Helaba

Focus on: SSA & Financials

27 October 2022

Weekly Market Update

Primary market environment: As expected, the ECB's Governing Council today raised the three key interest rates by 75 bps each to counter the record high inflation in Europe. The previously attractive conditions for TLTRO III will be adjusted. The maturities from the bond holdings will continue to be reinvested and there will be no QT for the time being.

Primary market barometer

SSA



The rally in government bonds had a positive effect on SSAs overall. As a result, the supra spread vs. govies narrowed moderately. As it is currently a buyer's market, the right price and the right maturity remain important parameters.

Covered Bonds



Covered bonds continue to meet with sufficient demand from investors. However, it seems that the times when almost every issue was a sure-fire success are a thing of the past. The trend towards higher new issue premiums has continued recently.

Senior Unsecured



The difficult market environment and the selective approach of investors are most strongly reflected in this segment: Although the primary market remains open, both pricing and maturities are crucial for success. In the coming week, the reporting season will also weigh on activity.

Risk trend indicator illustrates short-term easing

Spread trend indicator*, ASWspread change versus …

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	-0,15	0,12	0,64	0,80	-1,48	-1,97
European Union	-0,10	-0,15	0,79	0,98	1,55	1,12
Germany Covered	-0,19	-0,32	-0,15	-0,36	0,27	-0,36
EU Covered	-0,05	-0,06	0,01	-0,03	0,27	0,09
Banks senior preferred	-0,04	0,22	1,10	1,54	3,23	2,16
Banks senior bail-in (SNP)	-0,07	0,13	1,00	1,59	3,30	2,01
Banks subordinated	-0,10	-0,08	0,36	1,21	2,89	1,66
Supranational	-0,10	-0,15	0,40	0,32	0,83	0,19
Agencies	-0,09	-0,03	0,55	0,23	-0,47	-0,99
Sub-Sovereigns Germany	-0,05	-0,01	0,10	-0,35	-1,17	-1,76
Sub-Sovereigns	-0,09	-0,05	0,46	0,10	-0,04	-0,87

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

With a slight delay, the currently brighter sentiment is also visible in our risk trend indicator. However, a general trend reversal cannot yet be assumed. The past weeks have been too volatile. .



SSA

In the SSA segment, a slight improvement in sentiment can be observed. But that is all. Once again, the past few trading days have shown that a lot depends on the issuer's name, the pricing and, above all, the chosen maturity. The two securities placed by the EU in the auction procedure with maturities until 2026 and 2037 went through as usual, even though the book-to-cover ratios (B/C) of 1.6 and 1.8 respectively were not very generous for these names. The Communauté française de Belgique tried and failed to buck the prevailing trend towards shorter maturities by choosing a maturity of 17 years. The bookbuilding already in progress was stopped in view of a sparse order book and the issue was cancelled altogether.

Outlook: After the ECB is before the Fed and BoE. In addition, regional holidays will be celebrated in Germany next week, so that primary market business will be very limited.

€ SSA issues week of 24 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
0,000%	EU	Aaa /AA+/AAA	2,450 Mrd.	✓	06.07.2026	Auction		24.10.2022	3,800 Mrd.	Auction
0,400%	EU	Aaa /AA/AAA	2,499 Mrd.		04.02.2037	Auction	✓	25.04.2022	5,000 Mrd.	Auction
5,250%	Istituto per il Credito Sportivo	- /BBB-/-	0,300 Mrd.		31.10.2025	ms +190 Bp	✓	24.10.2022	0,390 Mrd.	ms +245 area
n/a	Communauté française de Belgique	A2 /-/-	postponed		02.11.2039	BGBs +49 bp	✓	25.10.2022	0,375 Mrd.	BGBs +49 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Compared to the previous week, primary market volume in the period since Monday has fallen to around half. In view of the restraint in the run-up to the ECB meeting, however, this development is not surprising. The new issue premiums, which averaged 6.6 bp, were conspicuous among the issues carried out. The 5-year covered issue of Sp Mortgage Bank had the longest maturity this week. It was not possible to narrow the marketing spread. With an order book of EUR 815 million, the EUR 750 million tranche barely crossed the finish line. This example shows once again that the marketing of the formerly very popular 5-year maturity band has become a challenge. Especially when, as in the case of the issuer mentioned, volume optimisation was obviously in the foreground. With a view to the secondary market, it should be noted that the approaching year-end is contributing to the illiquidity of the market. Other issues, such as the flared-up dispute between France and Germany on important EU topics, are a warning to be cautious. In the end, everything is somehow connected to everything else, which is also noticeable in covered bonds. From the point of view of our trading, defensive action, now across the entire curve, is preferable.

