Helaba

Focus on: SSAs & Financials

30 March 2023

Weekly Market Update

Primary market environment: Canada's CIBC got the covered bond segment off the ground. Overall, interest rate and bank sensor rain continue. The business climate in Germany continues to brighten: The ifo business climate index rose again in March to 93.3 points, after 91.1 in February. The Institute of the German Economy (IW) expects stagflation in 2023.

Primary market barometer

SSAs



In the SSA segment, issuance is picking up a little more momentum again, especially since the risk aversion of market participants has recently eased somewhat. In the coming weeks, SSAs should remain sought-after as safe haven assets.

Covered Bonds



Primary market activity picked up noticeably this week. Issuers from various jurisdictions, including Canada, Sweden, Japan, Australia, followed the CICB, which initiated the relaunch on Monday. However, issuers from Germany were not among them.

Senior Unsecured



In the senior unsecured segment, no issuers have yet ventured out of hiding following the recent market turbulence. Should the recent constructive market environment consolidate, we believe that senior transactions will also be possible again from next week.

Risk trend indicator: Slight improvement in mood noticeable

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,11	-0,02	-0,41	-0,44	0,86	-0,90
European Union	-0,04	-0,15	0,00	0,27	2,25	2,68
Germany Covered	0,03	-0,01	0,21	0,29	1,01	1,16
EU Covered	0,01	-0,01	0,11	0,16	0,78	0,91
Banks senior preferred	-0,02	0,13	1,21	0,61	2,23	2,34
Banks senior bail-in (SNP)	-0,05	0,33	1,15	0,53	2,27	2,36
Banks subordinated	-0,07	0,29	1,26	0,89	2,22	2,62
Supranational	-0,01	-0,10	0,08	0,33	2,11	2,20
Agencies	0,05	0,00	-0,03	-0,30	0,83	0,11
Sub-Sovereigns Germany	0,00	-0,06	0,11	-0,08	-0,05	-0,33
Sub-Sovereigns	0,00	-0,09	0,18	0,08	1,07	0,84

strong middle weak unchanged weak middle strong

spread widening spread tightening

* ASW levels standardized and 2T-smoothed

Sources: Refinitiv, Helaba Research & Advisory

Our risk trend indicator shows that sentiment has brightened somewhat recently and risk aversion is easing. However, from our point of view it seems advisable not to overweight the short-term development.



SSAs

Safe haven assets currently remain the first choice. Nevertheless, primary market activity was modest in the previous two weeks for well-known reasons. Currently, market activity is increasingly picking up. As expected, the EU came up with a tap of the bond, which matures in 2048. The tap, which was limited to EUR 6 billion, was more than 9 times oversubscribed, so that the final spread tightened by 2 bps to MS+68. NRW.Bank successfully entered the stage with a 10-year social bond (MS+3). 60 % of the EUR 1 billion volume was placed with investors from Germany, 36 % went to other European countries. The State of Berlin also crossed the finish line without any problems with the issue (EUR 1 billion, MS-7) of a 6-year benchmark bond.

Outlook: The capacity of the SSA primary market to absorb new issues has recently been demonstrated. In this respect, issuing activity is likely to continue unabated in the coming weeks.

