

Climate Bonds Releases Latest Green Bonds Pricing Report

Q1-Q2 2018 Analysis

London 31/10/2018 11:00 GMT: Climate Bonds Initiative has released the “*Green Bond Pricing in the Primary Market January- June 2018* [report](#)”; the sixth publication in a series assessing green bond pricing that [commenced](#) in January 2016 and is prepared on a joint basis with the International Finance Corporation (IFC).

The report identifies Q1 2018 as the first period in which green bonds have performed better than vanilla equivalents in both EUR and USD in terms of having larger book cover and greater spread compression. 17 out of 23 EUR green bonds and 6 out of 6 USD bonds had larger oversubscription than vanilla equivalents.

This follows detailed analysis of the performance of 31 green bonds at issue during H1 (Q1-Q2) 2018 comprising 23 EUR and 6 USD denominated benchmark size (USD500m or EUR equivalent) green bonds with a total value of USD29.4bn.

The report includes a spotlight on emerging market green bonds and overview on Green Bond Exchange Traded Funds (ETFs) for the first time.

Highlights from Q1-Q2 2018:

- 23 EUR and 6 USD labelled green bonds issued in H1 2018 were analysed
- 11 out of 28 issuers are first time green bond issuers. TenneT issued two green bonds, and other repeat green bond issuers are Iberdrola, Poland, EIB, NAB and MidAmerican Energy
- Green bonds achieve greater spread compression, and larger book cover during pricing than vanilla equivalents on average
- Green bonds in H1 2018 priced either on or outside their yield curves
- 55% of green bonds were allocated to investors declaring themselves green, the most we have seen so far. Non-mandated investors continue to support the market
- Green bonds tend to tighten more than vanilla benchmarks in the immediate secondary market
- Green bond issuers continue to extol the virtues of going green
- Spotlight on investment grade Emerging Market green bond issuers

Detailed Findings:

- Q1 2018 is the first period in which green bonds have performed better than vanilla equivalents in both EUR and USD in terms of having larger book cover and greater spread compression. 17 out of 23 EUR green bonds and 6 out of 6 USD bonds had larger oversubscription than vanilla equivalents. Average spread compression was also larger for vanilla equivalents.
- CBI built yield curves for 17 out of 28 issuers. Five bonds priced on the curve, 12 exhibited traditional new issue premia. Five bonds in our sample had secondary market green curves in addition to vanilla curves.
- Green bonds continue to attract a broad range of investors. 55% of green bonds were allocated to green bond investors, the highest percentage we've seen so far. This suggests that the pool of dedicated green bond investors is growing.
- Green bonds appear to have performed well in the immediate secondary market. More green bonds tightened by a larger percentage compared to comparable indices and baskets of vanilla bonds than did not, after both 7 and 28 days.
- Aside from pricing, green bond issuers highlight other clear benefits including a diversified investor base and enhanced visibility for corporate and social responsibility initiatives.
- We took a closer look at USD80.47bn of qualifying green bonds issued from Emerging Markets between January 2016 and June 2018.

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

“IFC estimates that [the Paris Agreement commitments represent \\$23 trillion in investment opportunities](#) by 2030, and Green Bonds hold great promise as a way to finance them. Pricing and investor trends for emerging markets' green bonds seem to be aligned with the global green bond trends, though more data and research is needed.”

“IFC would also like to see more investor diversification, as the share of dedicated green bond investors participating in emerging markets green bond issuances is lower than for developed market issuances. This is clearly an area for future growth.”

Sean Kidney, CEO, Climate Bonds Initiative:

“The analysis points to another sign of wider market interest in quality green product. This is reflected in pricing signals, on top of the anecdotal evidence from individual issuers.”

“It’s still early days for positive pricing of climate factors in most investment products. We expect, as the green bond market develops annual issuance towards its first trillion, that pricing trends will become more visible.”

“In 2018 we’ve moved to a semi-annual reporting cycle that reflects a longer-term perspective on what is a dynamically evolving market. Twice yearly analysis on larger date sets matches more closely with the needs of the growing number of issuers and investors, looking to hedge growing climate risks and take the long-term opportunity that exposure to green assets will provide.”

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Notes for Journalists:

Report Methodology: This paper includes labelled green bonds issued during the first half of 2018. USD81.7bn of green bonds were issued in 21 currencies in the first half of 2018. This study captures USD29.4bn, or 36% of that amount. The minimum size for inclusion was raised from USD300m (as applied in previous reports) to USD500m.

The sample is restricted by currency, not domicile of issuer, and includes green bonds from developed, emerging, and even frontier market countries. Climate Bonds 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. Download the report [here](#).

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](#).
- **Green Bond Pricing in the Primary Market:** [July – September 2017](#) can be found [here](#).
- **Green Bond Pricing in the Primary Market:** [October – December 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 here](#).

Disclosure: *Green bond pricing in the primary market January-June 2018 was prepared jointly by the Climate Bonds Initiative and the International Finance Corporation (IFC).*

Support and funding were provided by Obvion Hypotheken. 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.

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