Helaba

Focus on: SSA & Financials

21 July 2022

Weekly Market Update

Primary market environment: Overall, the risk aversion on the market continues, although there has been a slight easing recently. However, this development could be short-lived: a number of negative factors remain, even if gas is flowing again through Nordstream I. The ECB's 50 basis point rate hike was higher than consensus expectations.

Primary market barometer

SSA



In the SSA segment, no new securities have been brought to the market so far this week. This is despite the fact that the search for security - despite a temporary market tension - is likely to continue. The summer break seems to prevent greater activity.

Covered Bonds



The sideways phase for covered bonds continues. The market has been in a summer slump for some time. Nevertheless, demand still seems to be there and individual issues are possible.

Senior Unsecured



On the primary market for senior unsecured bank bonds, there continue to be virtually no transactions. The difficult market environment is compounded by the blackout period due to the reporting season for Q2 2022 and the upcoming summer break.

Sources: Helaba Research & Advisory

Differentiated picture

Spread trend indicator*, ASWspread change versus …

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,18	0,19	-0,53	0,04	-2,19	-3,20
European Union	0,04	-0,05	0,15	0,84	0,14	-0,32
Germany Covered	0,08	-0,16	0,25	0,55	0,51	-0,43
EU Covered	0,02	-0,04	0,08	0,19	0,21	-0,05
Banks senior preferred	-0,10	-0,14	-0,40	1,21	2,23	0,88
Banks senior bail-in (SNP)	-0,20	-0,19	-0,36	0,94	2,10	0,83
Banks subordinated	-0,11	-0,11	0,09	1,04	2,02	0,90
Supranational	0,04	-0,08	0,13	0,67	0,05	-0,19
Agencies	0,04	-0,04	-0,02	0,15	-0,63	-1,00
Sub-Sovereigns Germany	0,04	-0,09	0,24	-0,11	-1,11	-1,46
Sub-Sovereigns	0,04	-0,09	0,23	0,40	-0,36	-1,00

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

Compared to the previous week, risk aversion has eased in some areas, and the increased green colouring of our spread indicator illustrates the temporary easing. In the peripheral countries in particular, however, spreads on senior unsecured paper remain under considerable pressure, not least due to the turbulent news flow.

SSA

This week, what was to be feared came to pass: the summer slump - in keeping with the heat wave - lived up to its name and issuing activity came to a complete standstill. However, today's ECB interest rate decision should not go unmentioned. This certainly also contributed to the restraint. There is no great revival in sight for the time being. The relatively low issuing activity will probably continue until the end of August. Large SSA names such as Cades and Unedic have managed to perform better than swaps in recent days, and spreads over BM are attractive again.

> *"The ECB's rate hike, high volatility in the market and the central bank's withdrawal are unlikely to make primary market conditions any easier. However, large SSAs such as E-Namen or KFW should be less affected by this, especially since they have already reached about 2/3 or more of their funding targets YTD. KFW's increased funding target for 2022 by €5bn (from €85bn to €90bn) has not left a mark on the secondary curve. For smaller SSA names, however, the second half of the year could be a bit more challenging."*
> *Assessments from the Helaba trading room*

Outlook: The general conditions are basically good, but it seems that issuers have little need to become active at the moment.

