Helaba

Focus on: SSA & Financials

28 July 2022

Weekly Market Update

Primary market environment: Macroeconomic risks continue to dominate the picture. First and foremost is the development of the gas price. In addition, there are concerns about the economy, inflation and growth, rising interest rates and a political crisis in Italy (Eurosceptics are ahead), to name but a few. The Fed is signalling further increases in interest rates.

Primary market barometer

SSA



The supposed summer break was interrupted this week. Inflation fears ensured very good demand for SSAs. In particular, securities issued by the German federal states are very popular with investors.

Covered Bonds



Covered bonds remain in demand, not only as safe haven assets. On the one hand, purchases by central banks have increased again (partly by replacing upcoming maturities), and on the other hand, foreign market participants also seem to be stepping up their purchases.

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

Risks continue to be highly weighted

Spread trend indicator*, ASWspread change versus …

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,00	-0,16	-0,49	-0,06	-2,15	-3,19
European Union	0,02	-0,12	0,23	0,81	0,11	-0,40
Germany Covered	0,09	-0,03	0,31	0,54	0,49	-0,44
EU Covered	0,02	0,00	0,10	0,21	0,22	-0,04
Banks senior preferred	0,05	-0,15	-0,75	1,05	2,16	0,82
Banks senior bail-in (SNP)	0,11	-0,18	-0,70	0,74	2,01	0,61
Banks subordinated	0,00	-0,39	-0,39	0,59	1,70	0,53
Supranational	0,03	-0,05	0,23	0,70	0,04	-0,24
Agencies	0,01	-0,03	0,04	0,21	-0,61	-1,04
Sub-Sovereigns Germany	0,04	0,09	0,35	0,08	-0,99	-1,39
Sub-Sovereigns	0,03	0,03	0,33	0,51	-0,30	-0,98

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

Our spread indicator illustrates the uncertainty currently prevailing on the market by means of the predominant red colouring in the short time window.

SSA

In the SSA segment, supply was limited to a few issues this week. The state of Berlin issued a 10-year EUR 500 million (no grow) state treasury note, which enjoyed particularly high demand due to the scarcity of new federal state issues. Given that the issue was oversubscribed by a factor of six, it was priced 2 bps tighter at MS - 10 bps compared to the initial spread target (MS - 8 bps). In our estimation, this corresponds to a negative new issue premium of 1 bp. The marketing of the 10-year green NRW.Bank transaction was also successful. Orders clearly exceeded the issue volume, which was limited to EUR 1 billion (> EUR 3.8 billion). The final spread was MS -7 bps, 2 bps below the original indication of MS -5 bps: Should a favourable window of opportunity open up, issuers can be expected to take advantage of such opportunities, even though the official pipeline is currently still empty.

€-SSA-Issues week of 25 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
1,625%	Berlin	Aa1 /-/AAA	0,500bn		02.08.2032	ms -10 bps		26.07.2022	2,700bn	ms - 8 area
0,000%	Agence Francaise de Developpt	- /AA/AA	0,100bn	✓	25.03.2025	FRTR +25 bp	✓	26.07.2022	ıot disclosed	FRTR +25 Bp
1,625%	NRW.Bank	Aa1 /AA/AAA	1,000bn		03.08.2032	ms -7 bps	✓	27.07.2022	3,800bn	ms - 5 area

