Helaba

Focus on: SSA & Financials
7 July 2022

Weekly Market Update

Primary market environment: Risk aversion dominates, which is not surprising in view of the existing fears of recession and inflation, supply bottlenecks for gas, rising interest rates, continuing interrupted supply chains, the ongoing Ukraine war and a renewed threat of a trade dispute between the USA and China. Safe investments are accordingly in focus.

Primary market barometer

SSA



In view of the risk aversion prevailing on the market, the SSA segment is currently attracting one or the other investor. The search for security plays a role here. In addition, many of these securities are currently relatively attractive compared to Bunds.

Covered Bonds



More and more market participants are taking their leave for the summer break. Accordingly, the remaining issuance window is getting smaller and smaller. In the course of the bund/swap spread widening, historically favourable valuations of covereds against bunds can currently be found.

Senior Unsecured



In the difficult market environment, primary market activity has come to a virtual standstill. This is compounded by the blackout period ahead of the Q2 2022 reporting season and the upcoming summer break.

Sources: Helaba Research & Advisory

No uniform trend

Spread trend indicator*, ASWspread change versus …

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	-0,18	-0,63	-1,04	-0,60	-2,83	-3,50
European Union	-0,11	0,00	-0,13	0,26	-0,35	-0,66
Germany Covered	-0,24	-0,02	0,10	0,05	0,11	-0,77
EU Covered	-0,05	0,01	0,06	0,07	0,11	-0,14
Banks senior preferred	-0,16	0,04	1,35	2,43	2,71	1,08
Banks senior bail-in (SNP)	-0,14	0,11	1,30	2,19	2,69	0,97
Banks subordinated	-0,03	0,23	0,96	1,64	2,16	0,92
Supranational	-0,11	0,00	0,12	0,24	-0,28	-0,40
Agencies	-0,09	-0,01	-0,12	-0,16	-0,81	-1,10
Sub-Sovereigns Germany	-0,08	0,04	-0,04	-0,47	-1,21	-1,62
Sub-Sovereigns	-0,06	0,07	0,14	0,08	-0,53	-1,17

strong | middle | weak | unchanged | weak | middle | strong

spread widening | spread tightening

*ASW levels standardized and 2T-smoothed, since 14.2.22 changed calculation of ASW levels by Markit.

Sources: Refinitiv, Helaba Research & Advisory

Market sentiment is largely influenced by risk aversion. As our spread indicator shows, the so-called "safe haven assets" are benefiting, while senior unsecured bonds are in a difficult market environment.



SSA

As mentioned at the beginning, the SSA segment currently has a certain attractiveness, which is not least reflected in increased activity on the primary market. Yesterday, for example, the state of Schleswig-Holstein placed a 5-year bond with a volume of EUR 1 billion at MS-17. The Dutch BNG Bank came to the market with a new 10-year Sustainable Bond at MS-1. The Austrian Kontrollbank was even able to point to a

> *"Some players dare to buy again on certain new issues. The big agencies and sup-ras manage to get their deals over the line with effort and attractive NIPs. Thus, either no or only a slight performance can be observed for these names in the secondary market. However, this should not be misinterpreted. The appetite in the secondary market is still very small, especially for the long end. Duration remains taboo and smaller SSA names are currently struggling in this environment."*
> *Assessments from the Helaba trading room*

roughly 8-fold oversubscription of the book. Although the placement of the latter paper went extremely well, it remains to be said that only the big names succeed in generating sufficient buyers, sometimes with difficulty and a new issue premium. How difficult this is for other players is shown by the examples of SAGESS, whose issue was postponed last week, or the IDF region, which is still waiting after announcing it. A fundamental improvement and thus a turnaround does not seem to be in sight for the time being.

