

# Focus on: SSAs & Financials

## 2 November 2023



## Weekly Market Update



**Primary market environment:** Geopolitical uncertainties remain. In the US, the FOMC extended its interest-rate pause, leaving the target range unchanged at 5.25-5.50%. Fed Chairman Jerome Powell is not convinced that monetary policy is restrictive enough. In the primary markets, activity has slowed again recently, partly due to the holidays.

### Primary market barometer

#### SSAs



Primary market activity in the SSAs was manageable this week. Only Hesse and KfW were active with increases. Both issues were successful.

#### Covered Bonds



Iccrea Banca was the only issuer in the primary covered bond market this week. Despite this unique selling point, the order book was only significantly oversubscribed after the spread had been set.

#### Senior Unsecured

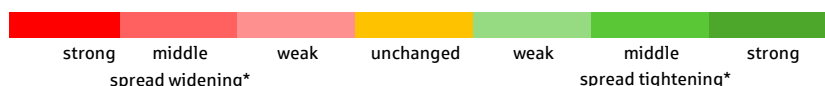


As the quarterly reporting season for banks draws to a close, primary market activity in senior unsecured bank bonds is picking up as expected. The market environment is proving to be quite constructive. A few more transactions are expected before the window slowly closes as the end of the year approaches.

### Risk trend indicator (heat map): No all-clear

Relative\* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,07	0,17	0,19	0,74	2,20	0,40
European Union	0,10	0,12	0,27	0,86	1,38	2,66
Germany Covered	0,11	0,13	0,56	1,23	2,07	2,50
EU Covered	0,07	0,08	0,35	0,76	1,57	2,30
Banks senior preferred	0,05	0,00	0,35	0,67	-0,12	2,43
Banks senior bail-in (SNP)	0,04	0,01	0,21	0,61	-0,68	2,04
Banks subordinated	0,01	-0,04	0,07	0,53	-0,53	2,54
Supranational	0,11	0,10	0,30	0,76	1,56	2,45
Agencies	0,15	0,15	0,33	1,03	2,29	1,47
Sub-Sovereigns Germany	0,06	0,04	0,16	0,28	0,89	-0,24
Sub-Sovereigns	0,10	0,10	0,32	0,73	1,20	1,05



\* ASW levels standardized and 2T-smoothed  
Sources: Refinitiv, Helaba Research & Advisory

The warning signals from our heat map in recent weeks have come true. Market sentiment remains gloomy and there is no sign of any near-term improvement.



## SSAs

The start to the week in the SSA segment was relatively subdued. Only the **state of Hesse** made its presence felt. A government bond maturing in October 2028 was increased by EUR 250 million. The final spread of MS-1 bps was in line with the market. This week's public holidays, in particular All Saints' Day on Wednesday, disrupted primary market activity in parts of Germany and countries such as Spain, France and Portugal until mid-week. Today **KfW** successfully increased its July 2032 green bond by EUR 1bn (WNG).

**Outlook:** November is likely to be another month of relatively light SSA supply. As we have already pointed out, many issuers, especially the large ones, are well advanced with their funding plans for this year. There may still be a need for refinancing on the part of the federal states. The EU will also be active again on 13 November with its last syndication in 2023.

€ SSAs issues week of 30 October 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,250%	Hessen	- /AA+/-	0,250 bn	✓	05.10.2028	ms -1 Bp		30.10.2023	0,250 bn	ms-1bp area
1,375%	KfW	Aaa /AAA/AAA	1,000 bn	✓	07.06.2032	ms +2 Bp	✓	02.11.2023	2,200 bn	ms + 3 bp area

Sources: Bloomberg, Helaba DCM



## Covered Bonds

There was no primary market activity on Monday. On Tuesday, Italy's Iccrea Banca issued a 4-year benchmark (EUR 500m) at MS+75bps. The final spread was in line with marketing levels. The issuer had already placed a EUR 650m covered bond in July. Once again, the need to update the spread fixing as soon as possible became apparent in order to stimulate the order book. This is particularly true for issuers that are not in the top tier of their jurisdiction. The first book update did not come until around midday. By then the target size had been reached, but only after the spread had been set did further investor orders follow, resulting in a final book of EUR 720 million.

A relatively flat September (EUR 6.5bn) was followed by October, one of the weakest months for years in terms of primary market volume. Issuance in the month totalled around EUR 10.5bn (at least sub-benchmark and publicly placed), more than double the amount issued in the same period last year and almost three times as much as in September.

