Helaba

Focus on: SSA & Financials

13 October 2022

Weekly Market Update

Primary market environment: The escalation of the Ukraine war and possible further steps by the central banks to curb inflation have recently led to rising yields, wider bund swap spreads and nervous stock markets. The market environment remains very volatile.

Primary market barometer

SSA



In a persistently difficult market environment, the SSA segment is benefiting noticeably from its position as a safe haven. Furthermore, investor demand in this segment is supported by expensive interest rate hedges for Bunds. However, good standing of the issuers and shorter maturities also count here.

Covered Bonds



The almost desperate search for safe havens was particularly evident in covered bonds last week: In the EUR benchmark format, 9 transactions with a total volume of EUR 6.3 billion were placed, and the order books even totaled EUR 14.7 billion. A trend reversal is not expected for the time being.

Senior Unsecured



The primary market environment for senior unsecured bank bonds remains very difficult. Nevertheless, the market is generally receptive, albeit at higher spreads. Here, too, high quality and short maturities are comparatively sought-after by investors.

Risk trend indicator: Safe havens sought after

Spread trend indicator*, ASWspread change versus …

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,02	-0,17	-0,32	-0,43	-2,38	-3,05
European Union	-0,05	-0,18	0,29	0,10	1,00	-0,30
Germany Covered	-0,12	-0,24	-0,13	-0,38	0,27	-0,45
EU Covered	-0,03	-0,06	-0,02	-0,06	0,23	0,02
Banks senior preferred	0,10	-0,21	0,48	0,27	2,43	1,54
Banks senior bail-in (SNP)	0,13	-0,03	0,62	0,52	2,59	1,60
Banks subordinated	0,07	-0,04	0,69	0,27	2,65	1,65
Supranational	-0,08	-0,20	0,02	-0,23	0,37	-0,57
Agencies	0,03	-0,17	-0,19	-0,57	-1,07	-1,61
Sub-Sovereigns Germany	-0,07	-0,23	-0,16	-0,56	-1,24	-2,03
Sub-Sovereigns	-0,03	-0,30	-0,08	-0,56	-0,48	-1,56

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

The search for relatively safe assets in a generally very nervous mood among market participants is also reflected in our risk trend indicator. At least attractive entry opportunities are also being used for unsecured bonds on the secondary market, but overall the environment remains very volatile.

SSA

Demand for low-risk issuers remains high, as the EU impressively demonstrated this week with a dual tranche. In our view, the oversubscription rate of 4.5x, which the order book showed for the 20-year tranche in the amount of EUR 6 bn, is particularly remarkable. For this, however, it had to offer a generous spread premium of 4 bp; the bond has not been able to make up much ground on the secondary side either. In contrast, the two new issues of the French agencies this week seemed to focus more on favourable pricing from the issuer's point of view, thus their oversubscription rates were much lower.

Outlook: Our expectation that a trend towards higher new issue premiums will also emerge in the SSA segment was confirmed this week. The demand side is determined, among other things, by the comparatively low liquidity of asset managers. Outstanding bond portfolios can currently only be sold at a loss. Although we expect further issues in the coming weeks, there ist lower funding need of the federal states and development banks.

€ SSA issues week of 10 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
1.625%	EU	Aaa /AA/AAA	5.000 Mrd.	✓	04.12.2029	ms -21Bp		11.10.2022	16.500 Mrd.	ms - 20 area
3.375%	EU	Aaa /AA/AAA	6.000 Mrd.		04.11.2042	ms +32 Bp		11.10.2022	27.000 Mrd.	ms +34 area
3.500%	Agence Francaise de Developpement	- /AA/AA	1.200 Mrd.		25.02.2033	FRTRs +55 bp	✓	12.10.2022	1.300 Mrd.	FRTRs +55 area
3.000%	Caisse des Depots et Consignations	Aa2 /AA/AA	0.500 Mrd.		25.11.2027	FRTRs +57 bp	✓	12.10.2022	0.650 Mrd.	FRTRs +58 area
3.125%	Rheinland-Pfalz	- /-/AAA	0.250 Mrd.		20.10.2032	.		13.10.2022	not disclosed	.