€-SSA-Issues week of 4 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
0,500%	EIB	Aaa /AAA/AAA	1,000bn	✓	13.11.2037	ms +3 bps		04.07.2022	1,600bn	ms + 4 area
1,750%	Hessen	- /AA+/-	0,300bn		12.07.2029	ms -14 bps		04.07.2022	ıot disclosed	ms - 14 area
0,600%	CADES	Aa2 /AA/-	1,500bn	✓	25.11.2029	FRTR +31 bp		04.07.2022	2,800bn	FRTR +32 area
1,900%	Rentenbank	Aaa /AAA/AAA	1,000bn		12.07.2032	ms -11 bps	✓	05.07.2022	3,300bn	ms - 9 area
2,661%	Région Nouvelle-Aquitaine	- /-/-	0,100bn		12.07.2042	FRTRs +30 bp	✓	05.07.2022	0,120bn	FRTRs +30 area
1,500%	Oesterreichische Kontrollbank	Aa1 /AA+/-	0,500bn		13.07.2027	ms -9 bps	✓	06.07.2022	3,900bn	ms -6 area
1,875%	BNG	Aaa /AAA/AAA	1,000bn		13.07.2032	ms -1 bps	✓	06.07.2022	1,250bn	ms flat area
1,375%	Schleswig-Holstein	- /-/AAA	1,000bn		14.07.2027	ms -17 bps		06.07.2022	2,350bn	ms -16 area
0,250%	Corp. Andina de Fomento	Aa3 /A+/A+	1,250bn		04.02.2026	ms +75 bps		28.01.2021	1,900bn	ms + 80 area
0,125%	KFW	Aaa /AAA/AAA	1,000bn	✓	09.01.2032	ms -15 bps		07.07.2022	1,100bn	ms - 15 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Overall, market sentiment is strongly influenced by the prevailing risk aversion. Safe assets are being sought accordingly. The primary market environment for covered bonds, however, is clear and threatens to fall asleep. A central role is played by the fact that market volatility is currently extremely high and

> *"The secondary market, in view of ultra-high volatilities in absolute yields and historically high intraday trading spreads, understandably cannot show any change in one direction or the other! Spreads vs. swaps tend to remain elevated and valuations vs. EGBs are at long-term highs anyway (Bund/swap spread 10Y currently >90 bps). It can be assumed that in the summer weeks, with the generally thin market liquidity, no one will be found who will use these levels to reverse the trend in the long term!"*
> *Assessments from the Helaba trading room*

traders are not willing to take new positions on the books. In addition, new issue premiums have risen from around 5 bps in the near past to around 10 bps on average and oversubscription rates are significantly lower. As a result, there is virtually no "tightening" against the "guidance" any more. With regard to maturities, the sweet spot is currently around 5 years. In the second quarter this was, somewhat surprisingly at first, an average of 6.8 years. The explanation may lie partly in the flood of issuance from the particularly popular core countries: The past

quarter was dominated by issuers from Austria (19). France (16) and Germany (15) followed in the places. Canada (8) slipped from the top position in the first quarter to fourth place.
Outlook: The window for new issuance is likely to narrow as more and more market participants head off for their summer holidays. No significant revival is to be expected before the end of August. The ECB meeting on the agenda next week will also ensure restraint.

In addition to the market topics, the focus must also be on the national covered bond laws of the countries that will only implement the EU Covered Bond Directive in the coming weeks. Some countries such as Germany, France, Austria and Spain had already ratified it in 2021 or at the beginning of 2022, but other member states have not yet reported any or only partial implementation measures to the **EU Commission**. According to market sources, the Dutch law is supposed to have been implemented and applied in time. However, we do not yet have any further information. The application period ends on 8 July 2022. If the provisions of the EU directive have not been applied by then, newly issued securities will lose their regulatory privileges (see **video** "Implementation of the EU regulation on the harmonisation of covered bonds").

