Helaba

Focus on: SSAs & Financials

29 June 2023

Weekly Market Update

Primary market environment: The air seems to have been let out of the primary markets. According to ECB chief Lagarde, the central bank is not considering pausing to raise interest rates as there is insufficient evidence of falling core inflation. Fed chief Powell believes that US interest rates are restrictive, but perhaps not restrictive enough.

Primary market barometer

SSAs



In the SSA segment, only 4 new bonds have been issued since Monday for a volume of EUR 3bn (just under 42% of the previous week). Many issuers are already well advanced in their refinancing plans for this year. This is probably one of the reasons for this development.

Covered Bonds



Primary market activity was manageable with only 2 transactions this week. Overall, there is a sense that the air is running out. With issuance so far this year some 14% ahead of last year's record, a slower pace seems understandable.

Senior Unsecured



The primary market for senior unsecured bank bonds continues to be receptive, even if investors remain comparatively selective in terms of credit quality and spread premium. Despite the onset of summer vacations in Europe, we expect continued issuance activity next week given a constructive market environment.

Risk trend indicator: Is the mood changing again?

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,00	-0,19	0,15	0,19	1,28	-0,90
European Union	-0,09	-0,30	-0,17	-0,13	1,81	1,45
Germany Covered	0,03	0,03	0,22	0,12	0,94	1,10
EU Covered	0,01	0,01	0,10	0,06	0,82	1,06
Banks senior preferred	-0,01	0,00	0,03	0,00	-0,51	1,90
Banks senior bail-in (SNP)	-0,01	0,05	-0,09	-0,08	-0,61	1,75
Banks subordinated	-0,01	0,09	0,03	-0,03	-0,64	2,22
Supranational	-0,04	-0,17	-0,03	-0,06	1,68	1,34
Agencies	0,01	-0,08	0,12	-0,01	1,21	-0,09
Sub-Sovereigns Germany	0,02	0,03	0,09	0,00	0,74	-0,40
Sub-Sovereigns	-0,02	-0,09	-0,05	-0,16	0,99	0,28

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

spread widening | spread tightening

* ASW levels standardized and 2T-smoothed

Sources: Refinitiv, Helaba Research & Advisory

The positive signals from our Risk Trend Indicator in recent weeks are gradually diminishing. This suggests that risk aversion is on the rise.



SSAs

The SSA segment needed a bit of a boost this week. On Monday the primary market remained quiet, but on Tuesday the first transaction by the **State of Hesse** took place. The EUR 1 bn Green Bond was finally issued at MS-1 bp, 3 bp tighter than at the start of the marketing. The issue was 2 times oversubscribed. Also on Tuesday, the **Official Credit Institute** (ICO) was active with a EUR 500m social bond. The 5-year issue was priced at SPGB +15bps, 5bps tighter than the marketing. On Wednesday, the autonomous region of **Castilla y Leon** followed with a EUR 500m 10-year short sustainable bond. The final pricing was SPGB +31bps, no spread tightening was achieved. In addition to the transactions, the EU was in the spotlight with the announcement of the planned issuance volume. This is to be significantly reduced for the second half of the year, with only 4 syndicated bonds to be issued.

Outlook: Several states are likely to be in the pipeline. In addition, the EFSF has already issued requests for proposals (RfPs) for an upcoming transaction.

€ SSAs issues week of 26 June 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,875%	Hessen	- /AA+/-	1,000bn		04.07.2033	ms -1 bps	✓	27.06.2023	2,400bn	ms + 2 area
3,250%	ICO	Baa1 /A/A-	0,500bn		31.10.2028	SPGB + 15	✓	27.06.2023	2,000bn	SPGB + 20 area
3,500%	Junta de Castilla y Leon	Baa1 /-/-	0,500bn		30.04.2033	SPGB + 31	✓	28.06.2023	0,500bn	SPGB + 31 area
0,750%	KFW	Aaa /AAA/AAA	1,000bn		15.01.2029	ms -7 bps		08.01.2019	8,300bn	ms -6 Bp area

Sources: Bloomberg, Helaba DCM



Covered Bonds

The covered primary market started the new week with issues from the south. **Intesa Sanpaolo** started the week with a 5-year covered issue. The EUR 1.25bn issue was ultimately priced at MS+ 50, 3bps tighter than the target. The order book saw peak demand of more than EUR 2bn. The latest deals brings the total issuance by Italian issuers since 7 June to EUR 6 bn. Portugal's **Banco BPI** followed on Tuesday, for the first time in more than 4 years with a 5-year benchmark. With a book of around EUR 700m, the final spread was tightened by 2bp to MS+58bp over the benchmark.