€-SSA-Issues week of 18 July 2022

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

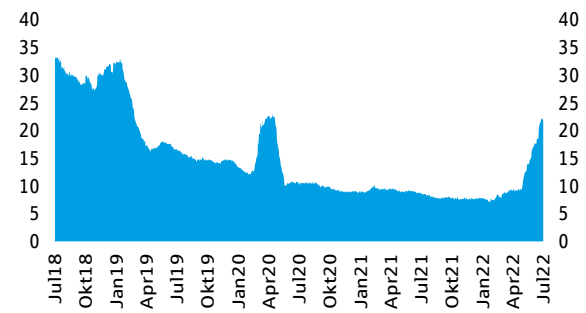
Sources: Bloomberg, Helaba DCM

Covered Bonds

This week saw a surprising revival of market activity. In the midst of the summer break, LBBW was able to very successfully place a green Pfandbrief (EUR 1 billion) with a B/C ratio of 4.5 on Monday. This success motivated other issuers to enter the market. On Tuesday, pbb followed with a medium maturity and a EUR 750 million bond volume. Both issuers had to pay a new issue premium of around 4-5 bps.
Spreads are still in a sideways phase, although there has been a moderate narrowing in Germany recently. However, it is important to differentiate between the individual countries. For example, the ASW spreads of the periphery, with an overall increasing trend, have recently fluctuated very significantly.
With regard to Italy, the current government crisis certainly played a role. After a very dynamic first half-year in the covered bond segment, among other things the normalisation of monetary policy in this period led to a clear recovery in the issuance of covered bonds, so there will always be phases in which the market takes a breath.

Spread differentiation returns

Spread difference Spanish to German covereds, ASW spread in bp.



Quellen: Helaba Research & Advisory

In the run-up to **today's ECB decision**, issuers also kept a low profile. The agreed tightening was 50 basis points, higher than consensus expectations. "The Governing Council considered it appropriate to take a larger first step towards the normalisation of key interest rates than it had announced at its last meeting," the central bank said. The decision was based on the Governing Council's updated assessment of inflation risks.

Yesterday, a Canadian issuer, the Toronto-Dominion Bank, showed up. A bond (soft bullet) with a volume of EUR 2.5 billion and a 3-year maturity was placed at a new issue premium of 12 bps. The book was 1.3 times oversubscribed and the initial spread was narrowed from MS+20 to MS+17. For more on Canadian covereds, see our brief notes below. Basically, there seems to be a certain reluctance to invest in stocks outside Europe. A role is likely to

> *"The market is currently in a sideways phase. In particular, the demand for paper from the core area of the eurozone stands out. The seasonal slowdown in issuing activity is certainly helping. In addition, some investors seem to find the swap spreads achieved through repricing attractive enough to take exposures. A good example of this was the market appearance of the LBBW 02/28 as a green bond with a respectable issuance level of ultimately MS+5. It shows once again: green bonds with medium maturities from domestic climes meet with great interest."*
> *Assessments from the Helaba trading room*

be played by the not yet fully available certainty regarding the impact of the new EU directive, in particular the LCR imputation for third-country securities. The **ECB's APP/PEPP bond purchases** (-1.5 /-1.43 billion euros) fell again. On the other hand, the central bank increased its purchases of covered bonds for the second time in a row (EUR +344 million). This could be due to the fact that papers with a volume of EUR 6.8 billion will mature in September and need to be replaced. In order to spread out this project, purchases are probably already being made for this purpose.

Outlook: Flexibility is the order of the day. In this respect, it is to be expected that issuers will take advantage of opportunities that arise in the short term. Especially since it can be assumed that September will be very busy.

€-Covered Bond-Issues week of 18 July 2022

Kupon	Emittent	Rating (M/S&P/F)	Volumen in €	Tap	Fälligkeit	Begebungs-Spread zu Swaps	ESG	Begebung	Orderbuch	erste Spread-indikation
1,750%	LBBW	Aaa /-/-	1,000 Mrd.		28.02.2028	ms +5 Bp	✓	18.07.2022	4,500 Mrd.	ms + 10 area
1,750%	Deutsche Pfandbriefbank AG	Aa1 /-/-	0,750 Mrd.		01.03.2027	ms +6 Bp		19.07.2022	1,250 Mrd.	ms + 10 area
1,700%	Toronto-Dominion Bank	Aaa /-/-	2,500 Mrd.		28.07.2025	ms +17 Bp		20.07.2022	3,250 Mrd.	ms + 20 area

Quellen: Bloomberg, Helaba DCM



Senior Unsecured

The primary market for senior unsecured bank bonds continues to see almost no transactions. On Tuesday, Aareal Bank priced a green preferred senior bond with a volume of EUR 500 million and a maturity of three years at a yield of 4.6%. This represented a new issue premium of over 80 basis points, a record level so far this year. On this basis, it generated an order book of EUR 700 million. Nevertheless, the spread of the bond narrowed by a good 40 basis points in the course of trading so far.

