of the Kingdom of Denmark through the Ministry of Foreign Affairs.

Report Methodology: This paper includes labelled green bonds issued during the third quarter of 2017. 96 labelled green bonds were issued in the course of the third quarter, for a combined face value of USD30.3bn. This paper covers 19 green bonds from 17 issuers, amounting to a combined face value of USD15.4bn, or just over half of the total amount issued in the quarter.

The sample is restricted by currency, not domicile of issuer, and includes green bonds from developed, emerging, and ever frontier market countries. We have included all labelled green bonds meeting a set of parameters to capture the most liquid portion of the market, while trying not to limit diversity of issuer type.

Previous Pricing Reports:

Green Bond Pricing in the Primary Market: **Q4 2016 Snapshot can be found here**.

Green Bond Pricing in the Primary Market: **Jan 2016 – March 2017 can be found here.**

Green Bond Pricing in the Primary Market: **April – July 2017 can be found here.**

About the Climate Bonds Initiative: The Climate Bonds Initiative is an investor-focused not-for-profit, promoting large-scale investment in the low-carbon economy. More information on our website.

Partner Disclosure: Several organisations named in this communication are Climate Bonds Partners. A full list of Partners can be found here.

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