In the secondary market, pressure is now coming not only from trading accounts but also increasingly from some investors who are reducing their positions. It is notable that the focus is on the core sector (including Germany). This may be driven by structural or strategic considerations. Adding to the market's psychology is the fact that, according to the media, there is renewed talk of accelerated QT (quantitative tightening). This is despite the fact that it is often argued that the side effects of such measures will not have a negative impact on the market due to the small size of the covered part of the programmes. Our trading takes a more nuanced view due to the current fragile long position and the aforementioned market psychology, especially as the recent new issues are not showing any performance despite increasingly higher new issue premiums. In this respect, we expect the current trend to continue.

> *"On Tuesday the EU announced a significant reduction in its planned issuance for the rest of the year. The secondary market reacted impressively with a sharp tightening versus swaps. What does this have to do with covered bonds? Surely it shows what factors are influencing the market mechanics - mainly the supply side. Of course, a concerted statement of a general shortage of supply was not to be expected, but a reduction in issuance would certainly "take pressure off the boiler"*
>
> *Comment from the Helaba trading floor*

Outlook: The various projects are still in the pipeline. However, it remains to be seen when they will actually be issued.

€ Covered Bond issues week of 26 June 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,625%	Intesa Sanpaolo S.p.A.	//	1,250bn		30.06.2028	ms +50 bps		26.06.2023	2,000bn	ms + 53 area
3,625%	Banco BPI S.A.	Aa2 /-/-	0,500bn		04.07.2028	ms +58 bps		27.06.2023	0,700bn	ms + 60 area

Sources: Bloomberg, Helaba DCM



Senior Unsecured

The primary market for senior unsecured bank bonds continues to be **receptive**. Since the beginning of the week, five benchmark bonds with a total volume of EUR 2.7 billion have been successfully placed. Two transactions had a volume of EUR 750 million (Royal Bank of Canada and Bank of Ireland Group) - the deal size thus increased again noticeably compared to the previous week, when many second-tier names had shown up. In particular, good credit ratings are currently being readily taken up by investors, who are rewarded by good secondary market performance based on attractive new issue premiums.

Royal Bank of Canada and **Bank of Ireland Group** both brought non-preferred paper to market, with maturities of 5 and 8 years respectively. They achieved oversubscription rates of 1.7x and 2.0x, respectively. **Santander Consumer Bank** even achieved an oversubscription rate of 2.8x with its EUR 500m transaction in preferred rank at a relatively high spread premium. Only **Caixa Central de Credito Agricola Mutuo** offered too low a premium for its EUR 200 m transaction to fill the book more than 1.1x, measured by creditworthiness and name recognition.

> *"Summertime! The first German state has started its summer vacations, and the Scandinavian countries are also in the month-long summer break. It is now noticeable on the markets that from now on rather sluggish weeks are in store. The stock markets are consolidating at a high level after the last negative surprises from the PMI and Ifo index. Interest rates are showing considerable volatility and the Bund yield curve is becoming more and more inverse, i.e. 2-10 years currently at over 75 bps inversity. The iTraxx indices are trending marginally north in this weaker environment. Recent new issues are all trading 2-6 bps tighter and are also the most traded bonds on both the platform and street. Flows are currently well balanced, but below average."*
>
> *Comment from the Helaba trading floor*

Outlook: The summer vacations have already begun in parts of Germany and in Scandinavia, and all over Europe activity is now becoming increasingly quiet. However, high maturities and strict bail-in capital requirements will continue to drive primary market activity for senior unsecured bank bonds this year. In a constructive market environment, **issuance activity should therefore continue in the coming week**.