The reasons for the lifeless primary market in this segment are, in addition to the overall difficult market environment, the vacation season and the blackout period due to the ongoing reporting season for Q2 2022. As usual, **banks from the US and Sweden** disclosed their results right at the beginning. Compared to the previous year, as expected, profits fell significantly, with the trading results of the houses in particular being burdened by falling bond valuations. While it was possible to release additional credit risk provisions set up during the COVID crisis, some banks reallocated them to provisions for increasing recession risks. On the other hand, continued very solid credit growth supported profits.

However, at **today's eagerly awaited meeting**, the ECB Governing Council decided on a spirited interest rate step of plus 50 basis points for each of the three key interest rates, thus underpinning its goal of containing inflation to the 2 % level in the medium term. In our view, this represents at least an important step toward stabilizing the market, albeit only a first one. In its press release on the monetary policy decisions, the Council also explains that it will continue to monitor refinancing conditions for banks and ensure that they are in line with monetary policy.

Outlook: The institutions have not yet fulfilled their issuance plans for this year. In the persistently volatile market environment, they are hoping for an easing after the vacation season. In view of the general mood of crisis (above all the Ukraine war, inflation and interest rate fears), we expect them to take advantage of any market windows that present themselves as early as possible and, in doing so, to accept significant spread premiums out of concern about further increases in refinancing costs. In the coming week, the banks' reporting season will continue, with the focus again likely to be on recession fears and the impact of rising interest rates. Overall, we do not expect the primary market for senior unsecured bank bonds to pick up significantly in the coming week.

> *"Investors are acting cautiously. Real money accounts in particular are taking a wait-and-see approach. Most activity comes from ETF funds and retail desks, which are sentiment-driven in small lot sizes as both buyers and sellers. The trading desks have low holdings and little risk appetite, which triggers i.e. amplifies high swings. The prices shown represent only vague indications. The very low liquidity allows bear market rallies again and again and offers opportunities, in the near future probably with continued high volatility."*
> *Assessments from the Helaba trading room*

€-Senior Preferred-Issues week of 18 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,500%	Aareal Bank AG	A3 /-/A-	0,500bn		25.07.2025	ms +300 bps	✓	19.07.2022	0,700bn	ms + 300 area

Sources: Bloomberg, Helaba DCM

€-Senior Non-Preferred-Issues week of 18 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

Reporting dates of selected banks

Issuer	Date	Issuer	Date
UBS Group AG	7/26	Credit Suisse Group AG	7/27
Unicredit Bank AG	7/26	Lloyds Banking Group plc	7/27
Unicredit Spa	7/26	Barclays plc	7/28
Deutsche Bank AG	7/27	Banco Santander SA	7/28
OP Corporate Bank plc	7/27		

Quellen: Bloomberg, Helaba Research & Advisory

Short news

7/21 **ECB decision**: At 2:15 p.m., the European Central Bank announced its **decisions**. The main refinancing rate, the deposit rate and the marginal lending rate were each increased by 50 bps to 0.50%, 0.00% and 1.00%, respectively. In addition, a "**Transmission Protection Instrument**" (TPI) was adopted.

7/20 **Russia sanctions:** EU diplomats have approved a new, seventh round of sanctions against Russia over its invasion of Ukraine, including a ban on gold imports from Russia and an asset freeze for its largest lender, Sberbank of Russia, Reuters **reported**.

7/20 **July 2022 bank lending survey**: According to the **bank lending survey** by the European Central Bank (ECB), banks tightened their credit standards for loans to firms and households amid high uncertainty and monetary policy normalization. Firms' demand for loans continued to increase, driven mainly by financing needs for working capital.

7/19 **S&P revises German Banking Sector BICRA trend to negative**: S&P Global Ratings revised German Banking Sector BICRA economic risk trend to negative from stable. The rating agency believes that economic risks for the German economy are increasing due to the country's substantial exposure to energy sourcing from Russia, which makes it vulnerable to a potential gas shutdown.