The trend towards shorter maturities continued over the past two months, with the majority of issuance in the 3-5 year maturity range.

*"The secondary market is dominated by the issue of switches. In these transactions, bonds are sought in exchange for alternatives at the individual bond level. The intention seems to be to close positions (short covering). With the end of the fiscal year approaching, the Street is probably trying to smooth out exposures. However, the success of these efforts seems to be moderate, especially as the market is structurally illiquid on the rocky road to 2023. Especially as in the post-QE era, there is a lot of "static investor" material."*

*Comment from the Helaba trading floor*

In the **secondary market**, swap activity has no impact on the current spread landscape! New issues, which are a constant supply to the market, are at best moderately successful in the absence of a demand renaissance. In any case, the focus at this late stage of the year is on the supply outlook for 2024.

We will publish our primary market volume estimate in our  
**"Markets and Trends"** on 9 November.

Taking into account reinvestment, a significant portion is likely to be absorbed by the private sector (filling the demand gap left by the end of QE). The extent to which the "non-official" investor group will take a firm position remains an open question.

**Outlook:** Geopolitical uncertainties continue to dominate the environment. Although market participants expect a slight recovery in November, a significant improvement is not expected until January.

#### € Covered Bond issues week of 30 October 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,000%	Iccrea Banca S.p.A.	Aa3 /-/-	0,500 bn		07.11.2027	ms +75 Bp		31.10.2023	0,720 bn	ms + 75 area

Sources: Bloomberg, Helaba DCM



## Senior Unsecured

The primary market for senior unsecured bank bonds is **starting to pick up again** now that the quarterly reporting season and blackout periods are well under way. This week saw three non preferred and one preferred issue in EUR benchmark format. Of note was the BFCM transaction from France, which raised EUR 1.25bn with an 8-year maturity. In the end the books were oversubscribed by a factor of 3 at EUR 3.7 bn and during the marketing the spread narrowed by 30bp from ms+185bp to ms+155bp.

The **market environment** remains encouragingly supportive, helped by strong institutional earnings. Cash spreads have widened slightly recently, however, the iTraxx indices are trading at the lower end of their wide ranges. The relatively strong narrowing of the spreads on the iBoxx EUR Banks Senior Italy in a weekly comparison is striking - in our view the measure taken by **UniCredit Group to avoid the windfall tax on bank profits in Italy by using part of the profit not for distributions but for further equity reserves** could play a role here.

Overall, the **latest quarterly reports from banks** confirm that the sector continues to enjoy rising net interest income while problem loan ratios remain low. However, it is becoming increasingly clear that interest income may plateau in 2024 at a normalised level. Competition for customer deposits is intensifying and banks are under increasing pressure to pass on higher interest rates to customers (so-called deposit beta). In addition, inflation, higher interest rates and the difficult economic environment are weighing on the outlook for new lending. Overall, however, banks continue to earn high interest income in the current interest rate environment and have **good balance sheet quality**. Risk buffers in the form of loan loss provisions and core capital are high, and share buybacks are even continuing.

„The primary market is now much more active after the blackout period, and issuers are finding a constructive environment, although they have to pay higher new issue premiums (mostly 10-15 bps). Mainly non preferred bonds (DnB Nor, SEB, BFCM) came to the market. On average, the new bonds tightened by 3-5 bps. The positive performance is therefore given and will encourage more issuers to take advantage of the current window.“

*Comment from the Helaba trading floor*

**Outlook:** As the reporting season progresses, the blackout periods will soon be over, allowing issuers to return to the primary market. The market environment in this segment appears to be ready. However, so far this year, the houses have already issued large amounts and have thus pre-financed themselves.

#### € Senior Preferred issues week of 30 October 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,875%	Svenska Handelsbanken AB	Aa2 /AA-/AA+	0,750 bn		10.05.2027	ms +70 Bp		02.11.2023	1,600 bn	ms + 95 area

Sources: Bloomberg, Helaba DCM

## € Senior Non-preferred issues week of 30 October 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,375%	SEB	A3 /A-/AA-	0,500 bn		06.11.2028	ms +110 Bp	✓	30.10.2023	2,500 bn	ms+140 bp area
4,750%	BFCM	A3 /A-/A+	1,250 bn		10.11.2031	ms +155 Bp		31.10.2023	3,700 bn	ms + 185 area
4,500%	Danske Bank A/S	Baa2 /BBB+/A	0,500 bn		09.11.2028	ms +135 Bp	✓	02.11.2023	3,200 bn	ms + 165-170 area