Sources: Bloomberg, Helaba DCM

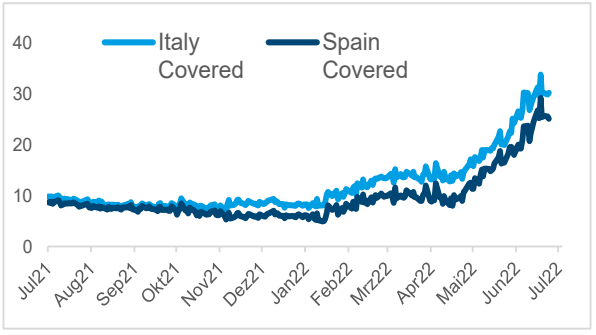
Covered Bonds

After the market for covered bonds had to endure a difficult phase, which was characterised by weak subscription rates, rising new issue premiums and a widening of spreads, the revival of market activity, which had already become apparent in the previous week, continued recently. Actually, a pronounced summer break was expected from many sides. This was mainly due to the central bank, which, with a view to the covered bond maturities in September (EUR 6.8 billion), was already acting increasingly on the buying side. Foreign counterparties also showed increasing demand. Safe haven aspects continue to play a role at present, in view of a colourful potpourri of negative factors. In this respect, it is not surprising that the constructive picture is also radiating to the long end of the curve: quotations have become friendlier again, coming from high levels. The recent success of the NordLB placement shows how much the sentiment has changed. The covered bond with a maturity of 3.25 years and a volume of EUR 500 million (no grow) was 4 times oversubscribed and was ultimately priced at MS +3 bp. The marketing spread was initially MS +8 bp. This underpins the impression that the interest in German counterparties, which has recently increased again, is continuing. The picture is different in **Italy.** While the spreads of the other peripheral countries tightened somewhat, they widened there in view of the political

> *"The stabilisation in swap valuations in the cash that has been observed for some time continues and is gaining momentum! Spreads are narrowing across the bank. The only plausible explanation consists of two components: 1. currently there is little supply pressure from the primary markets, 2. covered bonds seem to have a safe haven status among some market participants. It is therefore not surprising that core names in particular, especially German and increasingly French securities, are more sought after. Also significant: Recently, almost all enquiries to us have been characterised by the intention to buy".*
>
> *Comment from the Helaba trading floor*

Italian covered bonds: Trend towards widening spreads continues

ASW-Spread left scale



Quellen: Bloomberg, Helaba Research & Advisory

crisis in the country. In this context, it will be interesting to see whether and how the ECB will use the "anti-fragmentation tool" (TPI - Transmission Protection Instrument). Since there are a lot of open questions regarding the design of the TPI, the adjusted reinvestment within the framework of PEPP maturities is likely to be the first "line of defence" against spread widening.

Outlook: The pipeline for the coming week is currently empty. If issuance windows open, one or the other issuer could show up. However, as August and with it the peak of the summer break is just around the corner and many issuers have their hands tied by the current reporting season, market activity is likely to remain limited overall.

€-Covered Bond-Issues week of 25 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
1,375%	NORD/LB	- /AA+/-	0,500 Mrd.		03.11.2025	ms +3 Bp		25.07.2022	2,000 Mrd.	ms + 8 area

Quellen: Bloomberg, Helaba DCM

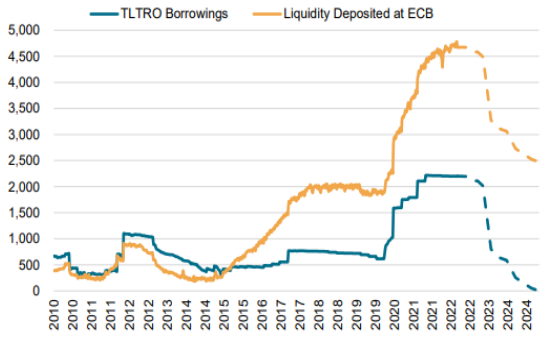
Senior Unsecured

The primary market for senior unsecured bank bonds continues to show little activity. The Canadian sector leader Toronto-Dominion Bank took advantage of the positive momentum at the beginning of the week to place a non-preferred dual tranche in EUR benchmark format. The volume placed was 1 bn EUR with a 5-year maturity (ISIN XS2511301322) and 1.25 bn EUR with a 10-year maturity (ISIN XS2511309903). The transaction was solidly oversubscribed at new issue premiums of 35 and 25 bps, respectively. In the secondary market so far, the spreads of the bonds have narrowed slightly from their issue levels.