€-Covered Bond-Issues week of 4 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,625%	Deutsche Bank AG	Aaa /-/-	0,200bn	✓	30.06.2037	ms +24 bps		05.07.2022	0,350bn	ms + 24 bp
tbd.	Westpac Securities NZ Limited,	Aaa /-/AAA	0,750bn		14.01.2026	ms +30 bps		07.07.2022	1,000bn	ms + 30 bp

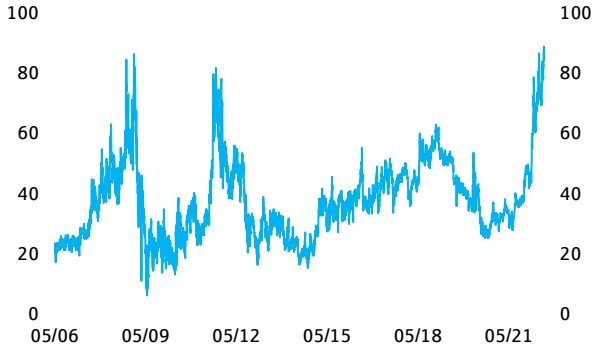
Sources: Bloomberg, Helaba DCM

Senior Unsecured

The primary market for senior unsecured bank bonds has come to a virtual standstill. In addition to the extremely uncomfortable general conditions (especially recession and interest rate fears), the beginning of the vacation season and the blackout period in the run-up to the Q2 2022 reporting season have added to this. The willingness of dealers to take positions on the books has declined noticeably in the volatile market environment (see also Bund swap spread in our chart). In the wake of this, private placements are also proving difficult due to the lack of anchor points for determining prices.

Rising interest rates and risk perception

EUR SWAP vs Govt Bond 10Y, bps



Quellen: Bloomberg, Helaba Research & Advisory

Outlook: Many issuers are postponing planned transactions in the hope that the capital market environment will ease after the summer season in September. According to our expectations, the primary market in the senior unsecured segment is going to remain subdued in the coming weak.

> *"More buyers are venturing back into the market, with the buyer/seller ratio of inquiries still unbalanced. Asset managers and insurers try to lock in the high yields of partly over 4 %. The phenomenon of non-tradable screen prices is now making itself felt on the offer side. This shows how illiquid the market has become and that bid/ask spreads have also widened continuously."*
> *Assessments from the Helaba trading room*

€-Senior Preferred-Issues week of 4 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
5,500%	OTP Bank Nyrt.	- /BBB/-	0,400bn		13.07.2025	ms +0 bps	✓	05.07.2022	0,000bn	5,5% area

Sources: Bloomberg, Helaba DCM

€-Senior Non-Preferred-Issues week of 4 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
none										

Sources: Bloomberg, Helaba DCM

Short news

7/4 ECB interest rate policy: The European Central Bank (ECB) is looking at ways to stop banks earning billions of euros of extra profit from the ultra-cheap lending scheme it launched during the pandemic once it starts to raise interest rates. According to the **Financial Times**, one option could be for the ECB to change the terms of the loans to reduce the chance for banks to make an automatic return on the money.

7/4 Covered Bonds in Czeck Republic and Hungary: Payment continuity risk in covered bond programmes will be reduced in the Czech Republic and Hungary through the introduction of a mandatory 180-day liquidity buffer and the formalisation of potential maturity extension clauses under the EU Covered Bond Directive, **Fitch Ratings** said. Such provisions already exist in Poland and Slovakia, but will be further aligned with the other countries.

7/1 Consolidated financial statements of the Eurosystem: The European Central Bank (ECB) has published the **consolidated financial statement** of the Eurosystem as at 1 July 2022.

7/1 EBA risk dashboard: EBA **risk dashboard** points to high capital and liquidity ratios and indicates first signs of deterioration in asset quality not least related to geopolitical tensions.

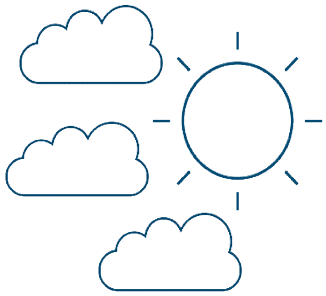
7/1 Sustainability reporting: The trilogue parties have reached a preliminary agreement on the CSRD proposal for sustainability reporting at corporate level. According to this, small and non-complex institutions (SNCI) may report at a later date (for the first time for the 2026 financial year) and also to a lesser extent.