> *„The sharply tightening spreads between swaps and bunds are increasingly leaving their mark on the swap spreads of covered bonds! As a reminder: for many months, due to historically high yield spreads between the swap and the Bund curve, the relative value of Coverds was very attractive. This has changed noticeably in recent trading sessions. The secondary market is now like the eye of a needle through which everyone wants to pass, and in one direction. The short and medium ends, which have been strongly supported for a long time anyway, no longer seem to be completely immune either."*
>
> *Translated with www.DeepL.com/Translator (free version)he spread ."*
>
> *Comment from the Helaba trading floor*

Outlook: The central bank meetings (Fed and BoE) in the coming week as well as the holiday-related absence of some market participants limit the primary market activity. Nevertheless, there are already some issues in the pipeline.

€ Covered Bond issues week of 24 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,125%	Sp Mortgage Bank Plc	- /AAA/-	0,750 Mrd.		01.11.2027	ms +20 Bp		24.10.2022	0,815 Mrd.	ms +20 area
3,050%	Bank of Nova Scotia	Aaa /AAA/AAA	2,000 Mrd.		31.10.2024	ms +12 Bp		24.10.2022	2,450 Mrd.	ms +14 area
3,000%	AXA Bank Europe SCF	Aaa /-/-	0,750 Mrd.		03.11.2026	ms +16 Bp		25.10.2022	0,975 Mrd.	ms +17 area

Sources: Bloomberg, Helaba DCM

Senior Unsecured

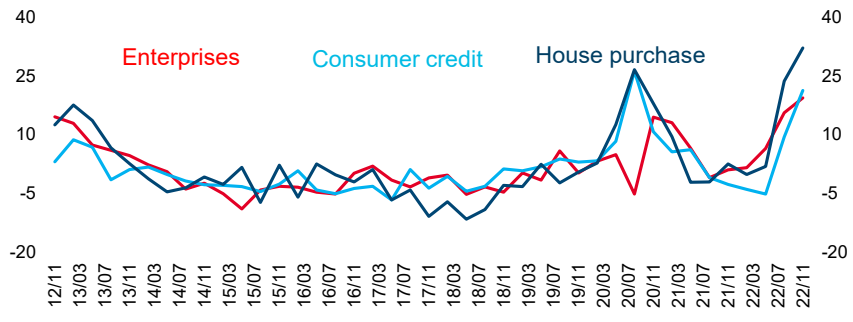
The **primary market for senior unsecured bank bonds** continues to be open, as the last few days have shown, but the environment remains challenging and both pricing and not too long maturities are crucial for success. So far this week, three EUR benchmark transactions have come to market despite the black-out period during the quarterly reporting season.

Caixa Geral de Depósitos from Portugal, rated BBB by the agencies, was able to generate a 3.2 times oversubscribed book with its senior preferred bond, albeit with relatively low volume and a substantial risk premium. **Raiffeisen Switzerland** also had to offer a relatively high spread for its first senior non-preferred bond to fill the books. Comparatively successful, in our view, was the senior peferred issue of the well-established AA-rated **Svenska Handelsbanken**. All three transactions had an average maturity of 5 years.

> *„Markets are currently disconnected as there are the very positive equity markets (DAX above 13,100) as well as significantly narrowed iTraxx indices (-13 bps yoy 10/20-22 in Senior Financial), while the cash market continuously recorded wider spreads and traded very sluggishly. In the cash segment, spread widening averaged 10 bps on preferred bonds, with German banks and the Scandinavians underperforming due to pressure on the curves implied by new issues. The periphery held surprisingly stable. Non-preferred bonds saw spreads widen by an average of 15 bps during the last trading week.*
>
> *Einschätzungen aus dem Handelsraum der Helaba*