Sources: Bloomberg, Helaba DCM

## Reporting dates of selected banks

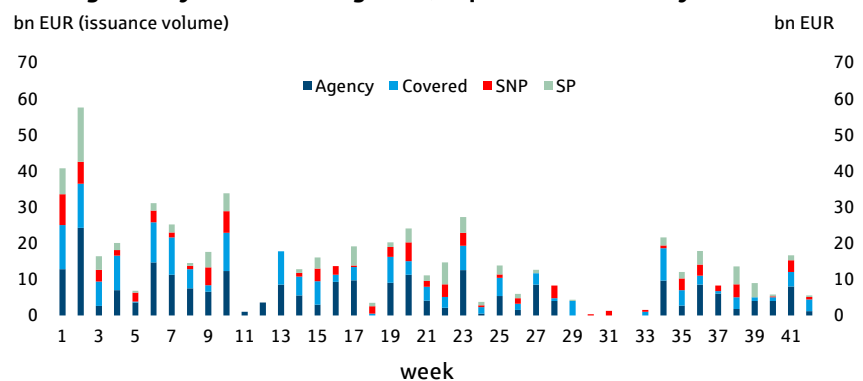
Issuer	Date	Issuer	Date
BANCO BPM SPA	117	COMMERZBANK AG	118
BANCA MONTE DEI PASCHISIENA	117	ABN AMRO BANK NV-CVA	118
UBS GROUP A-G-REG	117	AAREAL BANK AG	119
UBS GROUP A-G-REG	117	KBC GROUP NV	119
CREDIT AGRICOLE SA	118	DEUTSCHE PFANDBRIEFBANK AG	114

Sources: Bloomberg, Helaba Research &amp; Advisory

## Chart of the Week

In our view, the prospect of having the ECB as a significant buyer in a primary market transaction prompted many issuers to adjust the timing of their funding plans. As a result, many primary market transactions were brought forward to the first half of the year. In the second half of the year, the picture is mixed. On the one hand, the trend towards widening covered bond spreads is continuing, but on the other hand, according to market sources, the majority of investors have already filled their books to a very large extent and no free lines are available. Overall, the repricing of covered bonds that has been underway for some time is continuing. The tightening of the Bund swap spread from the year's highs is also taking its toll. In terms of maturities, shorter maturities (max. 5 years) are being offered. The issuers' aim seems to be to take advantage of the more favourable medium-term interest rates. The remaining issuance window for the year is gradually shrinking and it appears that the year is heading for a quiet end after a strong start.

## Issuing activity: after a strong start, a quieter end to the year



Sources: Bloomberg, Helaba DCM, Helaba Research &amp; Advisory



## Short news

**11/2 Moody's 2024 Outlooks: Global Credit Conditions:** According to [Moody's](#) four themes will shape the new normal in 2024: Refinancing risks grow for high-yield corporate issuers next year as high rates start to bite. Higher-for-longer rates will weigh on bank credit. Credit conditions will remain difficult for frontier-market governments and financial and geopolitical uncertainty elevates risks.

**11/1 Fitch Ratings: Shorter covered bond issuance mitigates impact of higher funding costs:** According to [Fitch](#), covered bond issuers are raising more funds at shorter maturities than in the past to take advantage of more favourable medium-term interest rates. This is easing pressure on the excess spread available in their programmes when the cover assets have a lower interest rate than the cost of new covered bonds.

**10/31 EBIC calls for postponement of the Basel III EU implementation date:** The European Banking Industry Committee (EBIC) submitted a joint [letter](#) to the co-legislators asking for a postponement of the Basel III implementation date in the EU. Given the substantial and comprehensive nature of the forthcoming legislative changes, a minimum of 18 months between the publication of CRR III rules in the Official Journal of the EU and the effective implementation date of the new rules will be necessary.

**10/31 EU taxonomy - green investments to boost sustainable finance:** The European Green Deal, the EU's flagship climate action initiative, sets the goal of zero net emissions by 2050. To achieve this goal, the EU must invest in new technologies, but public investment will not be sufficient, and private investors will have to finance climate-friendly projects. As the [European Parliament](#) points out, this requires clear criteria, otherwise, some funding could be directed to 'greenwashing' projects.

**10/30 S&P Global Market Intelligence says, European banks face profit, liquidity hit from possible reserve requirement hike:** The ECB is reviewing banks' minimum reserve requirements (MRR) as part of a wider review of its operational framework. A one-percentage-point increase in the MRR could mean an immediate gross impact of 3.3% on the aggregate pretax profit of eurozone banks, according to analysts at S&P Global Ratings. The aggregate pretax profit of eurozone banks hit €170 billion in 2022, according to S&P Global Market Intelligence data. By Ratings' estimates, that profit could drop by about €5.61 billion in the event of an increase.