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

E-STOXX 600 Banks	75,93	-8,27%	-16,31%	iBoxx€Cov. Germany*	1,59	0,15	0,93	iTraxx Senior Financial	133,5	4,62%	33,90%
10J-Yield	1,16	-0,35	-0,19	iBoxx€Cov. Bonds*	9,31	0,51	2,16	iBoxx€Supranational	100,3	2,31%	0,04%
Swap 10J	2,01	-0,34	-0,06	iBoxx€Banks PS	90,74	1,40%	-0,37%	iBoxx€Agencies	96,6	1,84%	0,66%
iBoxx€Germany	99,82	2,5%	1,2%	iBoxx Banks NPS	91,90	1,7%	-1,1%	iBoxx€Sub-Sov. Germany	96,9	2,04%	0,57%
iBoxx€EU	96,50	2,72%	0,12%	iBoxx Banks Subordinatec	82,14	1,02%	-1,97%	iBoxx€Sub-Sovereign	94,7	2,04%	0,00%

* Closing prices from the previous day
Sources: Refinitiv, Helaba Research & Advisory, * ASW-Spreads

Leisure tip for the weekend: Villa Hügel Essen & Lake Baldeney



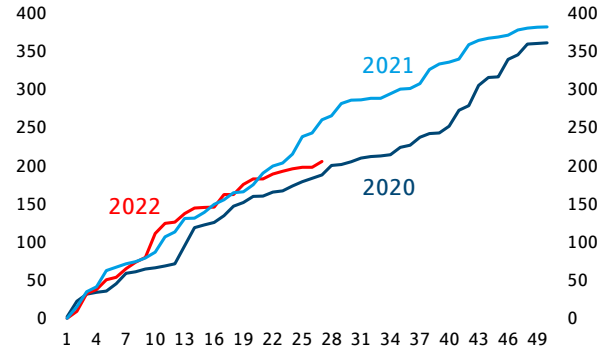
From 1873 to 1945, the Krupp family of entrepreneurs lived at Villa Hügel in the Bredeney district of Essen. The estate was built by Alfred Krupp and is the family's former residence and representative building. The grounds are situated above the Ruhr valley in the middle of the 28-hectare hill park. In addition to various guided tours and exhibitions through the former premises of the Krupp family, the associated park, which is also known as the "green treasure chamber", can be fully explored. Not far from Villa Hügel is Lake Baldeney, the largest of a total of six Ruhr reservoirs.
More information: **Villa Hügel**, **Lake Baldeney**

Do you have ideas for leisure tips? We would be happy to receive your suggestions at research@helaba.de.
Source: www.villahuegel.de, baldeneysee.de

Chartbook SSA, Covered Bonds, Senior Unsecured

SSA: Primary volumes

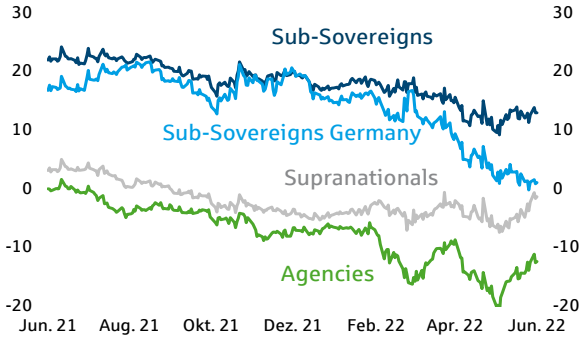
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSA: Spread development