€ SSAs issues week of 27 March 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,625%	EU	Aaa /AA+/AAA	6,000bn	✓	04.02.2048	ms +68 bps	✓	28.03.2023	73,000bn	ms +70 area
2,875%	Berlin	Aa1/-/AAA	1,000bn		05.04.2029	ms -7 bps		29.03.2023	1,200bn	ms - 7 area
2,875%	NRW.Bank	Aa1/AA/AAA	1,000bn		05.04.2033	ms +3 bps		29.03.2023	1,200bn	ms +3 area
3,700%	Société du Grand Paris	Aa2 /-/AA	1,000bn		25.05.2053	FRTR +52 Bp		29.03.2023	1,800bn	FRTR +53 area
3,250%	Flemish Community	- /-/AA	1,250bn		05.04.2033	BGBs +41Bp		29.03.2023	3,500bn	BGBs +45 area
3,250%	Landwirtschaftliche Rentenbank	Aaa /AAA/AAA	0,500bn	✓	06.09.2030	ms -9 bps		30.03.2023	0,500bn	ms - 9 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Prior to the re-launch in the covered bond segment initiated by Canadian Imperial Commercial Bank (CIBC), the **Cafill issue on 9 March represented the last primary market transaction** before the collapse of Silicon Valley Bank caused an extended pause. CIBC took advantage of being the only issuer on Monday. The issue was successful despite the fact that the bond was not marketed in advance. With an order book of EUR 1.8 billion, the original spread at MS+35 was tightened to MS+32. A larger tightening would have been possible, but the issuer decided to optimise the deal in terms of size. In the end, EUR 1.5 billion was placed. The transaction showed that the market is back and encouraged Bank of Montreal, ANZ Bank and Stadshypotek to issue covered bonds with maturities of 3.25, 2 and 5 years on Tuesday, the latter in a green format. Swedbank (5.25 years, MS+18) and Westpac (2 years, MS+15) followed on Wednesday. All of these issues performed very well. **Japan's Sumitomo Mitsui Trust Bank** was also active in the primary market. The **structured** covered bond with a 3-year maturity (EUR 500 million, WNG, Book over EUR 820 million) went through without any problems. Due to the

> *"In line with a slight easing on the credit side, the secondary market stabilised at elevated swap spread levels. The new issues printed in large numbers at the beginning of the week were well received given the selected maturities and NIPs. This can be taken as an indication that the covered bond market is seen as robust. Especially also against the background of favourable relative valuations compared to other asset classes. However, nothing has changed in the big picture and overall market liquidity is not yet at the level seen before the outbreak of the SVB/Credit Suisse turmoil.*
>
> *Comment from the Helaba trading floor*

purely contractual nature of the covered bond, the issuer had to accept a higher spread (MS+45) for this type of covered bond, for example compared to Australia, Canada and especially Europe. The bond generated good demand and it showed that it is possible to bring more "exotic" covereds to the market despite the recent challenging market environment. Covered bonds from the **APAC region** generally do well whenever the market environment is in order. The positive signal from the success of this transaction could encourage other issuers to return to the primary market as well.

The general market volatility, the yield curves and last but not least the approaching end of the quarter were no support for the **secondary market**. Thus, longer maturities, also in the absence of recent new issues with current coupons, tend to remain on the defensive, especially in terms of turnover. In this respect, the challenge is to define resilient price points.

Outlook: Issuers from Europe have recently been conspicuous by their absence. However, it must be noted that there has already been relatively little issuance from this region in the current year. The current further spread level should also ensure restraint. In our opinion, the chances of a return to "pre-crisis levels" are good. At the latest then and after the blackout periods have expired, issuers from Core Europe will also show up on the market again.