€ Senior Preferred issues week of 26 June 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,500%	Santander Consumer Bank AG	A2 /A/A	0,500bn		30.06.2026	ms +100 bps		26.06.2023	1,400bn	ms + 135 area
8,375%	Caixa Central de Credito Agricola Mutuo	Ba2 /-/-	0,200bn		04.07.2027	ms +0 bps	✓	27.06.2023	0,220bn	8.375-8.500%
na	BPCE SA	A1 /A/AA-	0,500bn		10.07.2028	ms +0 bps		29.06.2023	0,000bn	ms + 120 area

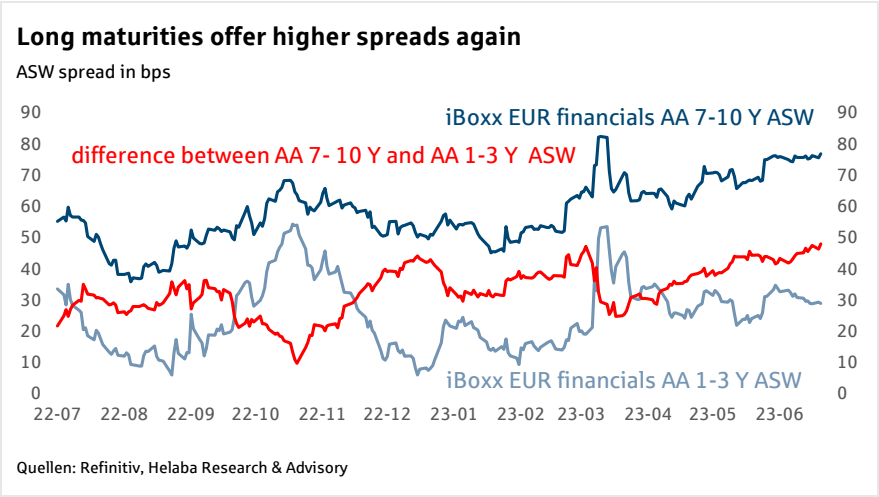
Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 26 June 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,125%	Royal Bank of Canada	A1 /A/AA-	0,750bn		05.07.2028	ms +105 bps		26.06.2023	1,240bn	ms + 125 area
5,000%	Bank of Ireland Group plc	A3 /BBB-/BBB	0,750bn		04.07.2031	ms + 205	✓	27.06.2023	1,500bn	ms + 225 area

Sources: Bloomberg, Helaba DCM

Chart of the Week



Spreads of Financials bonds have recently widened noticeably for long maturities, while they have remained comparatively stable for short maturities. According to our observations, the main drivers for this are likely to be the deteriorating economic outlook among market participants and the increased uncertainty in the longer term. Some bonds with longer maturities now offer relatively attractive risk premiums again.

Short news

6/28 TLTRO repayment: ECB banking supervision chief Andrea Enria told before a hearing at the European Parliament's Economic and Monetary Affairs Committee, referring to an ECB review: "The results show that all the banks we examined have a strategy in place to replace their TLTRO funding, although some of them may face challenges in the current fragile market environment." (**Finanznachrichten**) As of Wednesday, more than EUR500 billion in TLTRO funding had been repaid to the ECB by Europe's banks. (see our **Market Weekly, 6/22/2023**)

6/28 Australian and New Zealand cover pools are unlikely to be affected by rising interest rates, according to Fitch. This is due to contractual provisions such as a maximum indexed loan-to-value (LTV) ratio of 80% and the exclusion of defaulted loans and late payment arrears from the asset coverage test. The low indexed LTV of the cover pools also provides a buffer against the decline in property prices.

6/28 Fitch on savings bank covered bond programmes: According to Fitch, the utilised overcollateralisation (OC) is significantly higher than the break-even OC levels calculated for the six Fitch-rated Savings Bank Pfandbrief programmes, providing significant buffers against a potential deterioration in asset quality.

6/27 Covered Bond Label: The Covered Bond Label Foundation (CBLF) announced that two more issuers, Barclays Bank UK PLC and Bendigo and Adelaide Bank Limited, have joined the label. This brings the total to 130 issuers and 171 cover pools in 24 countries.