Banks tighten their credit standards

ECB Bank lending survey: Kreditvergabestandards*



* Rise is net tightening

Sources: ECB, Refinitiv, Helaba Research & Advisory

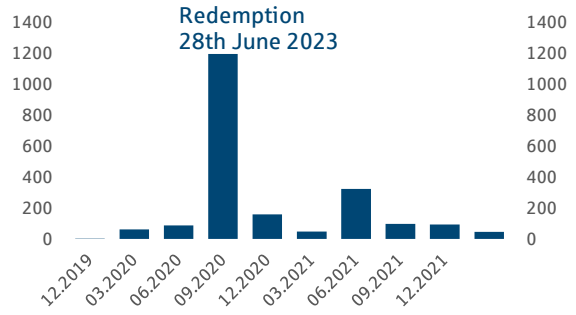
The reporting season has so far produced surprisingly solid results for the banks, with the rapid rise in net interest income in the changed interest rate environment being particularly pleasing. However, investors are also extremely nervous about the quality of the loan books and immediately dismiss any signs of weakness (e.g. Santander, SEB). Demand for mortgage loans is already weakening noticeably, which is driving margin competition. This contrasts with a strong increase in lending to companies, which are building up their working capital and drawing liquidity lines in the crisis-ridden business environment.

At the same time, **banks are noticeably tightening their lending standards**, as evidenced by the October results of the ECB's **Bank Lending Survey** published on Wednesday. Institutions blame this primarily on the risks associated with the gloomy economic outlook. Added to this are the increased refinancing costs and their own balance sheet restrictions.

Together with its monetary policy decisions today, the **Governing Council announced that interest rates for the third series of targeted longer-term refinancing operations (TLTRO III) will be adjusted** and that banks will be granted additional dates for voluntary early repayment. From November 23, 2022 until the maturity or early repayment of the respective outstanding amount, the interest rate will be based on the average of the relevant key ECB interest rates over this period. Details are to follow in a press release at 3:45 p.m.

TLTRO`s by settlement date

bn EUR



Sources: ECB, Helaba Research & Advisory

According to our understanding, the favorable interest rate for the banks from the TLTROs thus ceases to apply. According to our observations, the institutions had used the instrument mainly for welcome additional income in the low-interest rate environment and the pandemic. Funding requirements played a rather subordinate role for many banks. However, this does not apply to all banks; for issuers from the periphery in particular, the changes could result in additional demand for capital market funding. The favorable conditions of the program have recently come under criticism in view of the rapid rise in interest rates, especially as banks are already recording substantial increases in net interest income from their customer business (especially deposits). The Governing Council has also decided that the remuneration of minimum reserves will be reduced from the main refinancing rate to the deposit rate. Overall, the Council argues that it wants to ensure consistency with the general monetary policy normalization process through the measures. In doing so, it arguably accepts the loss of confidence associated with unilaterally changing the conditions of an ongoing program.

Outlook: In addition to the difficult market environment, the blackout period due to quarterly reports will result in comparatively low activity on the primary market for senior unsecured bank bonds next week as well. Furthermore, the year is well advanced and many banks have largely implemented their issuance plans, in some cases even exceeding them. Issuance in this segment is increasingly regulatory-driven (MREL/ TLAC), and issuers are turning to cheaper funding to cover refinancing needs due to the high risk premiums.

€ Senior preferred issues week of 24 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
5,750%	Caixa Geral de Depósitos, S.A.	Baa2 /-/BBB-	0,500bn		31.10.2027	ms +275 bps	✓	24.10.2022	1,600bn	ms +295 area
3,750%	Svenska Handelsbanken AB	Aa2 /AA-/AA+	0,750bn		01.11.2027	ms +85 bps		25.10.2022	1,300bn	ms +105-110 bp

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 24 October 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
5,230%	Raiffeisen Schweiz Genossenschaft	- /A/A+	0,500 Mrd.		01.11.2027	ms +220 Bp		24.10.2022	0,550 Mrd.	ms +220 area

Reporting dates of selected banks

Issuer	Date	Issuer	Date
NATWEST GROUP PLC	10/28	INTESA SANPAOLO	11/04
BANCO BILBAO VIZCAYA ARGENTA	10/28	ERSTE GROUP BANK AG	11/04
BNP PARIBAS	11/03	SOCIETE GENERALE SA	11/04
RAIFFEISEN BANK INTERNATIONA	11/03	BPCE SA	11/04
ING GROEP NV	11/03		

Sources: Bloomberg, Helaba Research & Advisory



Short news

10/27 ECB raises key interest rates by 75 bps: The **Governing Council** decided today to raise the ECB's three key interest rates by 75 basis points each. It also ends the favorable conditions on the third series of targeted longer-term refinancing operations (TLTRO III) as of November 23, 2022.