Sources: Bloomberg, Helaba DCM

Covered Bonds

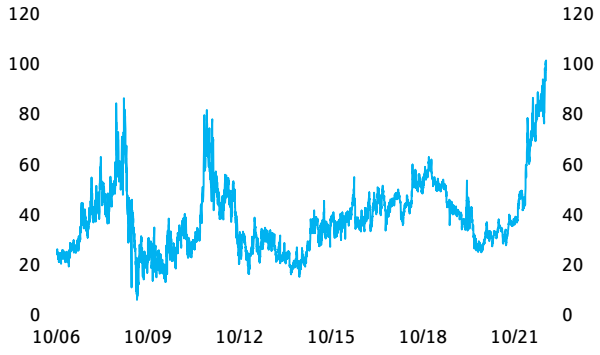
The hunt for safe havens is particularly evident in the covered bond segment: 9 transactions with a total volume of EUR 6.3 billion have been placed in benchmark format in the course of the week so far. The total volume subscribed was 2.3 times. In Germany, two issuers from the Landesbank sector, LBBW and Bayern LB, successfully placed their transactions. LBBW's 2-year paper was outstanding with more than 5 times oversubscription.

The two French issuers CaFFiL and La Banque Postale "dared" to enter the market with long maturities by 2029 and 2030 respectively. These transactions were also successfully closed, but with lower spread narrowing during the bookbuilding than the transactions with shorter maturities (-2 bps each).

Outlook: The still high Bund swap spread supports demand for covered bonds (as well as SSA paper) as an alternative to Bunds with relatively expensive interest rate hedge positions. In the generally very difficult market environment, this segment seems comparatively attractive. The demand for safe assets will continue in view of the numerous risk factors. In addition, rising refinancing costs will encourage issuers

Bund swap spread as major driver

EUR SWAP vs Govt Bond 10Y, in Bp.



Sources: Refinitiv, Helaba Research & Advisory

with funding requirements to bring forward transactions. For the year as a whole, we have therefore raised our primary market forecast to around EUR 190 billion (see **Primary Market Update EUR Benchmark Bank Bonds** of 7 October 2022).

> *„At the short end, the music continues to play in the positive spread sense. A general shortage of collateral for Bunds and thus evasive movements to high-quality "substitute assets" continue to keep the band playing. The effort to sell cash holdings in bonds that have been traded for some time is also unbroken. It is noticeable that securities at the very long end have also been sold again recently. In general, with the exception of ultra-short maturities, caution is still called for in the development of spreads against the background of further upward risks for absolute yields."*
>
> *Comment from the Helaba trading floor*

€ Covered Bond issues week of 10 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3.250%	CaFFiL	Aaa/AA+/-	1.000 Mrd.		19.02.2029	ms +11 Bp		10.10.2022	1.300 Mrd.	ms + 13 area
2.750%	LBBW	Aaa/-/-	1.000 Mrd.		18.10.2024	ms -12 Bp		11.10.2022	5.100 Mrd.	ms - 6 area
3.250%	Belfius Bank SA/NV	-/AAA/AAA	0.500 Mrd.		18.10.2027	ms +7 Bp		11.10.2022	1.250 Mrd.	ms + 10 area
3.250%	La Banque Postale Home Loan SFH	-/AAA/-	1.000 Mrd.		23.012030	ms +13 Bp		11.10.2022	1.500 Mrd.	ms + 15 area
3.125%	Bayerische Landesbank	Aaa/-/-	0.500 Mrd.		19.10.2027	ms -3 Bp		12.10.2022	2.400 Mrd.	ms +2 area
3.250%	Hypo Vorarlberg Bank AG	Aaa/-/-	0.500 Mrd.		19.02.2027	ms +16 Bp		12.10.2022	0.750 Mrd.	ms + 18 area
3.250%	Argenta Spaarbank NV	-/AAA/-	0.500 Mrd.		20.10.2026	ms +14 Bp		12.10.2022	0.600 Mrd.	ms + 16 area
3.246%	Commonwealth Bank of Australia	Aaa/-/AAA	1.000 Mrd.		24.10.2025	ms +18 Bp		12.10.2022	1.350 Mrd.	ms +20 area
3.000%	Landesbank Berlin	Aaa/-/-	0.250 Mrd.		20.04.2027	ms -3 Bp		13.10.2022	0.420 Mrd.	ms +1area

