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## Sustainability | North America

## ESG Bond Intel: July Monthly Recap

ESG issuance slumped in July, to \$58bn, a decline m/m of 42%, which is more than the broader market, with total EUR-denominated supply across corps and SSAs down 16% m/m overall in July and USD ex TSY down 2%.

Sustainability 

- YTD ESG-labeled bond issuance surpasses \$600bn.** Corporate YTD issuance (\$213bn, +\$23bn in July) is about 18% behind 2021 supply at this point, while SSA issuance (\$338bn, +\$28bn in July) is just 3% below this point in 2021. Both have surpassed 2022 supply, which marked a downturn in issuance as rates increased rapidly around the world.
- Versus the market, EUR supply lagged in July...** We estimate that just \$15bn of EUR-denominated ESG-labeled supply came to market during the month, about 5% of the total amount issued (vs. an average of 12% in 1H23). The EUR ESG-labeled supply fell about 60% m/m, while total supply dipped less, by 16%.
- ...though USD issuance was a rare bright spot.** USD issuance (excluding munis, mortgages, and Treasuries) fell 2% m/m by our estimates, but ESG-labeled USD issuance in fact increased 21%, to \$14bn. On a monthly basis, USD-denominated ESG-labeled bonds have accounted for around 6% of USD issuance.
- Green bond supply fell in July by 55%, to \$30bn, but after two strong quarters, we think this is just a summer slump rather than the end of a trend.** Green bond supply has experienced impressive momentum this year, with the last two quarters each setting record amounts of \$176bn and \$185bn each. **Masdar**, a renewable energy company in the UAE, issued a green bond sized at \$750mm, marking a new and somewhat controversial entrant to the space given its affiliation with heavy-emitting UAE. **Germany** and **the UK** both tapped previous issues of green bond as well.
- Chile issued a series of Sustainability-linked bonds in July, including its first SLB denominated in local currency, for a total of around \$6bn including taps.** Chile now has 5 sustainability-linked bonds in USD, EUR and CLP (total of \$8bn) and is the second-largest issuer of SLBs behind utility company and SLB pioneer **Enel** (\$29bn). Chile's SLB supply boosted SLB supply to a y/y increase of 111%, to \$9bn, though SLB issuance has struggled to regain momentum in 2023. **Heathrow Airport** also issued an SLB for £650mm, with targets that notably include Scope 3 emissions. See: [What's going on with sustainability-linked bonds?](#)
- Green bond indices outperformed in Europe and globally.** All three (Europe, US, and the global) indices were up again in July, with just the US underperforming its vanilla counterpart, by 0.11%. In Europe, the index beat

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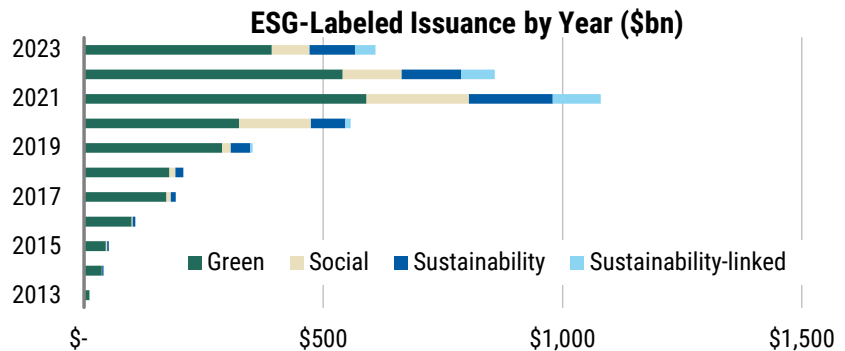
the vanilla by 0.22%; globally, the index beat the vanilla by 0.27%.