6/27 Provisional agreement reached on the implementation of Basel III reforms: The EU is about to boost the resilience of banks operating in the Union and strengthen their supervision and risk management by finalising the implementation of the globally agreed Basel III regulatory reforms. Negotiators from the **Council** presidency and the European Parliament reached a provisional agreement on amendments to the Capital Requirements Regulation and the Capital Requirements Directive. Negotiators have agreed on how to implement the so-called 'output floor' and to make improvements to the areas of credit risk, market risk, and operational risk.

6/26 Standards for climate risk reporting are taking shape: The global standard setter ISSB has taken the first major step toward creating a uniform language for reporting on the impact of climate-related risks and opportunities for companies. ISSB Vice President Sue Lloyd emphasizes that the new ISSB standards were developed in

close consultation with the European standard setter to avoid unnecessary duplication of effort for companies. **Börsen-Zeitung**

6/22 BdB report on the role of banks in Germany: Banks make a significant contribution to economic growth and employment. According to the **Association of German Banks** (BdB), 73 billion euros is the gross value created by the financial sector in Germany with more than 540,000 people employed by the German banking industry.

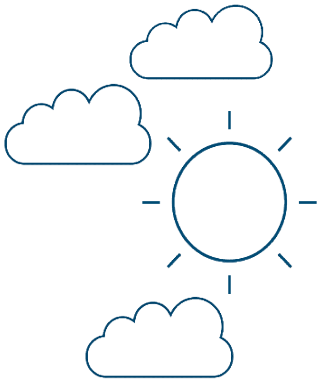
6/22: EU banks expand risk scenarios with climate change: European banks are building out their risk models to better prepare for the fallout from climate change, as reported by **Bloomberg**. New areas of concern include business liquidity as well as interest-rate risk in the banking book.

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

E-STOXX 600 Banks	152	-1,55%	4,57%	iBoxx €Cov. Germany	7,1	-0,6	0,6	iTraxx Senior Financial	89,9	-0,4	-3,0
10Yr-Yield	2,31	-0,1	0,0	iBoxx €Cov. Bonds	20,7	-0,6	0,6	iBoxx €Supranational	16,4	-1,98	-0,86
Swap 10J	2,95	-0,1	0,0	iBoxx €Banks PS	81,2	-0,4	-0,3	iBoxx €Agencies	-2,2	-1,22	1,05
iBoxx €Germany	-50,22	-3,5	2,2	iBoxx Banks NPS	115,5	1,0	-3,7	iBoxx €Sub-Sov. Germany	10,3	0,07	0,84
iBoxx €EU	20,42	-3,8	-2,6	iBoxx Banks Subordinated	201,7	3,9	1,5	iBoxx €Sub-Sovereign	24,2	-1,10	-1,05

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

Leisure tip for the weekend: Swimming in the Twistsee, Bad Arlosen (North Hesse)



Bright blue skies, a white sandy beach and a huge lake in front of you.... Daughter and mum work on their tan while dad and son let off steam with a game of beach volleyball. Or the whole family can try their hand at stand-up paddling. There really is a lot to do around Lake Twistesee.

The **highlight** is the water-skiing facility. Even beginners can fly over the water at 30 km/h. Extreme adrenaline!

More information:
Swimming in the Twistsee

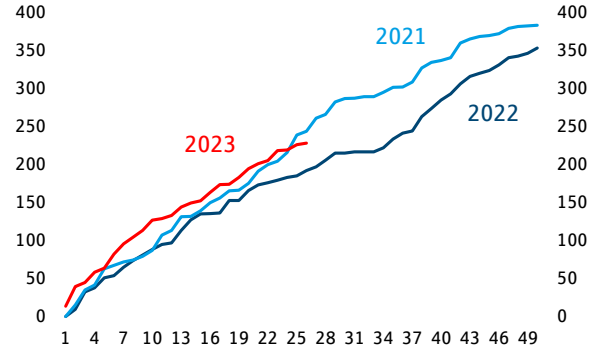
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: https://www.ffh.de/freizeit/100-dinge.html