Sources: Bloomberg, Helaba DCM

Senior Unsecured

The primary market for senior unsecured bank bonds has slowed down noticeably in recent days. Despite the crisis-ridden general climate, it seems to be continuously receptive, as the Finnish OP Corporate Bank impressively demonstrated on Tuesday with a new preferred issue. The placement volume of EUR 500 million with a 4.5-year maturity was 1.5 times oversubscribed at an ASW spread of 105 bps.

Outlook: The environment in the senior unsecured segment remains extremely challenging. Liquidity among both investors and dealer desks is tending to decline, according to our observations. Furthermore, the Q3 2022 bank reporting season is starting and thus the black-out period. Particular attention will probably be paid to problem loan ratios when the results are presented. These have been stable so far, but an increase is foreseeable in view of the gloomy business environment. The net interest income of the banks and its sensitivity to rising interest rates on the other hand side is also likely to be a focus of attention.

Nevertheless, we were able to raise our primary market forecast for 2022 as a whole from EUR 150 billion to EUR 160 to 170 billion after the lively activity in the course of the year to date. High maturities, strict regulatory requirements for bail-in capital, credit growth and the expectation of rising interest rates are the main drivers here. However, investors are becoming increasingly selective and are focusing on high quality and shorter to medium maturities (see **Primary Market Update EUR Benchmark Bank Bonds** of 7 October 2022).

> *"Flows are below average, but with an unchanged pattern. Real money is a seller and tries to reduce risk and duration, e.g. in core European financials and US banks. ETF funds are sentiment-driven, but mostly as sellers as they experience outflows. Private banking and retail desks are using the high yields as buying opportunities in small trading volumes. Otherwise, we see 2-way activity from fast money in new issues. The attractiveness of the current yield levels is definitely there and should keep attracting some cherry pickers in short and medium maturities."*
>
> *Comment from the Helaba trading floor*

€ Senior preferred issues week of 10 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4.125%	OP Corporate Bank plc	Aa3 / Aa- / -	0.500bn		18.04.2027	ms +105 bps		11.10.2022	0.750bn	ms + 115 area

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 10 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
keine										

Sources: Bloomberg, Helaba DCM

Reporting dates of selected banks

Issuer	Date	Issuer	Date
JP MORGAN CHASE & CO	10/14	SVENSKA HANDELSBANKEN-A SHS	10/19
WELLS FARGO & CO	10/14	BAWAG GROUP AG	10/19
CITIGROUP INC	10/14	DNB BANK ASA	10/20
BANK OF AMERICA CORP	10/17	NORDEA BANK ABP	10/20
GOLDMAN SACHS GROUP INC	10/18	BANKINTER SA	10/20

Sources: Bloomberg, Helaba Research & Advisory

Short news

10/13 SRB and ECB agreement on margin for redemptions of liabilities: The Single Resolution Board (SRB) and the European Central Bank (ECB) have reached an "in principle" agreement on the margin for redeeming eligible liabilities. The new "in principle" agreement is applicable to authorisations granted as of 1 January 2023, including General Prior Permission (GPP) renewals.

10/10 EBA on real estate market risks: Banks are exposed to downside risks as residential real estate markets get overheated, according to a thematic note on EU banks' residential real estate exposures published by the European Banking Authority (EBA). EU banks reported more than EUR 4.1 trillion of loans and advances collateralised by residential immovable property according to the report. This corresponds to 1/3 of all loans towards households and non-financial corporates.

10/7 Moody's on risks from energy crisis at banks: Banks must prepare for an increase in problem cases in their loan books due to rising energy prices, according to rating agency Moody's. (Handelsblatt)

10/7 EBA updates on reglatory bail-in capital: The European Banking Authority (EBA) published an updated total loss-absorbing capacity and minimum requirement for own funds and eligible liabilities (TLAC/MREL) monitoring

Report. The EBA has observed that its recommendations have been well implemented. However, it has identified the need for a few new notable provisions to be recommended and for some others to be avoided.

