Helaba

Focus on: SSAs & Financials

23 March 2023

Weekly Market Update

Primary market environment: After the forced marriage of UBS and Credit Suisse, volatility remains high and is once again causing slackness on the primary markets. The gold price benefits from the prevailing uncertainty and climbs to a new record high on a euro basis. The Fed raised the key interest rate by 25 bps for the ninth time in a row.

Primary market barometer

SSAs



Overall, issuers continued to hold back with issues. However, the few new placements gave positive signals that a revival of private market activities can be expected soon.

Covered Bonds



For the second week in a row, no new issues were recorded in the covered bond segment. Obviously, market participants are waiting for more favourable conditions. Signals for a brightening of sentiment are present, so that in our opinion the market opening by a Tier 1 issuer could take place soon.

Senior Unsecured



In our opinion, it is still too early for senior unsecured issues, especially since the widening of spreads in the secondary market is far from being "made up". Overall, however, the issuing pressure should be significantly higher compared to the covered bond segment.

Risk trend indicator: It is too early to give the all-clear

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,23	0,25	-0,51	-0,22	0,87	-0,84
European Union	0,04	-0,03	0,02	0,62	2,55	2,77
Germany Covered	0,07	-0,04	0,05	0,38	0,89	1,18
EU Covered	0,02	0,00	0,05	0,20	0,74	0,90
Banks senior preferred	-0,48	0,17	1,05	0,97	1,50	2,27
Banks senior bail-in (SNP)	-0,62	-0,18	0,82	0,57	1,26	2,01
Banks subordinated	-0,72	0,27	0,96	0,80	1,55	2,31
Supranational	0,04	-0,04	0,04	0,62	2,31	2,28
Agencies	0,16	0,01	-0,18	-0,10	0,88	0,13
Sub-Sovereigns Germany	0,01	-0,04	0,03	0,13	-0,01	-0,30
Sub-Sovereigns	0,03	0,00	0,10	0,43	1,07	0,89

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

spread widening | spread tightening

* ASW levels standardized and 2T-smoothed

Sources: Refinitiv, Helaba Research & Advisory

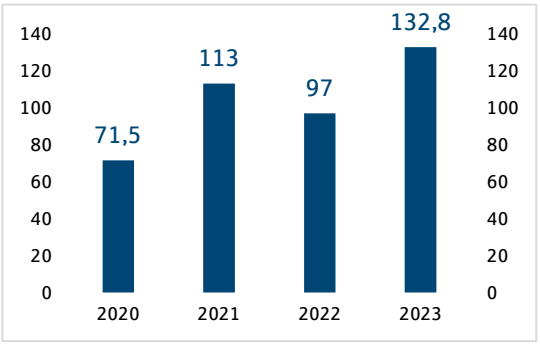
The market turbulence is also reflected in our risk trend indicator. Last week, the lights jumped to red and sustainable signs of easing have so far been absent.

SSAs

The general conditions, which were characterised by uncertainty and risk aversion, caused restraint on the primary market. The EU auctioned 4.5 and 9.3-year maturities. Based on a bid-to-cover ratio comparison, the auction was similarly successful as in the past. The Free State of Saxony also ventured onto the stage with the issue of a EUR 500 million benchmark maturing in 2028. The bond was placed at MS-9 and thus unchanged compared to the marketing. Given the current market environment, the deal went quite well. The German share of subscriptions is likely to have been relatively high. Experience shows that German development banks play an important role.

SSA Issuance volume* exceeds previous years

Volume of the first 12 weeks of the respective year, EUR billion



Sources: Bloomberg, Helaba Research & Advisory

Even if the "issuance train" has slowed down noticeably in the meantime, this year's issuance volume is quite respectable compared to previous years, as the chart shows.

Outlook: The EU has sent out RfPs (Request for Proposals) for a benchmark issue expected next week. After the recent shorter-dated bonds, there is much to suggest that an issue at the long end is to be expected. To what extent other issuers will also show up remains to be seen.