€ Covered Bond issues week of 27 March 2023

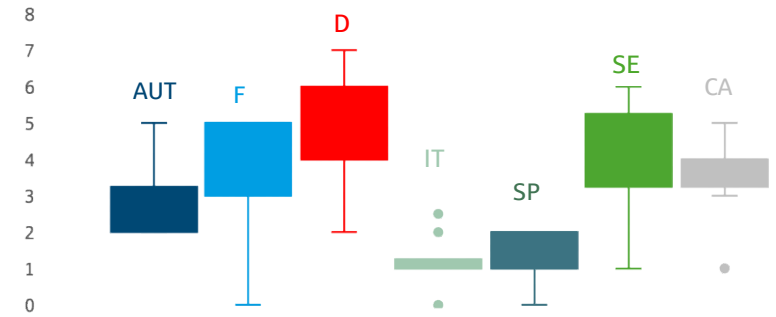
Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,250%	Canadian Imperial Bank of Commerce	Aaa /-/AAA	1,500bn		31.03.2027	ms +33 bps		27.03.2023	1,800bn	ms +35 area
3,437%	Australia and New Zealand Banking Group Ltd.	Aaa /-/AAA	1,500bn		04.04.2025	ms +15 bps		28.03.2023	1,900bn	ms + 18 area
3,375%	Bank of Montreal	Aaa /-/AAA	2,000bn		04.07.2026	ms +28 bps		28.03.2023	2,400bn	ms +32 area
3,125%	Stadshypotek AB	Aaa /-/-	1,000bn		04.04.2028	ms +16 bps	✓	28.03.2023	1,900bn	ms +20 area
3,125%	Swedbank Mortgage AB	Aaa /AAA/-	1,000bn		05.07.2028	ms +18 bps		29.03.2023	1,600bn	ms +21area
3,629%	Sumitomo Mitsui Trust Bank	Aaa /-/-	0,500bn		06.04.2026	ms +45 bps		29.03.2023	0,820bn	ms +50 area
3,457%	Westpac Banking Corporation	Aaa /-/AAA	1,250bn		04.04.2025	ms +15 bps		29.03.2023	1,500bn	ms +15-17 (wpir)
t.b.d.	Korea Housing Finance Corporation	- /AAA/-	0,500bn		11.04.2027	ms +55 bps		30.03.2023	0,575bn	ns +55 area

Sources: Bloomberg, Helaba DCM

Chart of the week

Covered bonds characterised by high rating stability

Distribution* of rating buffers in selected covered bond markets



*Graph shows the lowest and the highest rating buffer (Moody's) of a country's covered bonds. The box corresponds to the range in which the middle 50% of the data lies.
Sources: Moody's, Helaba Research & Advisory

Most covered bonds have adequate overcollateralisation. In addition to this size, the buffer to the issuer reference rating is also a very good quality benchmark. As the chart shows, most covered bonds in the countries we selected have several rating buffer notches and thus offer a high degree of security. Covered bonds from Austria, for example, are characterised by buffers of at least 2 and a maximum of 5 rating levels. The majority of covered bond programmes, however, have a buffer of 2 or 3 rating grades (box).

Senior Unsecured

The primary market for senior unsecured bonds remains in a state of shock. Gradually, however, the turbulent events of the last week seem to be digested (see our commentary **European banks: Déjà vu in a crisis environment?** of 27.3.2023).

The cash market shows a very special picture in the last trading week, as the multitude of bad news as well as rumors around some banks in the previous week led to a widening of 50-200 bps and also a significant underperformance of several jurisdictions took place. In particular, the turmoil surrounding Deutsche Bank weighed on the bonds of other German institutions, taking them down. Other banks that are more likely to be classified as high beta, such as SocGen, also widened very significantly. As the situation calmed down at least somewhat during the past trading days, many issuers narrowed quickly.

The on paper strong weekly performance thus gives a deceptive picture of strength after erratic movements during the week and a large illiquidity in the market. As the market calms down, issues such as inflation and interest rate hikes will come back into focus. In addition, the primary market will also gradually revive in the senior financial sector. Market participants are very aware of this risk. New bonds need to pay generous issuance premiums, and there should not be too much new material coming in a short period of time to ensure performance.

Outlook: Given large maturities and stringent regulatory requirements for total bail-in capital, issuance plans for this year are still a long way off. If the recent constructive market environment solidifies, we believe senior transactions are possible again starting next week.

> *„After the turmoil surrounding the U.S. regional banks, the distress sale of Credit Suisse and most recently the rumors surrounding Deutsche Bank, nervousness and volatility in the markets remain very pronounced. Equity markets have recovered quite quickly from the negative sentiment and the course lows, as well as the Bund swap spreads have returned from the current highs. Credit markets continue to act battered. The iTraxx indices were able to break away from the wide levels, but are still at much higher levels than before the turmoil. In addition, the spread between Main and Senior Financial is still at "crisis" levels. Despite performance, the cash is very sluggish and illiquid."*
>
> *Comment from the Helaba trading floor*

€ Senior Preferred issues week of 27 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 27 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

03/28 Regulators should review CDS market after bank turmoil according to the ECB: Global financial regulators should take a closer look at credit default swaps after relatively small transactions in the market amplified last week's banking turmoil, according to the European Central Bank (ECB)'s top oversight official. As reported by **Bloomberg**, European regulators have sought to underline that they have a close watch on risks and that their banks are on a sounder footing.