10/7 BdB on sustainability in the corporate customer business: The new episode of the German Banking Association (BdB)'s **podcast "Bank Secret"** is about sustainability in the corporate customer business with a special focus on the automotive sector in Germany. It is key to plan the sustainable transformation of the individual companies to make investments and finance them.

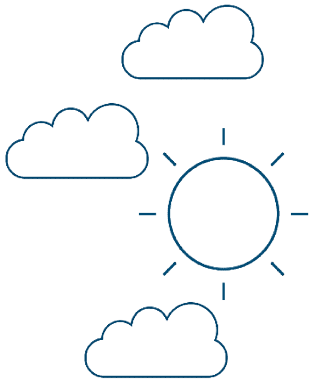
10/6 EBA risk dashboard confirms stable CET1 ratios and rising profitability: The European Banking Authority (EBA) published its **quarterly risk dashboard**. According to the report, the banks' profitability improved in Q2, which was largely due to higher interest rates translating into higher net interest income. Furthermore, bank solvency also remained solid, with the average CET1 ratio staying at 15%.

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

E-STOXX 600 Banks	117	-4.11%	-11.13%	iBoxx €Cov. Germany	1.3	-0.4	-0.9	iTraxx Senior Financial	148.3	5.8	32.0
10Yr-Yield	2.34	0.32	0.65	iBoxx €Cov. Bonds	10.3	-0.2	-0.5	iBoxx €Supranational	0.8	-0.66	0.61
Swap 10J	3.31	0.35	0.76	iBoxx €Banks PS	88.5	-2.7	13.2	iBoxx €Agencies	-21.1	-0.40	-1.43
iBoxx €Germany	-78.6	-0.20	-2.24	iBoxx Banks NPS	137.9	2.0	20.2	iBoxx €Sub-Sov. Germany	-4.9	-1.94	-2.75
iBoxx €EU	4.7	-0.47	3.71	iBoxx Banks Subordinated	248.6	0.9	40.4	iBoxx €Sub-Sovereign	11.1	-1.70	-0.60

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

Leisure tip for the weekend: Sanssouci in Potsdam



Sanssouci- in English "without worry" can be understood as the wish and leitmotif of King Frederick the Great, because this is where he preferred to retreat with his dogs. The location of the palace on the famous vineyard terraces and the original room furnishings from the 18th century allow visitors today to immerse themselves in the world of the "philosopher of Sanssouci" and bring a touch of Versailles to Brandenburg. The rooms are characterized by elegance and stylish splendor. Sanssouci also impresses with its park with the unique terraces and the magnificent fountain, world-famous and included in the UNESCO World Heritage List.

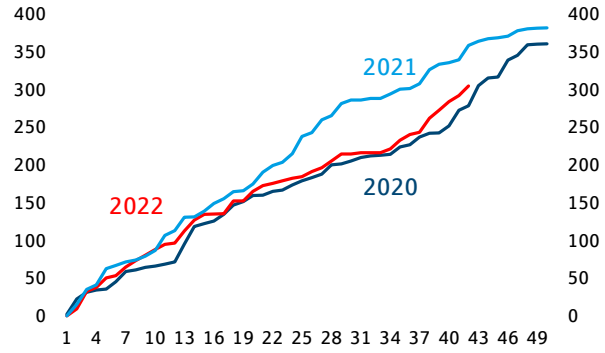
More information: : **Sanssouci Palace - Retreat on the Vineyard | SPSG**

Do you have ideas for leisure tips? We would be happy to receive your suggestions at research@helaba.de.
Source: **Sanssouci Palace - Retreat on the Vineyard | SPSG**