€ SSAs issues week of 20 March 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,000%	EU	Aaa /AA+/AAA	1,850bn	✓	04.10.2027	Auction		20.03.2023	3,542bn	Auction
1,000%	EU	Aaa /AA+/AAA	1,765bn	✓	06.07.2032	Auction		30.01.2023	4,000bn	Auction
2,875%	Sachsen	- /AAA/-	0,500bn		29.03.2028	ms -9 bps		21.03.2023	0,500bn	ms - 9 area

Sources: Bloomberg, Helaba DCM

Covered Bonds

Banks had to be rescued on two consecutive Sundays, which on the one hand led to an overall increase in risk aversion and on the other hand to another lack of primary market transactions this week. Compared to unsecured bonds, covered bonds once again performed very respectably. In view of the turbulence surrounding Credit Suisse, this only applies to a very limited extent to its covered bonds. In the case of the 750 EUR benchmark covered issued last December and maturing in 2025, the spread against swap widened to around 120 bps and thus at times by 60 bps. In the meantime, however, the picture has brightened noticeably (+75 bps). Overall, the effects for covereds in the secondary market with regard to the absolute swap spread movements were neither in one direction nor in the other as erratic as was the case with other asset classes. In this respect, the widening was noticeable but less dramatic and, accordingly, the spreads did not tighten more strongly in the calming phase. Overall, market liquidity has increased again, with the focus remaining on short maturities. In our opinion, there can be no talk of a return to normality yet. In particular, the further development of interest rates and the crisis management in the banking sector are likely to play a major role.

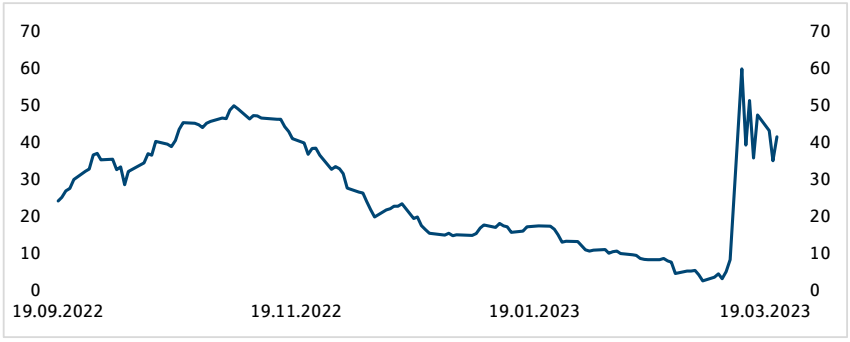
> *"The strong efforts to prevent a banking crisis a la Lehman have brought relief to the overall market over the course of the week. In addition to the central banks as the "first line of defence", it is noticeable this time that the government went to great lengths to avert the disaster (guarantees from the Swiss government for the merger of Credit Suisse and UBS, government-guaranteed deposit insurance in the USA, possibly also over the $250k threshold in the future). The risk-on mode observed in the aftermath primarily affected the credit markets (cash and indices) and equities. The yield curves for EGBs also made a 180° turn (Treasury yields +50 bps since the beginning of the week), the same applies to a calming of the Bund/swap spreads."*
>
> *Comment from the Helaba trading floor*

Outlook: There is much to be said for a resumption of primary market activity in the coming week. A number of issuers, especially from Germany, France, the Netherlands and outside the Eurozone, are likely to be waiting in the wings. It will be exciting to see who dares to step forward first and initiate the market opening. Furthermore, the development of the US regional banks (more on this below) is likely to play a role and influence overall market sentiment.

Chart of the week

USD FRA OIS (Overnight Index Swap) 3M - Upward trend continues

Bp.



*Closing price as of 22.03.23
Sources: Bloomberg, Helaba Research & Advisory

As mentioned above, US banks also remain in focus. The adjacent market-based indicator shows the stress in the banking system. The gap between the three-month US forward rate agreement (FRA) and the three-month overnight index swap rate widened dynamically recently and climbed to its highest level in more than three months on Monday. This development was caused by various regional banks in turmoil, above all Silicon Valley Bank.