7. **Our recent study on sovereign greeniums found a deteriorating greenium over time, with supply outpacing AUM growth.** The greenium is a supply/demand phenomenon, and as supply in green issuance has picked up y/y and AUM growth in dedicated ESG fixed income funds stagnates, the DM sovereign greenium has traded closer to zero. In France, we find that green bonds trade rich by around 1.5bp to their fair value curve, while for Germany that differential is closer to 0. In Italy and the UK, we find that green bonds trade cheap on average in the secondary markets by around 2.6bp and 7.3bp respectively, as of June 2023. See: [What happened to the greenium?](#)

# ESG-Labeled Bond Supply

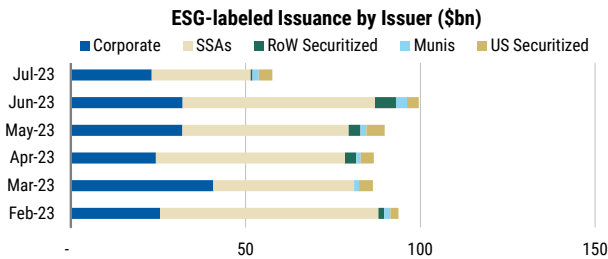
## Overall Supply

**Exhibit 1:** \$58bn of ESG-labeled bonds were issued in July (-42% m/m), the slowest month thus far in 2023. Total ESG-labeled issuance in 2023 stands at \$609bn.



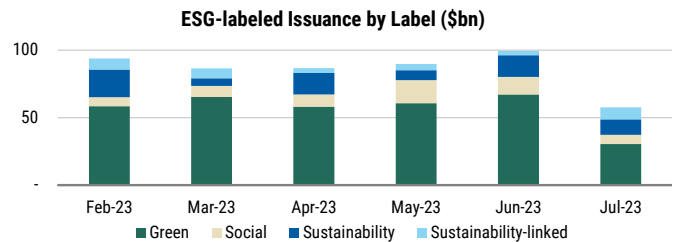
Source: Bloomberg, Morgan Stanley Research

**Exhibit 2:** SSA issuance fell 49% m/m, to \$28bn, while corporate issuance fell 28% m/m, to \$23bn.



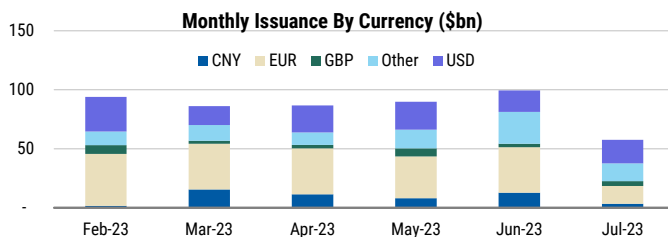
Source: Bloomberg, Morgan Stanley Research

**Exhibit 3:** After a strong 1H23, where green bond issuance averaged \$60bn/month, it came in at \$30bn in July. SLB issuance rose 172% m/m, to \$9bn.



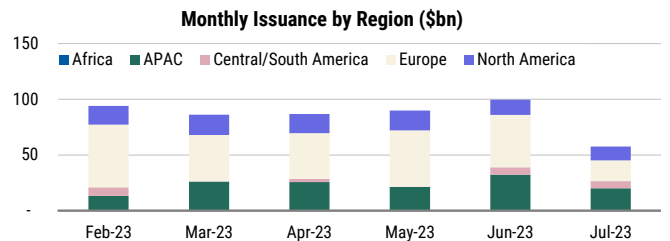
Source: Bloomberg, Morgan Stanley Research

**Exhibit 4:** EUR issuance dipped, accounting for 26% of overall supply (vs. 6-month avg. 45%). USD issuance rose to 35% (6-month avg. of 25%).