Chartbook SSA, Covered Bonds, Senior Unsecured

SSA: Primary volumes

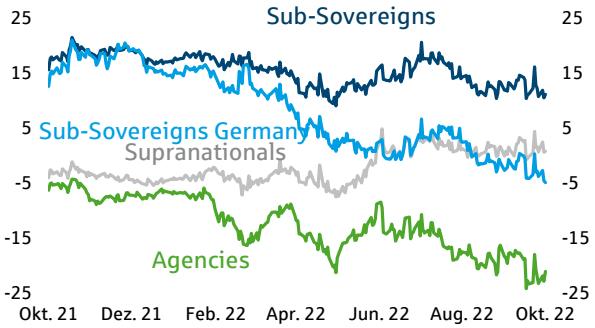
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSA: Spread development

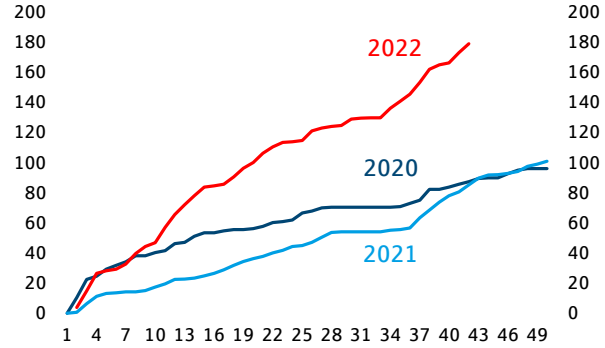
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes

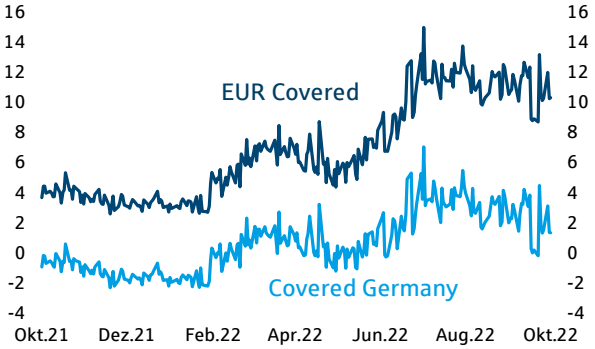
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

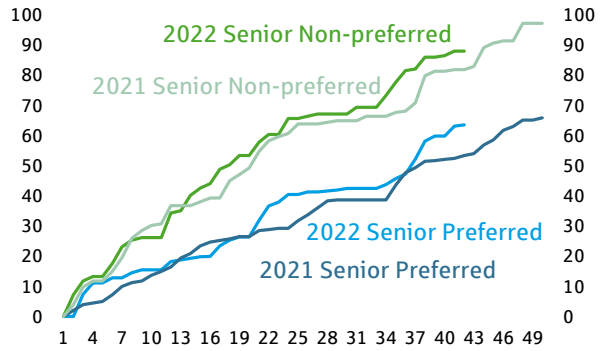
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes

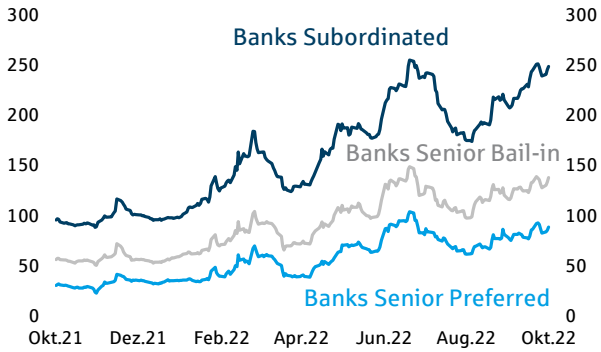
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

News from Research & Advisory

→ Focus on: Credits - Primary market update EUR benchmark bank bonds: Q3 2022
→ Focus on: Credits - EUR Corporate bonds: Primary market Q3 2022
→ Focus on: Credits – Bank and Covered Bond Profiles Germany
→ Focus on: SSAs – German Agencies
→ Focus on: Covered Bonds – European covered bonds: central website provides claritiy
→ Focus on: Credits – Live deals – a useful indicator for planning issuance
→ Focus on: Credits – European Banks: Climate risk stress test highlights need for furhter action
→ 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/