10/26 BdB on sustainable investment: Although more and more investors want to invest as sustainably as possible, there is still a considerable need for information on the term "sustainable investment". These information gaps need to be closed because the commitment of private investors is also important in order to restructure the entire economy in the direction of sustainability, says **the Association of German Banks (BdB)**.

10/25 ECB Bank Lending Survey results: Credit standards for loans tightened due to risks to the economic outlook and monetary policy normalization, according to the **euro area bank lending survey** published by the European Central Bank (ECB). Results also show that corporates' loan demand rose, driven by higher input costs and working capital needs.

10/21 EBA to scrutinize banking book models amid macro turmoil: Europe's top banking regulator will more closely scrutinize banks' interest rate and credit risk modeling practices after macroeconomic stresses have caused bankers to lose faith in the accuracy of their internal models. "We will have questions for the banks," Delphine Reymondon, head of the liquidity, leverage, loss absorbency, and capital unit at the European Banking Authority (EBA), tells **Risk.net**.

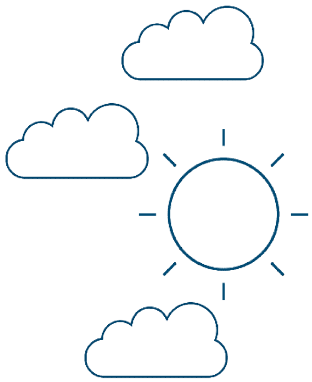
10/20 ECB to warn of risks in its opinion on Spanish tax proposal: The European Central Bank (ECB) is set to warn of the adverse impact on Spanish banks' solvency of a proposed tax on the sector and of a higher cost of credit in an upcoming non-binding opinion. "Attention will be drawn to the adverse impact on solvency and to risks for the transmission of monetary policy, as higher taxes could lead to an increase in the cost of loans," one of the sources told **Reuters**.

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

E-STOXX 600 Banks	128	1,42%	6,49%	iBoxx €Cov. Germany	1,3	-0,8	1,0	iTraxx Senior Financial	122,9	-14,6	-25,0
10Yr-Yield	2,12	-0,25	-0,02	iBoxx €Cov. Bonds	11,0	-0,3	2,2	iBoxx €Supranational	5,5	-1,03	6,27
Swap 10J	2,97	-0,28	-0,11	iBoxx €Banks PS	103,0	3,4	23,5	iBoxx €Agencies	-13,6	-0,92	10,65
iBoxx €Germany	-68,6	0,01	13,75	iBoxx Banks NPS	153,6	1,4	27,4	iBoxx €Sub-Sov. Germany	-0,5	0,67	3,55
iBoxx €EU	12,2	-1,66	10,61	iBoxx Banks Subordinated	248,6	-8,2	12,3	iBoxx €Sub-Sovereign	17,5	-0,25	7,11

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

Leisure tip for the weekend: Lorsch Abbey in Lorsch



Lorsch Abbey- Founded in 764, Lorsch Abbey inspires with its diverse history. The King's Hall of the former abbey and the archaeological remains of the monastery complex are among the rare late Carolingian buildings still preserved in their original appearance. A magnet for the public is also the Lauresham Experimental Archaeological Open Air Laboratory. It is the ideal model of a Carolingian manor house with residential and farm buildings as well as gardens, meadows and fields. There one can expierence vividly how the everyday life of the people felt like about 1,200 years ago. A trip on the last sunny weekend in October is worthwhile before the open-air laboratory closes until February. The authentic experience of early medieval life provides a new approach to our history for young and old!