Source: Bloomberg, Morgan Stanley Research

**Exhibit 5:** \$19bn of supply came out of Europe, just 32% of overall supply as the summer season truly takes hold.



Source: Bloomberg, Morgan Stanley Research

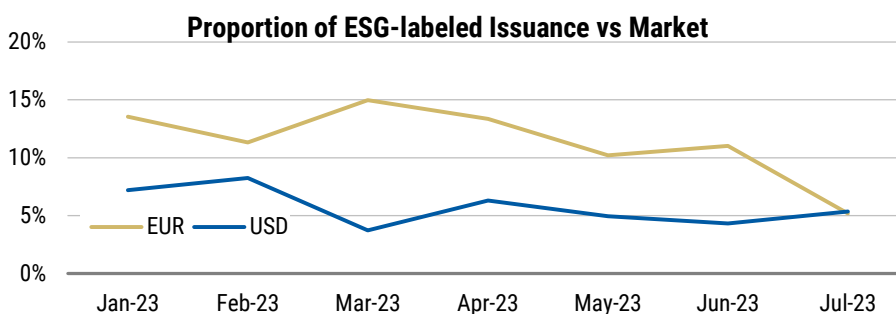
**Exhibit 6:**

We provide YTD and July 2023 totals across label and issuance type in \$bn

	Green	Social	Sustainability	Sustainability-linked	Total
YTD	\$ 392.35	\$ 78.62	\$ 95.49	\$ 42.78	\$ 609.26
Jul-23	\$ 30.50	\$ 6.82	\$ 11.36	\$ 9.01	\$ 57.68
y/y	-13%	5%	14%	111%	4%
m/m	-55%	-47%	-29%	172%	-42%
	Corporate	SSA	Munis	US Securitized	Other
YTD	\$ 213.54	\$ 337.67	\$ 14.11	\$ 24.12	\$ 19.82
Jul-23	\$ 23.12	\$ 28.30	\$ 1.78	\$ 3.90	\$ 0.57
y/y	62%	-18%	-45%	112%	-72%
m/m	-28%	-49%	-44%	16%	-90%

Source: Bloomberg, Morgan Stanley Research

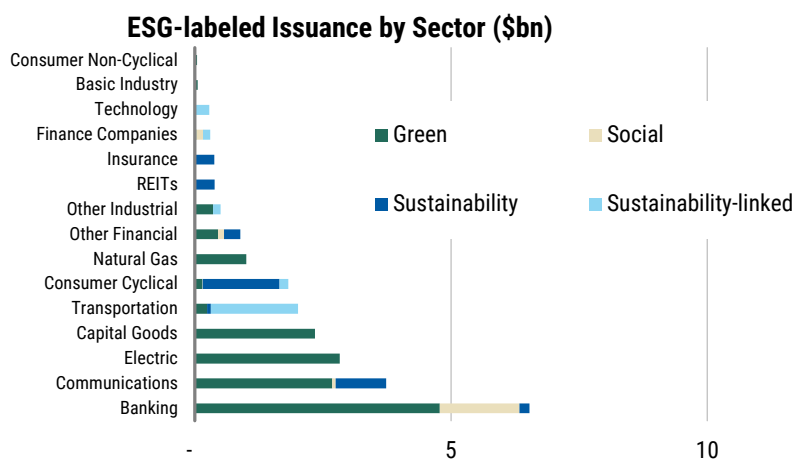
**Exhibit 7:** We look at the proportion of ESG-labeled issuance vs. total corporate and SSA issuance (ex Treasuries).



Source: Bloomberg, Morgan Stanley Research. Total market issuance excludes all US treasury issuance, any SSA supply with <2y tenor (i.e., bills), all US Agency issuance, and US muni issuance. Total issuance does include the ESG-labeled issuance.

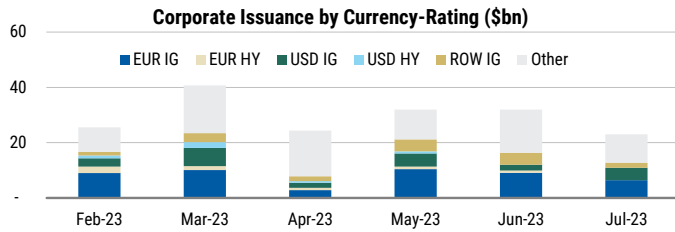
**Corporate Issuance**

**Exhibit 8:** Corporates issued \$23bn in July. 28% (\$6.5bn) of the corporate issuance came from banking. Non-green bonds accounted for 35% of supply.