In the case of the EUR 500 million, 3-year green preferred senior bond priced by Aareal Bank last week at a yield of 4.6% (ISIN DE000AAR0355), the ASW spread narrowed further to 235 bps, compared with 300 bps at issuance.

TLTRO to be at least partly replaced

bn. EUR



Sources: S&P Global Ratings, Helaba Research & Advisory

In addition to the overall difficult market environment, reasons for the almost lifeless primary market in this segment include the vacation season and the blackout period due to the ongoing Q2 2022 reporting season.

The quarterly reporting season for banks has been mixed so far. As expected, profits have fallen significantly compared with the previous year, with trading profit in particular being impacted by falling bond valuations. While the banks were able to release some of the overlay provisions for credit risks formed during the COVID crisis, some of them are rededicating corresponding items to provisions for increasing recession risks. On the other hand, rising interest margins in the changed interest rate environment and continued very solid credit growth are supporting profits. Overall, the results of the banks have thus been surprisingly solid so far, although some banks are talking about a gloomier outlook for the rest of the year. Deutsche Bank CEO Christian Sewing, for example, said: "The months ahead will continue to be challenging. There is reason to believe that things will become even more difficult economically."

> *"Despite the recent return of recession fears, the cash register performed well last week. French stocks in particular are top performers. The coalition breakup in Italy leaves Italian spreads the only ones to widen on a weekly basis. The cash market continues to be illiquid. Screen prices are still vague indications at most. There has been little change in the capital flows of the past weeks: Asset managers remained on the sidelines, watching the headline-driven action. The risk of being caught on the wrong foot seems too great. ETF funds provided most of the turnover in smaller lot sizes. Initially, they were buyers, but since midday Tuesday, they have been sellers again."*
>
> *Comment from the Helaba trading floor*

€-Senior Preferred-Issues week of 25 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

€-Senior Non-Preferred-Issues week of 25 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,551%	Toronto-Dominion Bank	A1 /A/-	1,000bn		03.08.2027	ms +105 bps		25.07.2022	1,400bn	ms + 115 area
3,129%	Toronto-Dominion Bank	A1 /A/-	1,250 Mrd.		03.08.2032	ms +130 Bp		25.07.2022	2,250 Mrd.	ms + 145 area

Sources: Bloomberg, Helaba DCM

Reporting dates of selected banks

Issuer	Date	Issuer	Date
NatWest Group	7/ 29	Société Générale	8/ 3
BBVA	7/ 29	Commerzbank	8/ 3
BNP Paribas	7/ 29	BPCE	8/ 3
Standard Chartered	7/ 29	Banco BPM	8/ 3
Intesa Sanpaolo	7/ 29	Bank of Ireland Group	8/ 3
HSBC Holdings	8/ 1	ING Groep	8/ 4
Erste Group Bank	8/ 1	Bance Monte dei Paschi die Siena	8/ 4
Raiffeisen Bank International	8/ 1	Crédit Agricole	8/ 4

Quellen: Bloomberg, Helaba Research & Advisory

Short news

7/27 ECB - Monetary developments in the euro area June 2022: How did euro area bank lending and money supply evolve in June? How do they compare with May's figures? The European Central Bank (ECB) answered these questions in its latest statistical **press release**.

7/27 FED rate hike: As expected, the U.S. Federal Reserve moved the key interest rate band up by 75 bps to 2.25-2.50%. In the accompanying statement, the FOMC noted that economic momentum had slowed, but the labor market remained robust. In addition, inflation remains elevated, and so FOMC members expect further rate hikes to be appropriate, they said.

7/26 SRB's MREL dashboard for Q1/22 published: The Single Resolution Board (SRB) has published its minimum requirement for own funds and eligible liabilities (MREL) **dashboard for Q1/2022**. "I am pleased, that despite the current economic uncertainty, banks continue to make progress in building up their levels of MREL. This is important funding that acts as a shock absorber in a time of crisis, and helps to ensure that the preferred strategy for dealing with a bank in trouble is available, and workable, at short notice," said SRB Chair Elke König.