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

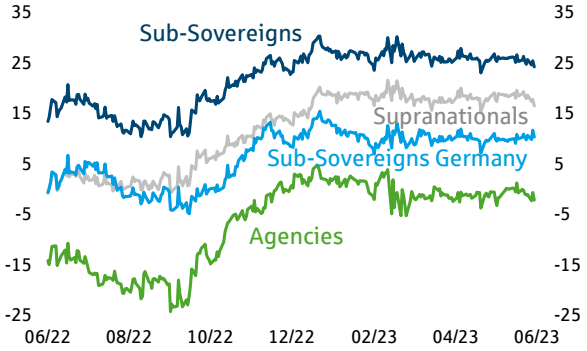
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

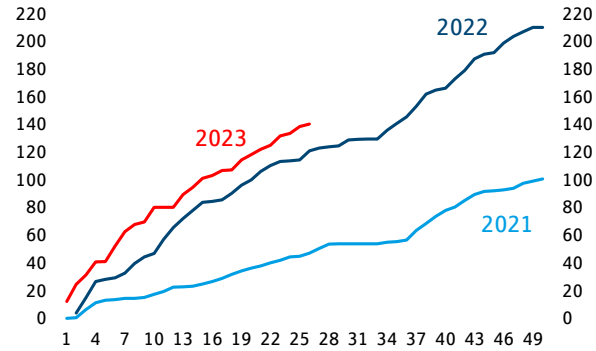
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Primary volumes

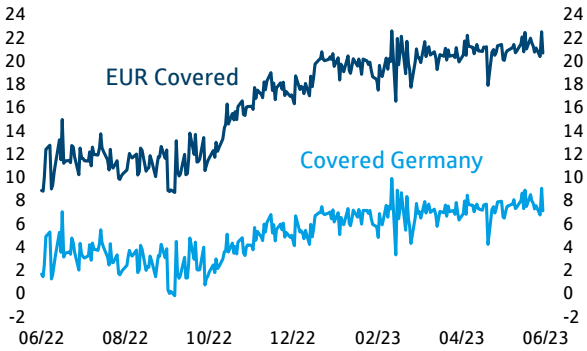
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

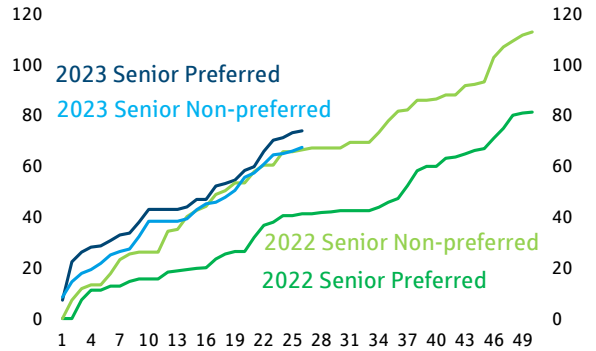
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Primary volumes

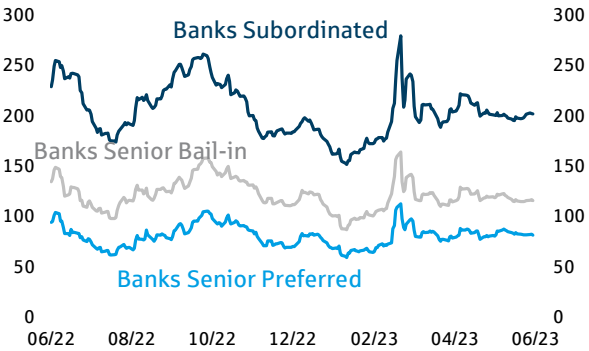
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

News from Research & Advisory

→ Video: Sustainable Finance – ICMA & Helaba Talk 2023
→ Focus on Credits: Primary market update EUR benchmark bank bonds Q1 2023"
→ Focus on Credits: EUR Corporate bonds: Primary market Q1 2023
→ Focus on Credits: Social and sustainability bonds: ICMA Principles - the freestyle element makes all the difference
→ European banks: An optimistic outlook for 2023
→ Focus on: Corporate Schuldschein: Burgeoning diversity creates new options for investors
→ Focus on credits - Basel III and the EU Council's position on the legislative package
→ Focus on: Sustainable Finance - The rendezvous clause

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:
Sabrina Miehs
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 24
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/