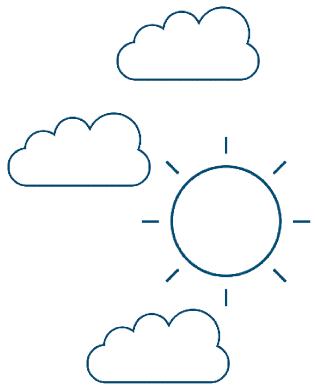
7/13 **Fitch Ratings-on Canadian covered bonds:** Canadian covered bond issuance in 2022 already surpassed 2021 total levels, driven by investor demand, favorable market conditions, and refinancing activity, despite Canadian home prices being overvalued by nearly 30% compared with what we consider a sustainable value based on the historical relationship between income and home prices, Fitch Ratings says.Canadian home price unaffordability reached a 40-year high after a record 18.8% yoy increase in April 2022 and is up more than 50% over the last five years, according to Teranet and the Canadian Real Estate Association. **Fitch believes** current Canadian home prices are not sustainable but the most likely scenario is a soft-landing with home prices still seeing positive gains of less than 10% in 2022, with further moderation in 2023.

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

E-STOXX 600 Banks	124	1,93%	-5,52%	iBoxx € Cov. Germany	4,8	-2,3	2,6	iTraxx Senior Financial	128,8	-2,2	9,6
10Yr-Yield	1,26	0,11	-0,36	iBoxx € Cov. Bonds	12,7	-2,2	3,5	iBoxx € Supranational	3,9	-1,91	2,09
Swap 10J	2,04	0,08	-0,39	iBoxx € Banks PS	78,7	-8,4	-11,9	iBoxx € Agencies	-12,2	-1,46	1,30
iBoxx € Germany	-71,4	2,03	-4,01	iBoxx Banks NPS	115,4	-13,9	-16,5	iBoxx € Sub-Sov. Germany	4,4	-2,28	3,98
iBoxx € EU	4,0	-1,44	2,21	iBoxx Banks Subordinated	224,9	-17,0	-1,8	iBoxx € Sub-Sovereign	18,7	-1,99	3,78

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

Leisure tip for the weekend: Primeval Forest Sababurg in the Reinhardswald Nature Park



The Reinhardswald is a designated nature park at the gates of the city of Kassel with a size of about 45,000 hectares. Enclosed by the rivers Weser, Diemel and Fulda, the park is characterized by its Hute oaks and extensive beech forests. Awarded the title of "European Prime Butterfly Area", the Reinhardswald is one of the most species-rich biotopes in Europe. One of the highlights in the nature park is the primeval forest Sababurg, which was created by human hand and is also the oldest protected area in Hessen. In the primeval forest there are the mentioned hute oaks, of which some are up to 600 years old. Access is free of charge and additional public guided tours are offered.
More information: **Naturpark Reinhardswald**

Do you have ideas for leisure tips? We would be happy to receive your suggestions at research@helaba.de.
Source: naturpark-reinhardswald.de

GlobalCapital Covered Bond Awards 2022

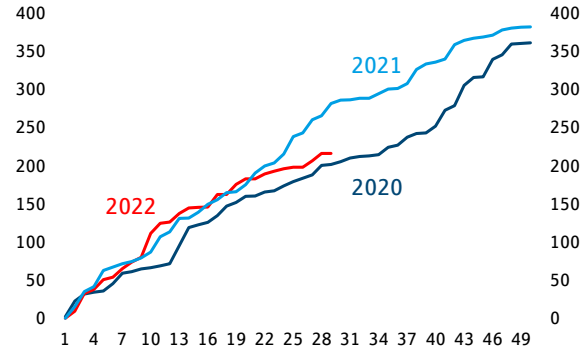
Take part in the voting for this year's "Global Capital Covered Bond Awards" by 5 August!

Votes for Helaba in the categories "Deal of the Year" and "Best Bank for Distribution" via this link would be very much appreciated.