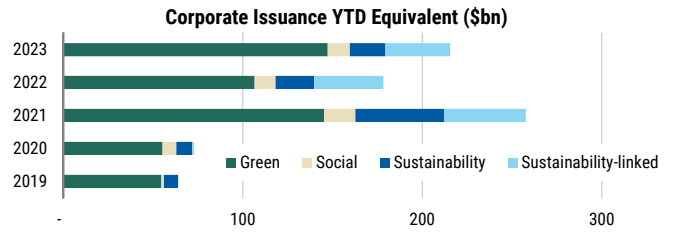
Source: Bloomberg, Morgan Stanley Research

**Exhibit 9:** USD IG corporate issuance rebounded in July to \$4.5bn, ahead of EUR's \$1.8bn.



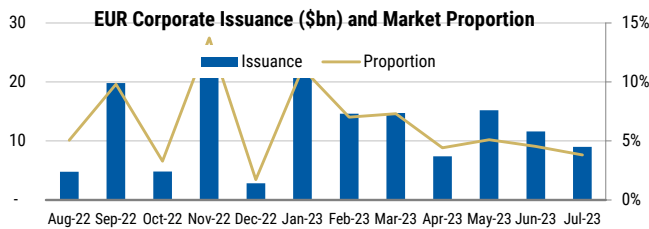
Source: Bloomberg, Morgan Stanley Research

**Exhibit 10:** ...and overall issuance, while ahead of 2022 totals, continues to lag the peak year of 2021.



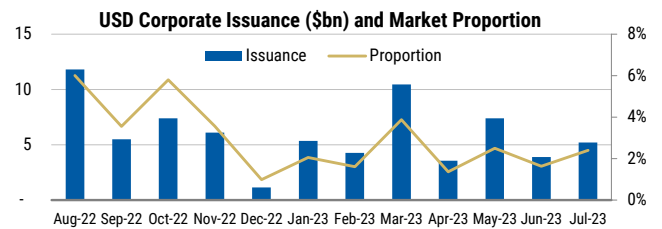
Source: Bloomberg, Morgan Stanley Research

**Exhibit 11:** ESG-labeled corporate issuance was steady at 4% of total EUR supply...



Source: Bloomberg, Morgan Stanley Research

**Exhibit 12:** ...while USD remains lower, at just 2% of USD corporate supply in July.



Source: Bloomberg, Morgan Stanley Research

**Exhibit 13:**

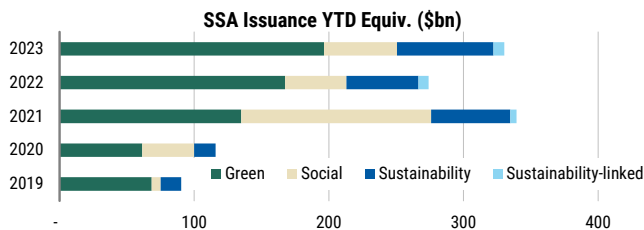
The largest ESG-labeled bonds from corporates in July

Issuer Name	CUSIP	Cap	Maturity	Original Amt Issued (USD)	Original Amt Issued (Local)	Currency	Sector	Sub-sector	ESG Label
Mizuho Financial Group Inc	06087CC20	5.775	2029-07-06	1,400,000,000	1,400,000,000	USD	Financial Institutions	Banking	Green
NTT Finance Corp	Z12331701	0.838	2033-06-20	1,340,440,000	190,000,000	JPY	Industrial	Communications	Green
DBB Bank AG	Z17649692	4.500	2028-07-19	1,120,100,000	1,120,000,000	EUR	Financial Institutions	Banking	Green
Aerencia Movil SAB de CV	0236496L8	9.500	2037-01-27	990,000,000	17,000,000,000	MXN	Industrial	Communications	Sustainability
Bardonia Finanzas SA	Z16069364	3.625	2033-07-13	954,210,000	850,000,000	EUR	Utility	Electric	Green
CS Smith PLC	Z18799701	4.375	2027-07-27	933,215,000	850,000,000	EUR	Industrial	Capital Goods	Green
Bank of Ireland Group PLC	Z12118811	5.000	2037-07-04	815,925,000	750,000,000	EUR	Financial Institutions	Banking	Green
NTT Finance Corp	Z12327915	0.395	2028-06-20	776,160,000	110,000,000	JPY	Industrial	Communications	Green
Masdar Abu Dhabi Future Energy Co	Z18519473	4.875	2033-07-25	750,000,000	750,000,000	USD	Utility	Electric	Green
Coma - Rete Elettrica Nazionale	Z18524929	3.875	2033-07-24	710,160,000	450,000,000	EUR	Utility	Electric	Green