€ Covered Bond issues week of 20 March 2023

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 Unsecured

For the second weekend in a row, there was a bang for the buck. Following the turmoil on the US banking market, an extraordinary government-initiated takeover of Credit Suisse by UBS was sealed on Sunday. The purchase price is CHF 3 billion - the takeover was backed by extensive guarantees from the Swiss National Bank (SNB) and the Swiss government. The SNB has granted extraordinary funds of an additional CHF 200 billion, the Confederation is guaranteeing risks amounting to CHF 9 billion. The AT1 bonds of Credit Suisse (CS) with a volume of CHF 16 billion are written down (bail in) and the amount is added to the equity of CS. This measure caused disagreement, as the Swiss bail-in regime initially provides for a default on the shares, but in this case there seems to be an exception: the merger deal negotiated by the government stipulates that Credit Suisse shareholders will receive one UBS share for every 22.48 CS shares. Not surprisingly, AT1 investors are considering legal action against this (Swiss) measure.Some market participants fear that the future of the entire USD 275 billion contingent convertible bond (CoCo) market could be significantly affected by the AT1 approach.
A reassessment of UBS Group risks was not absent after the high-speed takeover. On Monday, the one-year CDS (credit default swaps) rose by 16 bps to 114 bps. The postponed repurchase plans and an expected long restructuring phase caused uncertainty among UBS shareholders in this phase. The rating agencies also reacted. Moody's and Standard & Poor's lowered their rating outlook for UBS liabilities.

The market turbulences by no means left the treasury unaffected and so there was a double-digit widening across all ranks in a weekly comparison. **Preferreds** widened by an average of 30 bps, although the spreads of Scandinavian and German banks widened more significantly, making them "underperformers". The periphery held up comparatively well, with risk premiums rising by 14-18 bps. The picture was similar one tier lower. The spreads of the **non-preferreds** also widened by an average of 30 bps in a weekly comparison. However, the widening of German financials was even more pronounced at 95 bps on a weekly basis.

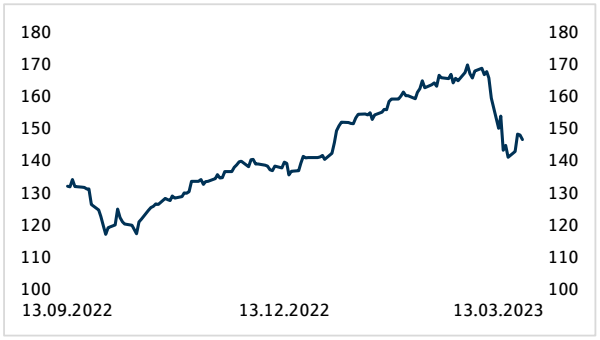
> *„An eventful week lies behind us. Just when the markets had halfway digested the shock condemned by the US regional banks, the Saudi National Bank (SNB) dropped the next bombshell with its announcement that it would not provide any further funds to Credit Suisse. The result was a massive sell-off in the banking sector. Only in the wake of the state-supported takeover of Credit Suisse by UBS did some calm return to the markets."*
>
> *Comment from the Helaba trading floor*

US banks continue to be in the focus of attention. Not least after the rating agency Moody's lowered the entire US banking sector from "stable" to "negative". In the wake of the bankruptcy of Silicon Valley Bank (SVB), private equity firms such as Blackstone Inc, KKR & Co. Inc, Apollo Global Management Inc, The Carlyle Group Inc and Ares Management Corp are interested in taking over SVB's loan portfolio of USD 74 billion. Regional banks play a significant role in the US, for example, they originate about 80% of commercial real estate loans.

Outlook: The effects emanating from the Credit Suisse bankruptcy, in particular its significance for banks with regard to Tier1 refinancing, continue to play a role.

STOXX 600 Banks - Consolidation or more?

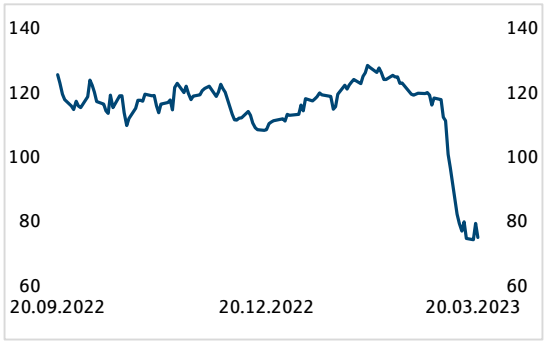
Priceindex



*As of 23.03.23, 9:30h
Sources: Bloomberg, Helaba Research & Advisory

S&P 500 US Regional Banks - 34 % loss YTD

Indexpoints



*Closing price as of 22.03.23
Sources: Bloomberg, Helaba Research & Advisory

€ Senior Preferred issues week of 20 March 2023

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 20 March 2023

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

03/22 Fitch Ratings: UK Covered Bonds Well Protected Against Weaker Economic Outlook. Fitch-rated UK covered bonds are well-protected from potential cover pool credit deterioration stemming from the UK's weaker macroeconomic outlook. The first protection is the high credit quality of issuing bank and building societies, with Issuer Default Ratings (IDRs) ranging from 'A-' to 'AA-'. All have rating headroom, with sound capital and liquidity buffers built up over recent years which should cushion the impact of consumer affordability pressures and asset quality deterioration. Issuer creditworthiness, combined with an average nine notches of uplifts, translates to a buffer against IDR downgrade of between three and six notches for the 'AAA' covered bond ratings.