03/28 U.S. banks and deposit insurance: The U.S. Deposit Insurance Corporation is considering a high special levy for large banks. (**Handelsblatt**)

03/28 (Dow Jones) The European Central Bank (ECB) sees its own balance sheet affected by climate risks and wants to make provisions to limit them. The ECB said in the results of a climate stress test that it wants to integrate climate change into its own risk assessment and provisioning models and "build up financial buffers over time." The current stress test examined climate risks emanating from corporate bonds, covered bonds, ABS and collateralized credit operations, with corporate bonds proving to be the main contributors to such risks. As in the 2022 bank climate stress test, the ECB examined the so-called physical risks of climate change and the risks emanating from the transition to a low-carbon economy.

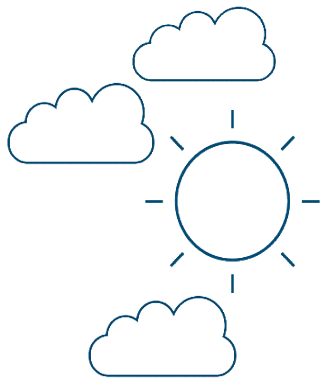
03/24 EU deposit insurance: The European Central Bank reassured EU leaders that eurozone banks were safe but called on them to push on with an EU deposit insurance scheme, officials heard by **Reuters** said. ECB head Christine Lagarde called for a Capital Markets Union in Europe for better access to funds as companies have to compete with China and the US in "green" technologies to fight climate change.

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

E-STOXX 600 Banks	144	-2,51%	-13,63%	iBoxx €Cov. Germany	6,9	0,4	0,0	iTraxx Senior Financial	106,9	8,7	18,5
10Yr-Yield	2,3	0,0	-0,4	iBoxx €Cov. Bonds	20,3	0,5	0,6	iBoxx €Supranational	17,9	-0,76	-0,65
Swap 10J	3,0	0,0	-0,3	iBoxx €Banks PS	95,3	6,4	26,5	iBoxx €Agencies	-1,2	0,31	-2,26
iBoxx €Germany	-51,7	1,2	-7,6	iBoxx Banks NPS	138,4	13,8	33,6	iBoxx €Sub-Sov. Germany	9,2	-0,47	0,14
iBoxx €EU	23,2	-1,5	-1,5	iBoxx Banks Subordinated	233,9	25,7	57,2	iBoxx €Sub-Sovereign	26,4	-0,53	0,47

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

Leisure tip for the weekend: Chocolate Museum in Cologne



In the museum, there is not only the story, but also delicious samples of the beloved sweet. The Chocolate Museum is devoted entirely to the sweet sin and explains its entire history to visitors, from the "ambrosia" of the Aztecs to the modern industrial product.

The highlights of the exhibition include a walk-in tropical house with a cocoa tree and tropical climate, as well as a glass chocolate factory that produces small chocolate bars. And so that visitors to the Cologne Chocolate Museum can experience chocolate with all their senses, there are always small tastings in between.