7/22 Supervisor to review banks' capital plans: According to Börsenzeitung, the European banking supervisory authority is getting serious about its recently announced review of the capital plans of major banks in the euro area. Having recently called for the consideration of adverse macroeconomic scenarios as a result of the Ukraine war, the supervisory authority is now likely to review these capital plans.

7/22 The ECB is finally sending a clear message according to BdB: "By raising the key interest rate by 50 basis points, the ECB is resolutely counteracting inflation," said Christian Ossig, Chief Executive of the **Association of German Banks (BdB)**, with a view to the ECB Council meeting.

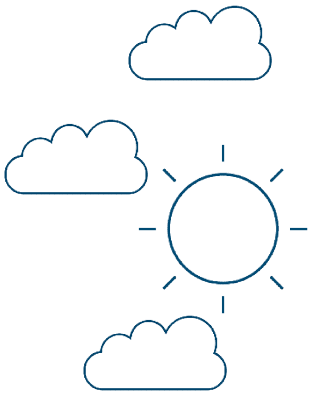
7/22: **Spain's economy minister keeps bank tax in the dark**: Spain's economy ministry declined to give details of a new tax on banks' profits, which are set for a boost as interest rates rise to tame inflation. Economy Minister Nadia Calvino told reporters the tax would be introduced to parliament this week but declined to give any information about its design. Sources heard by **Reuters** said the government was readying a levy of just under 5% on net interest income and banking commissions.

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

E-STOXX 600 Banks	125	1,13%	-2,59%	iBoxx € Cov. Germany	3,4	-1,4	1,9	iTraxx Senior Financial	128,8	-2,2	9,6
10Yr-Yield	0,94	-0,32	-0,57	iBoxx € Cov. Bonds	11,6	-1,1	2,8	iBoxx € Supranational	2,0	-1,86	1,83
Swap 10J	1,76	-0,29	-0,59	iBoxx € Banks PS	77,1	-1,6	-17,9	iBoxx € Agencies	-14,5	-2,32	0,44
iBoxx € Germany	-76,2	-4,80	-5,64	iBoxx Banks NPS	115,2	-0,2	-21,9	iBoxx € Sub-Sov. Germany	4,3	-0,03	4,29
iBoxx € EU	1,3	-2,77	1,70	iBoxx Banks Subordinated	205,5	-19,4	-30,0	iBoxx € Sub-Sovereign	17,6	-1,06	3,40

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

Leisure tip for the weekend: CRAFT Festival in Frankfurt/Main



After a two-year break, the CRAFT Festival will take place again in Frankfurt am Main on July 29 and 30, 2022. Besides Craft Beer, the festival will offer wine, spirits and street food. In addition to the winemakers and breweries, hand-crafted products will be offered. The festival will take place at the large meadow at the Stadionbad (directly in front of the Deutsche Bank Park). Unlike the other years, this year will be a pure open-air version of the festival. A one-day ticket costs 12 euros in presale, the price for a combined ticket for both days is 20 euros (also in presale).

More information: CRAFT Festival

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

GlobalCapital Covered Bond Awards 2022

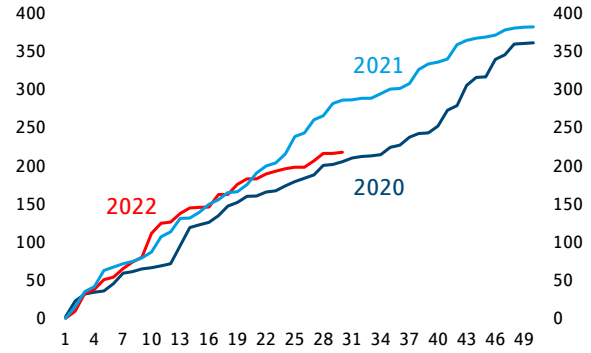
Take part in the voting for this year's "Global Capital Covered Bond Awards" by 5 August!