**10/30 Banks should continue to reduce Russia exposure, says Enria:** The European Central Bank's (ECB) top banking supervisor, Andrea Enria, has urged eurozone financial institutions to continue reducing their exposure to Russia. Since the start of the war in Ukraine, banks have reduced their exposure there by 47%, Enria said in an interview. "We continue to put pressure on banks to reduce and get out," he added. But he said the regulator also recognises that there are legal hurdles. In addition, suitable buyers would have to be found to wind down operations there, which would be difficult, he said. "But we have seen some banks that have done it successfully. ([Handelsblatt](#))

**10/26 Governing Council [decision](#) on PEPP:** The APP portfolio is declining as expected, as the Eurosystem no longer reinvests the principal payments from maturing securities. With regard to the PEPP, the Governing Council intends to reinvest the principal payments from maturing securities until at least the end of 2024. In any case, the unwinding of the PEPP portfolio will be managed in such a way as to avoid compromising the appropriate stance of monetary policy. The Governing Council intends to maintain flexibility in the reinvestment of maturing redemptions from the PEPP portfolio in order to address (pandemic-related) risks to the monetary policy transmission mechanism.

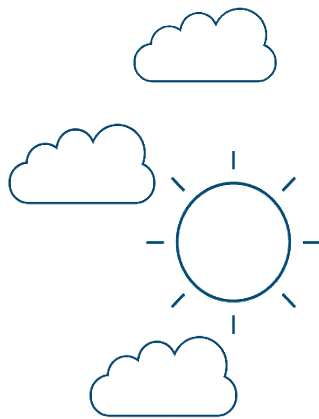
**Market Data** (current\*, vs. 1 week, vs. 4 weeks)

E-STOXX 600 Banks	153	-0,43%	-3,01%	iBoxx € Cov. Germany	18,1	1,4	4,9	iTraxx Senior Financial	95,8	-4,4	-2,5
10Yr-Yield	2,76	-0,13	-0,18	iBoxx € Cov. Bonds	30,8	1,5	4,8	iBoxx € Supranational	24,0	2,1	3,9
Swap 10J	3,25	-0,19	-0,23	iBoxx € Banks PS	91,4	1,3	7,5	iBoxx € Agencies	9,3	2,4	4,1
iBoxx € Germany	-37,29	2,59	4,24	iBoxx Banks NPS	121,5	1,9	4,1	iBoxx € Sub-Sov. Germany	14,1	1,4	3,0
iBoxx € EU	30,94	2,49	4,36	iBoxx Banks Subordinated	209,1	0,2	-1,8	iBoxx € Sub-Sovereign	31,5	2,1	4,1

\* Closing prices from the previous day

Sources: Refinitiv, Helaba Research & Advisory

**Leisure tip for the weekend: Biosphere Potsdam, Brandenburg**



In the middle of Potsdam, there is a place where the summer and holiday mood prevails all year round: the Biosphäre Potsdam. The jungle landscape with over 20,000 magnificent tropical plants and around 140 different species of animals, as well as an hourly thunderstorm, transports visitors to a distant world.

The journey takes them past a waterfall, along the mountain trail, through various paths to the butterfly house and the underwater world of the Aq-uasphere.

Find out more: [Biosphere Potsdam](https://www.biosphaere-potsdam.de/en)

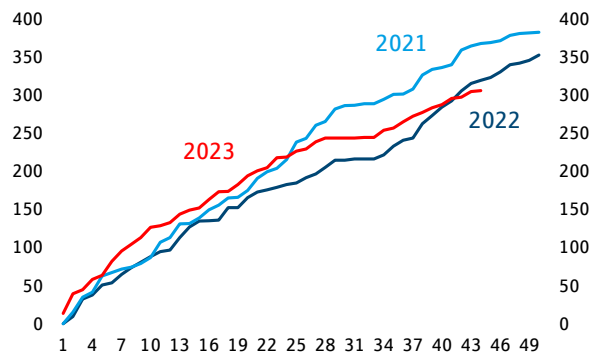
Do you have ideas for leisure tips? We would be happy to receive your suggestions at [research@helaba.de](mailto:research@helaba.de).