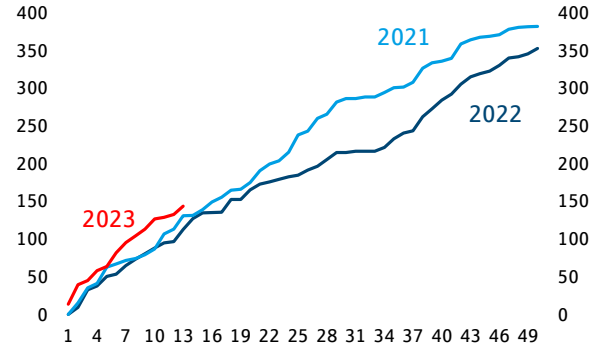
Further information:
The Chocolate Museum

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

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

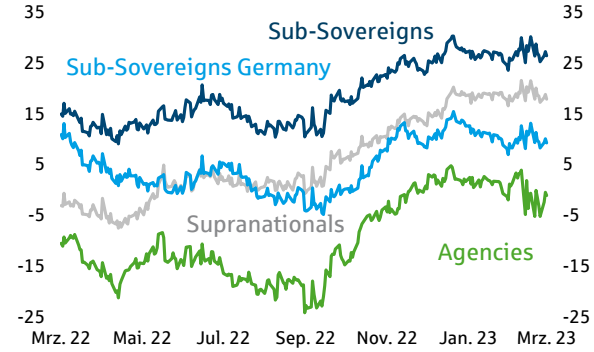
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

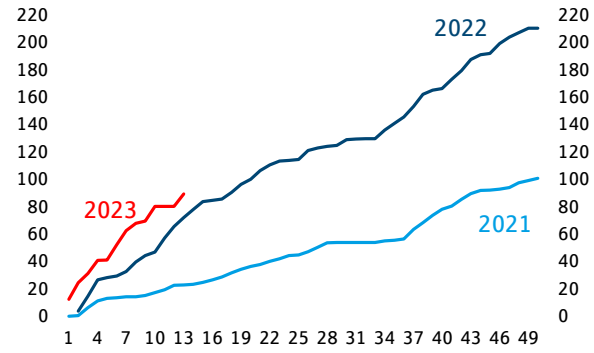
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes

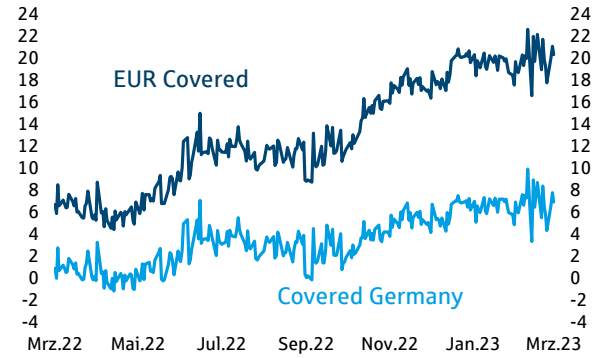
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Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

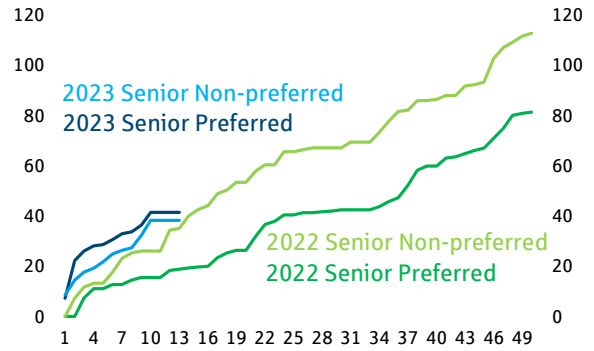
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes

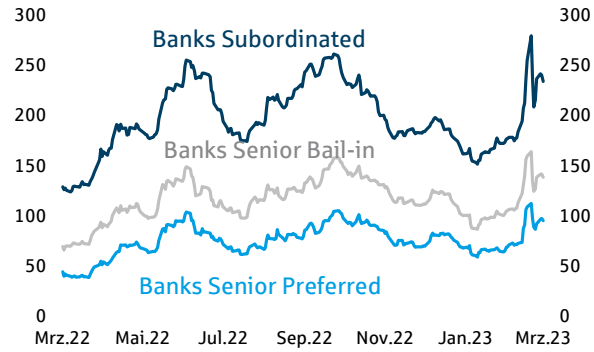
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

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