Source: Bloomberg, Morgan Stanley Research

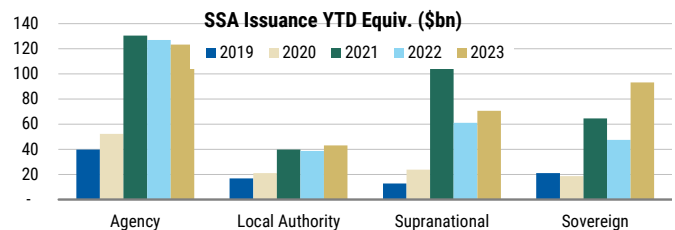
### SSA Issuance

**Exhibit 14:** SSA slumped to \$28bn of issuance in July, tracking slightly behind the 2021 pace YTD.



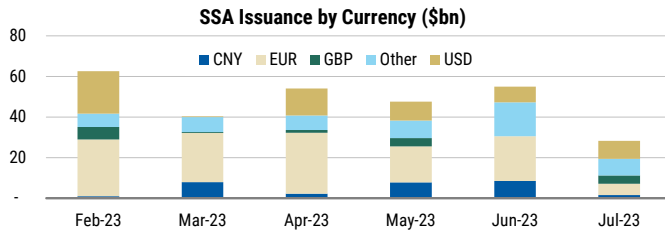
Source: Bloomberg, Morgan Stanley Research

**Exhibit 15:** Supnationals are the only laggards vs 2021, during which pandemic programs boosted SSA supply.



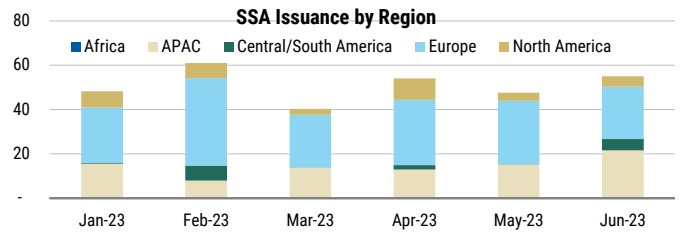
Source: Bloomberg, Morgan Stanley Research

**Exhibit 16:** Euro area issuance slumped to \$5.5bn in July. USD issuance remained relatively constant at \$9bn.



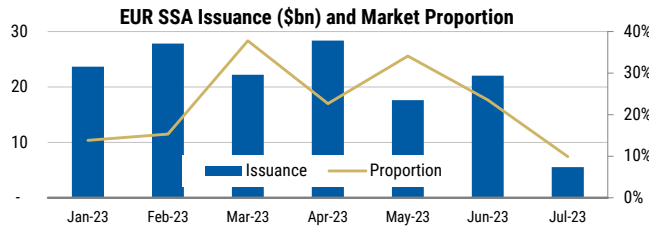
Source: Bloomberg, Morgan Stanley Research

**Exhibit 17:** In APAC, roughly \$8bn bonds were issued. Chile's SLB supply boosted LATAM issuance to \$6.5bn.



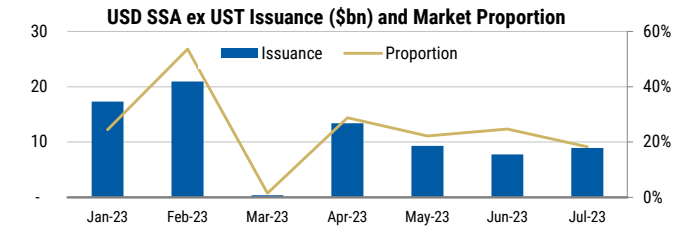
Source: Bloomberg, Morgan Stanley Research

**Exhibit 18:** EUR SSA ESG-labeled bond issuance fell to just 10% in July, after averaging 25% in 1H23.



Source: Bloomberg, Morgan Stanley Research. Total market issuance includes only new issues and does not include bills or other instruments with <2y to maturity.