03/21 (BZ) CoCo Bonds- ECB supervisor Enria rules out Swiss variant. In the dramatic bank bailout in Switzerland, bond investors of Credit Suisse have been left empty-handed, unlike shareholders. Europe's top banking supervisor rules out disadvantaging bondholders should it become necessary to merge banks in an emergency, as was the case in Switzerland. "We have made it clear that this approach would not be feasible under the European rulebook" said Andrea Enria, ECB director in the EU parliament. Enria considers a bank collapse in the EU unlikely.

03/20 SRB, EBA and ECB Banking Supervision statement on the announcement on 19 March 2023 by Swiss authorities. The Single Resolution Board, the European Banking Authority and ECB Banking Supervision welcome the comprehensive set of actions taken yesterday by the Swiss authorities in order to ensure financial stability. The European banking sector is resilient, with robust levels of capital and liquidity. The resolution framework implementing in the European Union the reforms recommended by the Financial Stability Board after the Great Financial Crisis has established, among others, the order according to which shareholders and creditors of a troubled bank should bear losses. In particular, common equity instruments are the first ones to absorb losses, and only after their full use would Additional Tier One be required to be written down. This approach has been consistently applied in past cases and will continue to guide the actions of the SRB and ECB banking supervision in crisis interventions. Additional Tier 1 is and will remain an important component of the capital structure of European banks.

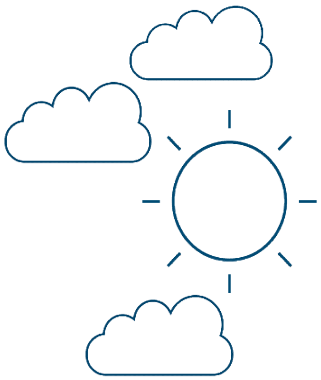
03/16 Fitch Ratings: Programme-Specific Arrangements Still Key for Portugal Covered Bonds
Any rating impact from the completion of the new framework for Portuguese covered bonds will depend on programme-specific arrangements, Fitch Ratings says. These include overcollateralisation (OC) levels and the type of liquid assets that will be included in the cover pool to protect against short-term payment interruption risk.The draft secondary legislation issued by the Portuguese Security Exchange Commission (Comissao do Mercado de Valores Mobiliarios; CMVM) does not introduce stricter requirements than those in last year's primary legislation that implemented the EU's Covered Bond Directive (Decree Law 31/2022). This enables issuers to provide additional investor protection contractually or voluntarily. Fitch already considers programme-specific protection in its analysis of covered bonds issued under the legacy Obrigacoes Hipotecarias (OH) framework.

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

E-STOXX 600 Banks	148	3,37%	-9,87%	iBoxx € Cov. Germany	6,4	0,0	-0,7	iTraxx Senior Financial	105,2	-26,3	15,4
10Yr-Yield	2,3	0,2	-0,2	iBoxx € Cov. Bonds	19,8	0,1	-0,1	iBoxx € Supranational	18,6	-0,57	-0,55
Swap 10J	3,0	0,1	-0,1	iBoxx € Banks PS	88,9	-1,8	20,8	iBoxx € Agencies	-1,5	2,21	-2,83
iBoxx € Germany	-52,9	10,0	-8,1	iBoxx Banks NPS	124,5	-15,0	19,8	iBoxx € Sub-Sov. Germany	9,7	-1,07	-0,45
iBoxx € EU	24,8	-0,5	-0,6	iBoxx Banks Subordinated	208,2	-4,1	30,8	iBoxx € Sub-Sovereign	27,0	-0,29	0,06

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

Leisure tip for the weekend: Friedenstein Palace in Gotha



In Gotha, Friedenstein Palace and its holdings have preserved a unique ensemble with the historical representative rooms from the Baroque and Classicism periods, the Ekhof Theatre and equally diverse and rich art-historical, historical and natural history collections, which are presented in three museums in the palace (Palace Museum, Historical Museum, Museum of Nature) and in the Ducal Museum. Here, Baroque and Enlightenment thinking and action can be excellently understood.