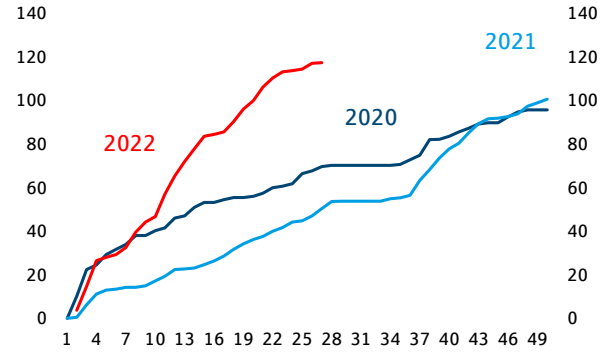
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes

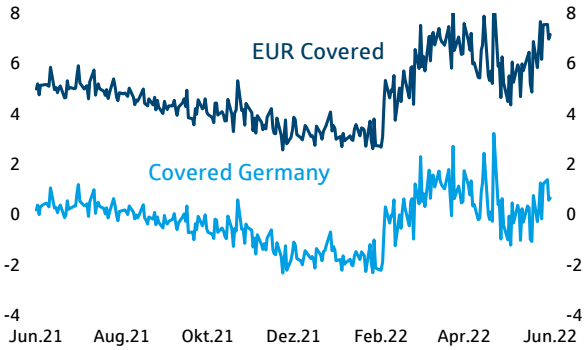
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

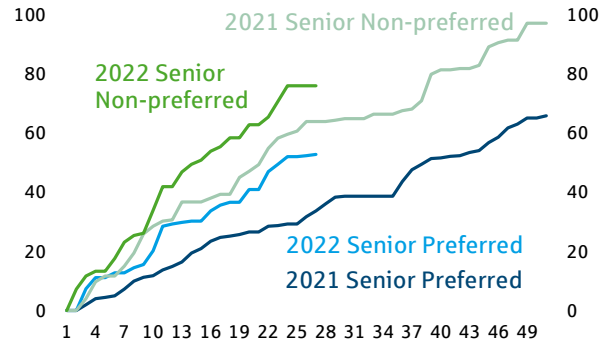
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes

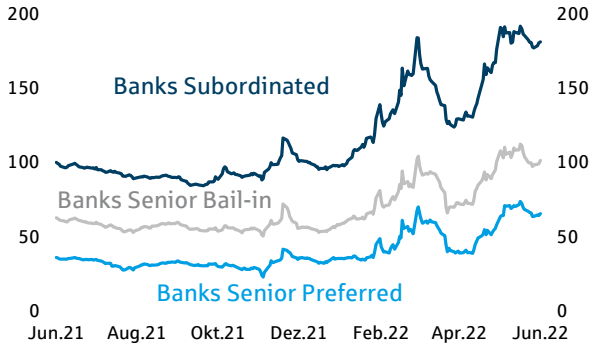
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread in bp



Sources: Bloomberg, Helaba Research & Advisory

News from Research & Advisory

→ EUR Corporate bonds: Primary market Q2 2022
→ European banks: Activities becoming ever greener
→ Focus on: Credits - European banks: War in Ukraine clouds outlook
→ Implementation of the EU Covered Bond Directive: Spain versus France and Germany (Video)
→ Implementation of the EU covered bond directive – state of play: Austria versus France and Germany (Video)
→ Implementation of the EU covered bond directive – state of play in France and Germany (Video)
→ Covered-Bond-laws: Implementation of the EU regulation (Video)

Team of authors



Sabrina Miehs, CESGA
Head of FI & SSA Research
Senior Advisor Sustainable Finance
T 069/91 32-48 90



Dr. Susanne Knips
Senior Credit Analyst
T 069/91 32-32 11



Christian Schmidt
Covered Bond & SSA Analyst
T 069/91 32-23 88

Publisher and editorial office

Helaba Research & Advisory

Editor:
Sabrina Miehs, CESGA
Corporate Research & Advisory

Responsible:
Dr. Gertrud R. Traud
Chefvolkswirtin/
Head of Research & Advisory

Neue Mainzer Str. 52-58
60311 Frankfurt am Main
T +49 69 / 91 32 - 20
Internet: www.helaba.com

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