**Exhibit 19:** In USD, issuance is proportionally higher when treasuries are excluded, at 18% in July.



Source: Bloomberg, Morgan Stanley Research. Total market issuance includes only new issues and does not include bills or other instruments with <2y to maturity. All US treasury issuance is exclude. Munis and mortgages are also excluded, both from ESG-labeled bonds and from total issuance.

**Exhibit 20:**

The largest ESG-labeled bonds from SSA issuers in July.

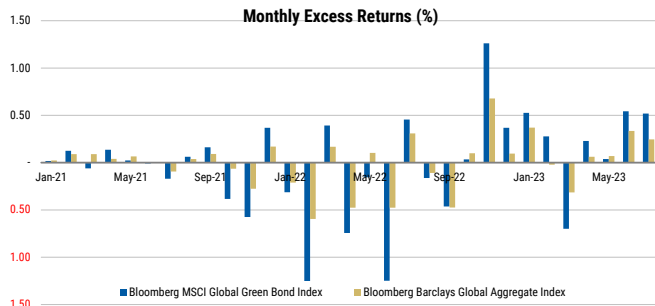
Issuer Name	CUSIP	Cpn	Maturity	Original Amt Issued (USD)	Original Amt Issued (Local)	Currency	Sector	Sub-sector	ESG Label
International Bank for Reconstruction & Development	495029R16	4.000	2030-07-23	3,000,000,000	3,000,000,000	USD	Supranational	Supranational	Sustainability
Bonos de la Tesorería de la República en pesos	2191151649	5.300	2037-11-01	2,112,756,600	1,751,000,000,000	CLP	Treasury	Treasury	Sustainability-linked
Chile Government International Bond	168862028	4.950	2036-01-05	1,150,000,000	1,150,000,000	USD	Sovereign	Sovereign	Sustainability-linked
Chile Government International Bond	168862042	5.320	2054-01-05	1,100,000,000	1,100,000,000	USD	Sovereign	Sovereign	Sustainability-linked
State of Hesse	212561307	2.875	2033-07-04	1,087,900,000	1,000,000,000	EUR	Local Authority	Local Authority	Green
Korea Electric Power Corp	500631A29	5.375	2026-07-31	1,000,000,000	1,000,000,000	USD	Agency	Government Owned, No Guarantee	Sustainability
Chile Government International Bond	213624962	4.125	2054-07-05	814,050,000	750,000,000	EUR	Sovereign	Sovereign	Sustainability-linked
Asian Development Bank	945167914	4.400	2026-01-13	700,800,000	1,000,000,000	CAD	Supranational	Supranational	Social
Kreditanstalt fuer Wiederaufbau	216601703	4.875	2031-02-03	656,800,000	500,000,000	GBP	Agency	Government Guaranteed	Green
Northrup Bank	65546AA4	4.875	2028-07-03	600,000,000	600,000,000	USD	Agency	Government Sponsored	Social