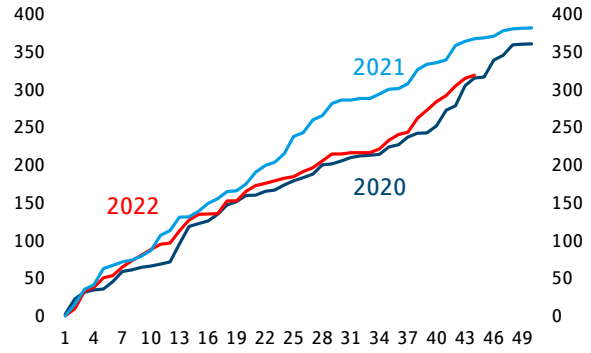
More information: **Welcome - UNESCO WELTERBE (kloster-lorsch.de)**

Do you have ideas for leisure tips? We would be happy to receive your suggestions at research@helaba.de.
Source: https://kloster-lorsch.de/en/welcome

Chartbook SSA, Covered Bonds, Senior Unsecured

SSA: Primary volumes

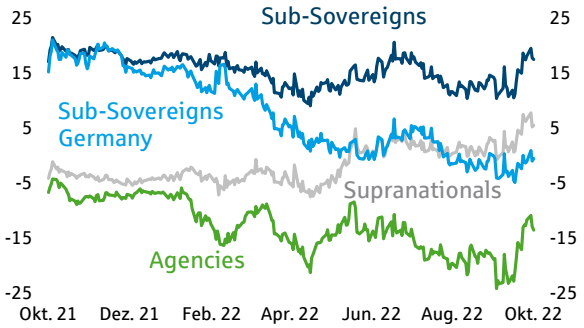
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSA: Spread development

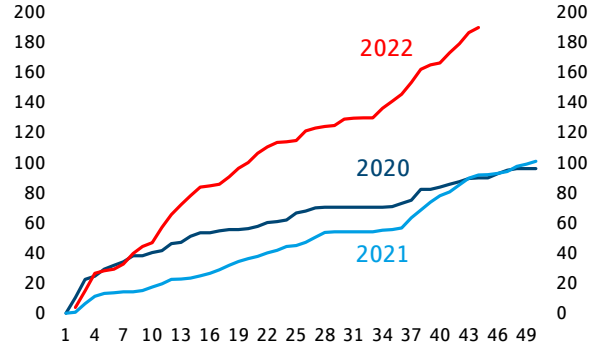
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes

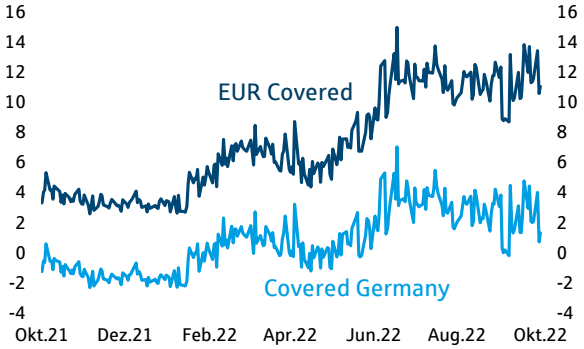
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

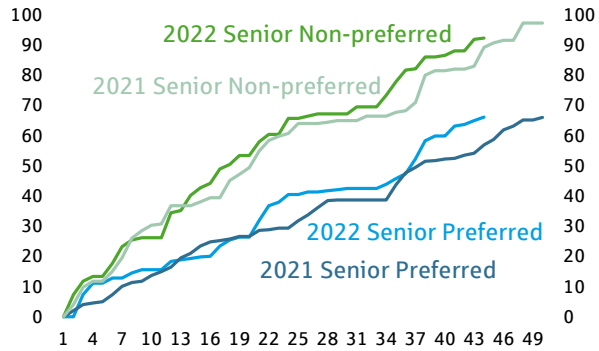
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes

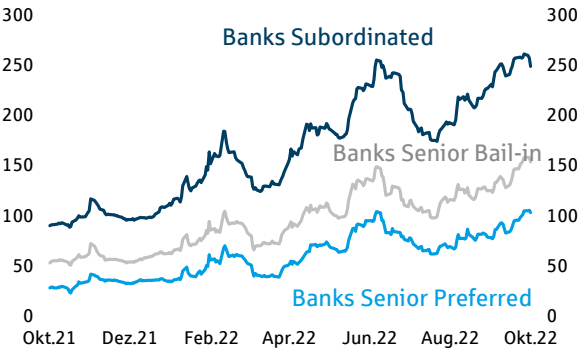
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

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→ 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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