In addition, there are always special exhibitions on various topics as well as the possibility of guided tours through the museums.

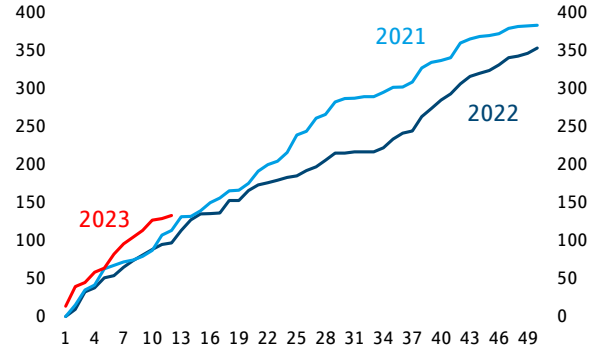
Further information:
Friedenstein Palace

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

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

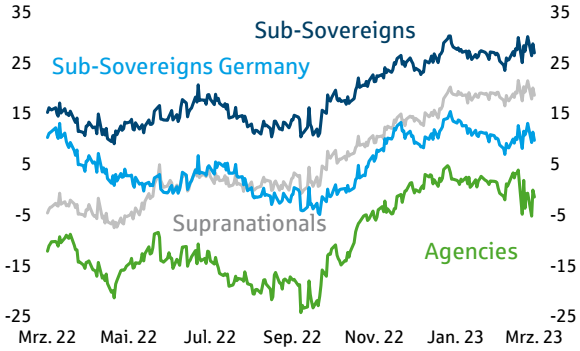
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

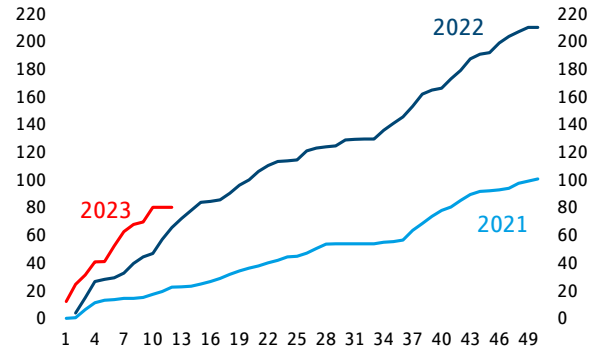
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes

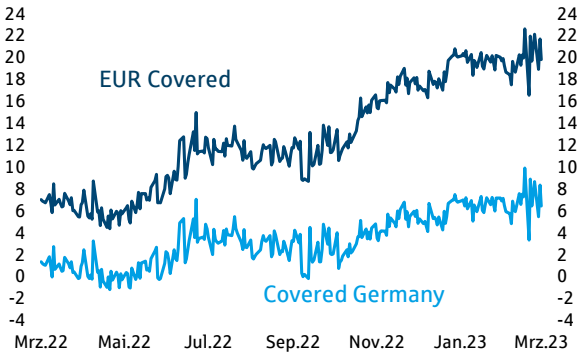
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

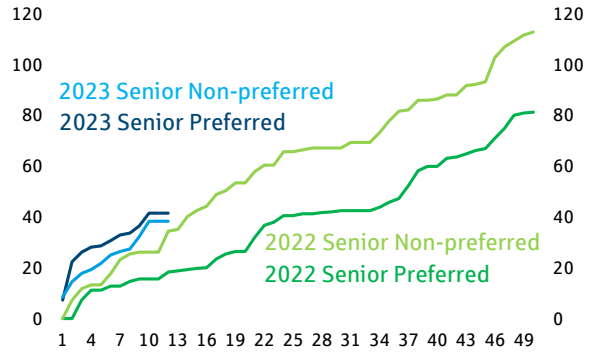
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes

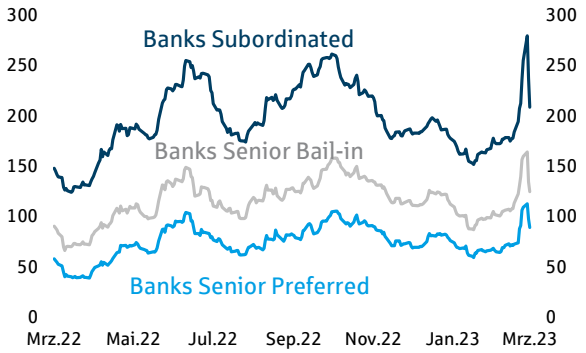
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

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