Source: Bloomberg, Morgan Stanley Research. Excludes reopenings

# ESG-Labeled Bond ETF Performance

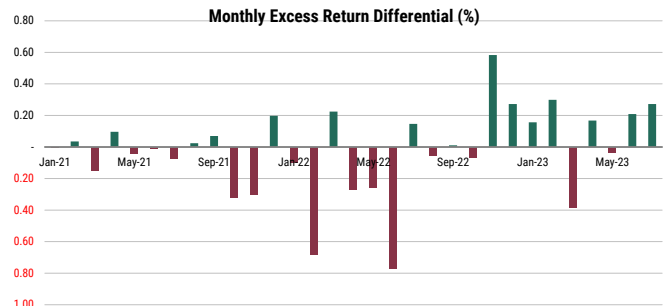
## Global Index

**Exhibit 21:** The global green bond index rose 0.5% in July...



Source: Bloomberg, Morgan Stanley Research

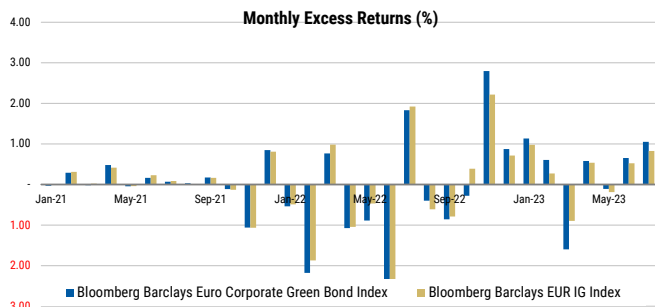
**Exhibit 22:** ...outperforming the vanilla index by 0.27%.



Source: Bloomberg, Morgan Stanley Research

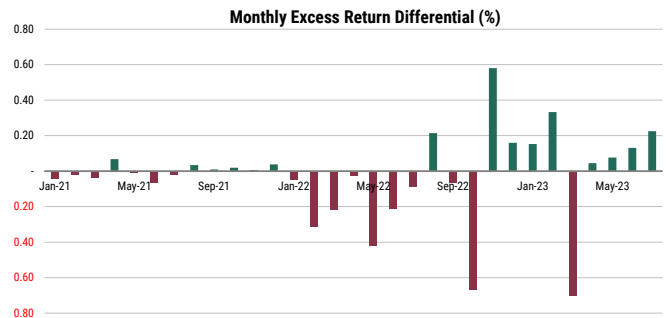
## EUR Index

**Exhibit 23:** The European green bond index climbed 1.05% in July...



Source: Bloomberg, Morgan Stanley Research

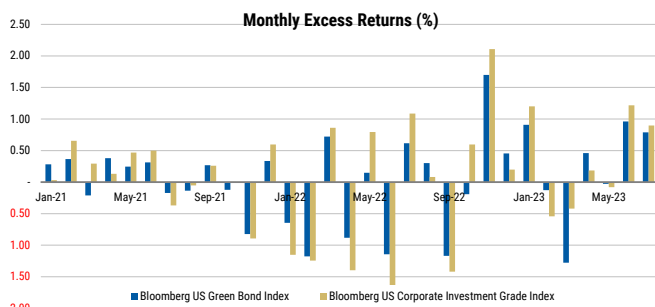
**Exhibit 24:** ...beating the vanilla index by 0.22%.



Source: Bloomberg, Morgan Stanley Research

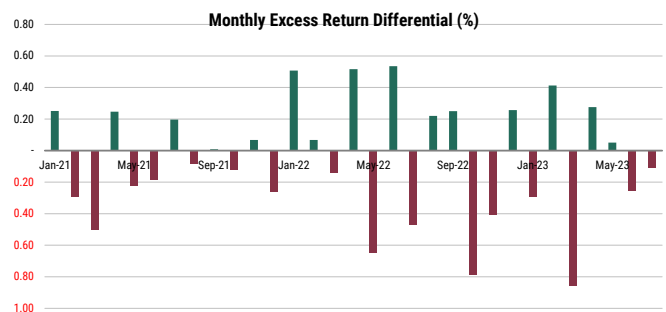
## USD Index

**Exhibit 25:** The US green bond index rose 0.79% in July...



Source: Bloomberg, Morgan Stanley Research

**Exhibit 26:** ...below the vanilla index by 0.11%.



Source: Bloomberg, Morgan Stanley Research

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)			Other Material Investment Services Clients (MISC)	
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Equal-weight/Hold	1659	46%	294	46%	18%	717	46%
Not-Rated/Hold	3	0%	0	0%	0%	1	0%
Underweight/Sell	604	17%	69	11%	11%	227	15%
Total	3,613		639			1554	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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