Source: <https://www.biosphaere-potsdam.de/en>

## Chartbook SSAs, Covered Bonds, Senior Unsecured

### SSAs: Primary volumes

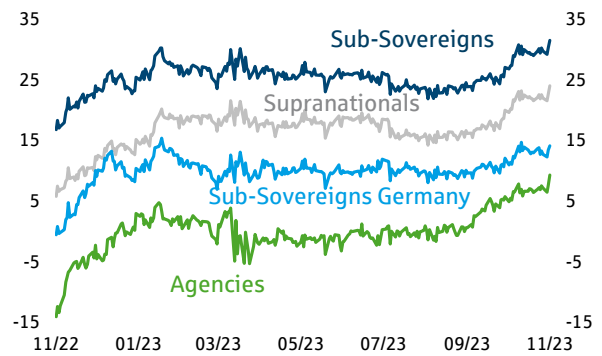
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

### SSAs: Spread development

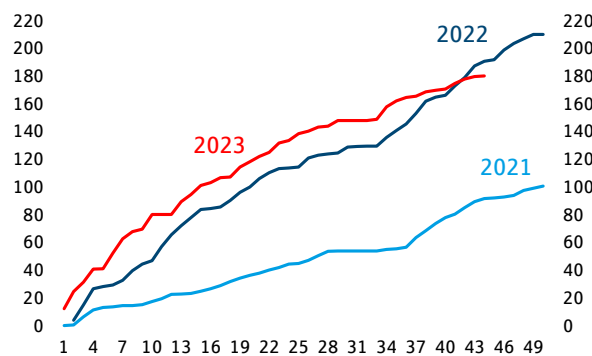
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

### Covered Bonds: Primary volumes

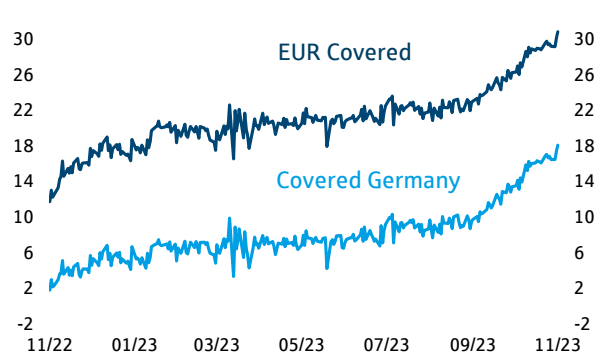
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

### Covered Bonds: Spread development

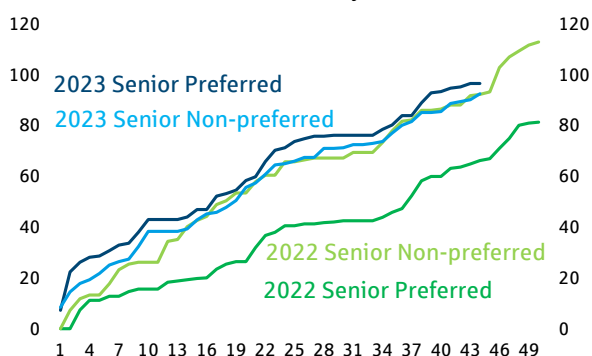
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

### Senior Unsecured: Primary volumes

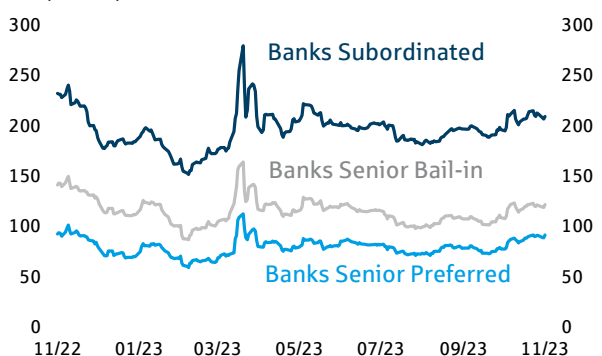
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

### Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory



## News from Research & Advisory

- **FOCUS on Credit: ESG ratings: Relevance, regulation and responses**
- **Focus on Credit: Primary Market Update Bank Bonds**
- **Focus on Credit: Corporate Schuldschein: Prejudices are out of place"**
- **Focus on Credit: EUR Corporate bonds - Primary market Q3 2023**
- **Video: Sustainable Finance – ICMA & Helaba Talk 2023**
- **Focus on Credit: Social and sustainability bonds: ICMA Principles - the freestyle element makes all the difference**
- **European banks: An optimistic outlook for 2023**

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