

Focus on: Credit 11 January 2024

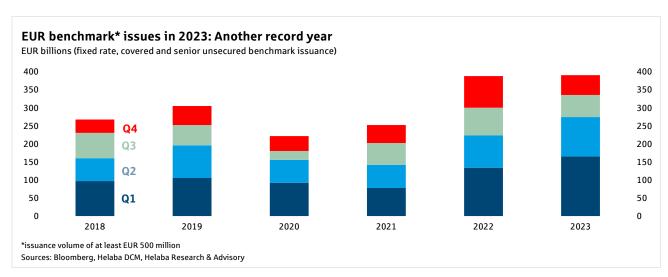


Primary market update EUR benchmark bank bonds: Q4 2023

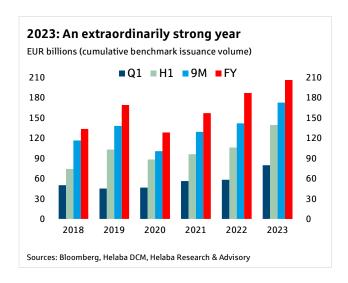
sk/ In Q4 2023, the volume of senior unsecured, euro-denominated benchmark bank bonds on the primary market reached a very strong level for a final quarter of around EUR 33 billion. While this was 25 % lower than in the exceptionally good fourth quarter of 2022, it was nonetheless significantly higher than in previous final quarters. For 2023 as a whole, the total volume achieved a new record of rd. EUR 206 billion - once again beating the 2022 top by around 10 %. The market quickly bounced back from the hiatus due the turmoil in the US and Swiss banking sectors between 10 March and 4 April. The first two quarters, in particular, contributed to this record volume, with a high level of maturities and increasing competition for customer deposits within an environment of rising interest rates acting as the principal catalysts.

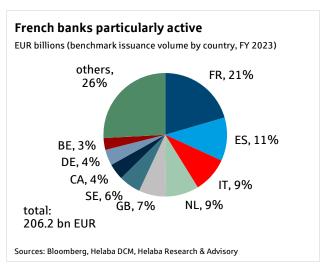
2023 was marked to a large extent by the following developments. French banks continued to dominate, their activity on capital markets remained strong partly driven by the fact that they are subject to stringent capital requirements due to their size. Around a quarter of total placements were structured as sustainable issues. At current interest rate levels, floaters are becoming increasingly attractive again for issuers. In addition, there was a moderate shift from non-preferred to preferred issues (approx. 50 % in 2023, vs. 40 % in 2022), with TLTRO redemptions and comparatively narrower spreads as factors that may explain the trend towards greater issuance in the senior preferred category (see also Primary market update EUR benchmark bank bonds of 9 January 2024).

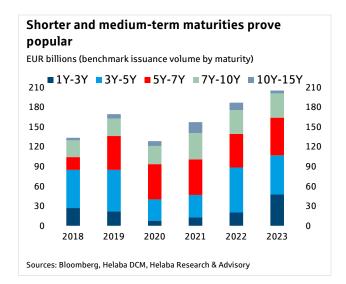
With an eye to 2024, we expect further growth in the total issuance volume of senior unsecured, euro-denominated benchmark bank bonds to around EUR 220 billion. The key driver for this is likely to be a continued increase in maturities as well as a decline in customer deposits, as the higher interest rate environment makes alternative investments more attractive. At the same time, regulatory requirements will remain a decisive factor for senior non-preferred issues. For fixed-to-float bonds, it is probable that even those maturing in 2025 will be of relevance as these bonds can be called one year ahead of maturity before they lose their status as MREL-eligible instruments (see Regulatory call option for non-preferred bonds becoming standard). Liquidity provided by the ECB will decrease; however, there will be no repeat of the high level of TLTRO refinancing seen in 2023, especially as we believe the programme was primarily used due to its attractive conditions rather than, at least to a lesser extent, as a means of refinancing core business activities. More subdued lending is likely to have a somewhat adverse effect on primary market activity. Given a market environment that remains volatile and burdened by crises, getting the timing right is still a challenge and any windows of opportunity will be actively seized upon - even at higher spread levels.

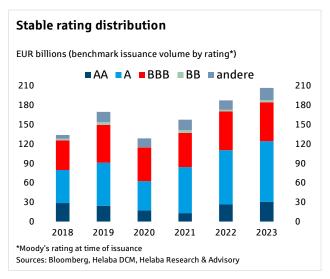


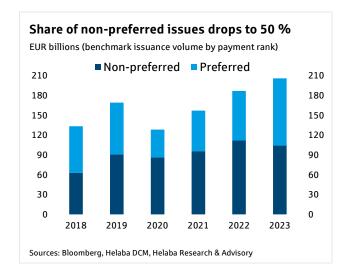
1. Senior unsecured bonds with fixed coupons

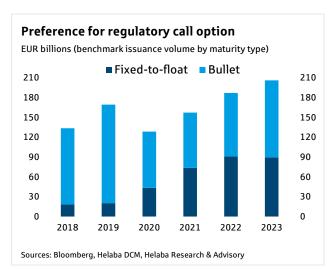


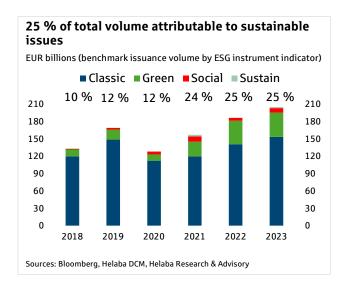


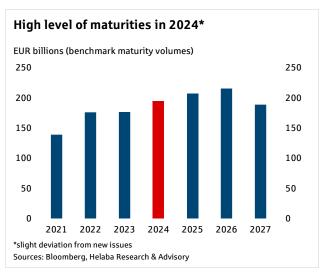


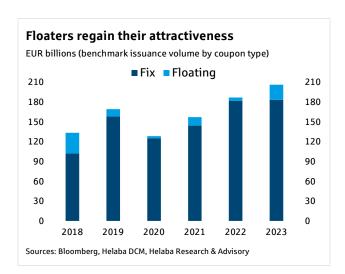












2. ECB's targeted longer-term refinancing operations

TLTRO III: Holdings being run down

Overview of ECB's targeted longer-term refinancing operations

	Allocation	Settlement	Earliest volun- tary repayment (settlement)	Maturity	Allocated amount (EUR bn)	Outstanding) amount (EUR bn)
TLTRO-III.7	18.03.2021	24.03.2021	30.03.2022	27.03.2024	330.5	215.5
TLTRO-III.8	17.06.2021	24.06.2021	29.06.2022	26.06.2024	109.8	53.2
TLTRO-III.9	23.09.2021	29.09.2021	29.06.2022	25.09.2024	97.6	84.8
TLTRO-III.10	16.12.2021	22.12.2021	29.06.2022	18.12.2024	51.9	38.8

Sources: Deutsche Bundesbank Eurosystem, ECB Eurosystem, Bloomberg, Helaba Research & Advisory



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