Chartbook SSA, Covered Bonds, Senior Unsecured

SSA: Primary volumes

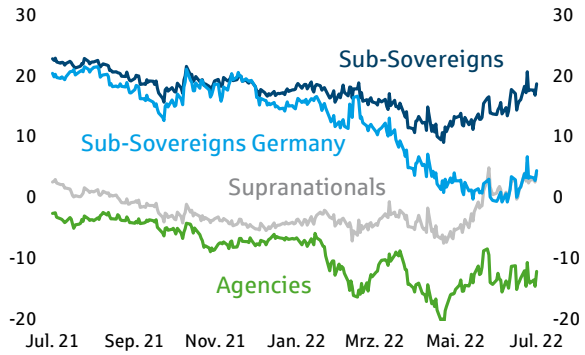
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSA: Spread development

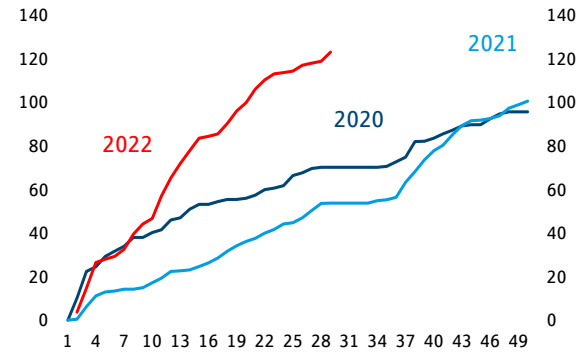
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes

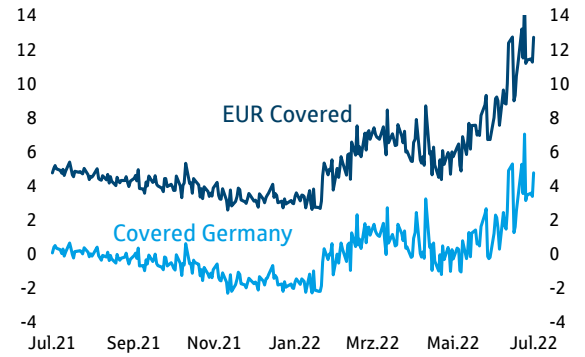
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

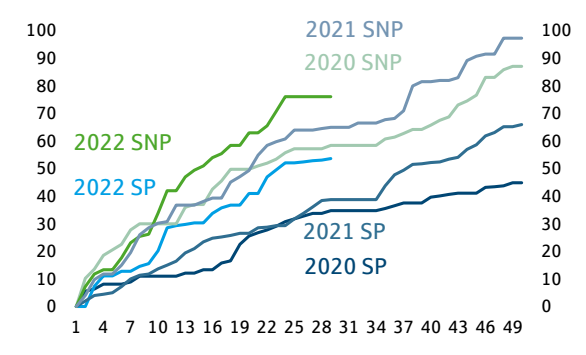
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes

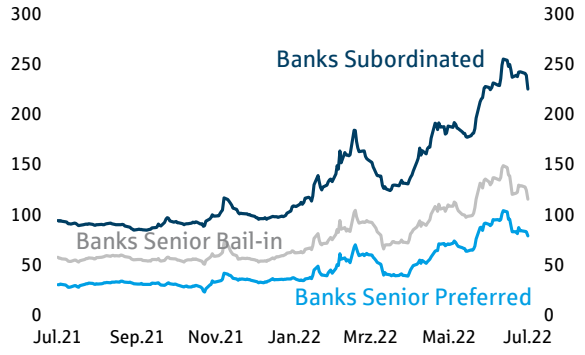
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread in bp



Sources: Bloomberg, Helaba Research & Advisory

News from Research & Advisory

→ Focus on: Credits – Primary Market Update EUR benchmark bank Bonds: Q2 2022
→ Focus on: Credits – European Banks: Climate risk stress test highlights need for furhter action
→ EUR Corporate bonds: Primary market Q2 2022
→ European banks: Activities becoming ever greener
→ 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)

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