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

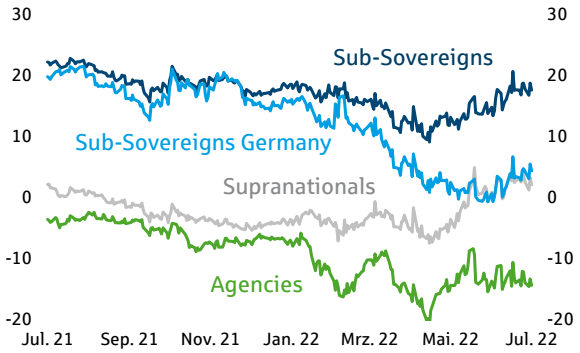
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSA: Spread development

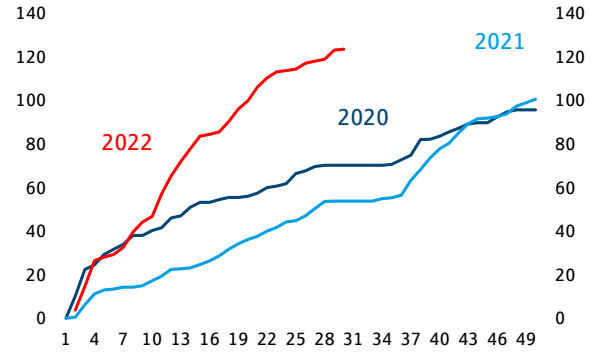
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes

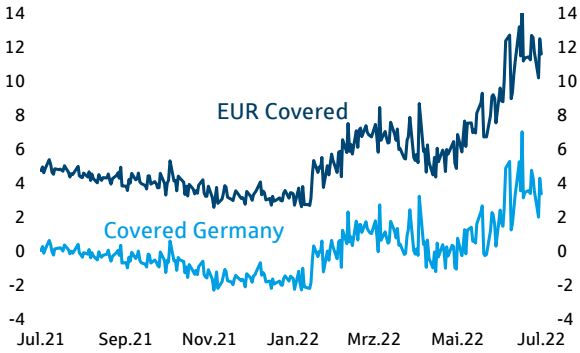
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

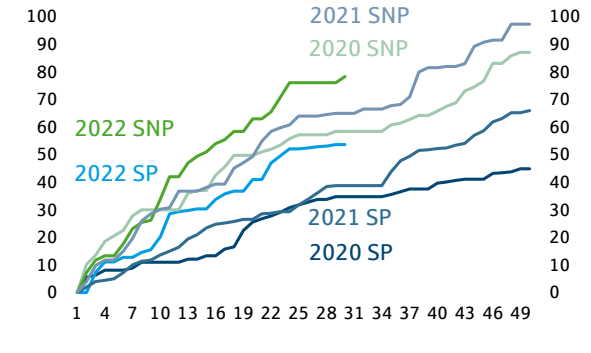
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes

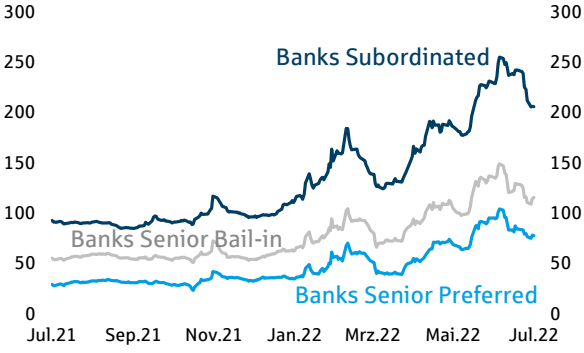
EUR benchmark issue volume cumulative by weeks, bn EUR



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)

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:
Stefan Rausch
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

Disclaimer

This publication has been prepared with the greatest care. However, it contains only non-binding analyses and forecasts of current and future market conditions. The information is based on sources which we consider to be reliable, but for whose accuracy, completeness or up-to-dateness we cannot assume any liability. All statements made in this publication are for information purposes only. They must not be understood as an offer or recommendation for investment decisions.

Here you can subscribe to our newsletter:
https://news.helaba.de/research/