Helaba

Focus on: SSAs & Financials

14 September 2023

Weekly Market Update

Primary market environment: Prices continue to rise in the US. In Europe, too, the risk has increased that inflation will be more persistent than previously expected in the coming months. Despite the worsening economic outlook, the ECB raised interest rates again today. The primary market environment is largely constructive.

Primary market barometer

SSAs



This week's issues have once again demonstrated the central role of pricing. If pricing is too ambitious from the market's point of view, as was probably the case with the two state issues, it is difficult to fill the order books sufficiently.

Covered Bonds



As expected, the ECBC conference in Munich had a dampening effect on primary market activity. Banco BPM and DekaBank were at least two issuers whose 3-year covered bonds were well received.

Senior Unsecured



In this segment, too, the week in the primary market was more subdued. Market participants adopted a wait-and-see stance ahead of central bank decisions. Many investors used the time to position themselves for further new issues. We expect activity to pick up again after the central bank decisions.

Risk trend indicator: Risks weighted higher overall

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,00	0,04	0,24	0,30	2,21	-0,11
European Union	0,02	0,16	0,25	-0,14	1,74	2,20
Germany Covered	0,04	0,21	0,25	0,51	1,29	1,68
EU Covered	0,02	0,12	0,15	0,26	1,09	1,62
Banks senior preferred	-0,04	-0,14	-0,11	-0,23	0,00	1,77
Banks senior bail-in (SNP)	-0,02	-0,10	-0,06	-0,30	-0,37	1,56
Banks subordinated	-0,03	-0,07	0,14	-0,06	-0,28	2,38
Supranational	0,02	0,14	0,15	-0,13	1,63	1,79
Agencies	0,02	0,20	0,27	0,43	2,30	0,76
Sub-Sovereigns Germany	0,01	0,11	0,08	0,03	0,87	-0,42
Sub-Sovereigns	0,01	0,14	0,17	-0,04	1,23	0,54

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

spread widening | spread tightening

* ASW levels standardized and 2T-smoothed

Sources: Refinitiv, Helaba Research & Advisory

The predominance of red in our Risk Trend Indicator shows that sentiment remains gloomy. The exception is the senior unsecured segment. Spreads here have been tightening for several weeks.



SSAs

The Export-Import Bank of Korea (Kexim) and the State of Rhineland-Palatinate started the week in the SSA segment. Kexim did well with a book that was 1.5 times oversubscribed. No deal details were released on the Rhineland-Palatinate transaction, which may indicate a more moderate demand.
As expected by the market, the EU offered a 7-year bond (12/2030) on Tuesday. The spread was tightened by 2bps to MS+2bps as the book was more than 9 times oversubscribed between marketing and pricing. Agence Française de Développement (AFD) issued a EUR 500m 15-year social bond (WNG). The order book was full at EUR 6.1bn and the final spread was tightened by 4bps to OAT +39. The Free State of Saxony was also active with a EUR 500m 3-year WNG. No information was provided on the order book, so demand was presumably manageable. With an initial spread indication of MS -16 and a resulting new issue premium of 1 bp, pricing was probably too ambitious.

Outlook: The primary market environment remains constructive, although getting the pricing right is important.

€ SSAs issues week of 11 September 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3.625%	Export-Import Bank of Korea	Aa2/AA/AA-	0,500 bn		18.09.2027	ms 40 Bp		11.09.2023	0,750 bn	
3mE-22Bp	Rheinland-Pfalz	-/-/AAA	0,500 bn		16.09.2025	not disclosed		11.09.2023	not disclosed	not disclosed
3.125%	EU	Aaa/AA+/AAA	5,000 bn		04.09.2030	ms +2 Bp		12.09.2023	46,000 bn	ms +4 area
3.750%	Agence Francaise de Devellopment	-/AA/AA-	0,500 bn		20.09.2038	FRTRs +39 Bp	✓	12.09.2023	6,100 bn	FRTRs +43 area
3.375%	Sachsen	-/AAA/-	0,500 bn		21.09.2026	ms -16 Bp		13.09.2023	not disclosed	ms -16 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Banco BPM was successful in the primary market earlier this week with a 3-year benchmark (EUR 500m, WNG). The issue was almost 2 times oversubscribed. This was the second time in less than two months that the issuer had accessed the primary market. Some pent-up demand from Italian banks was to be expected - Banco Desio had returned to the market the previous week after a long absence. DekaBank also chose a 3-year tenor for the placement of a sub-benchmark (EUR 250m). With a book of EUR 530m, the issue was 2.1 times oversubscribed. The final spread (MS+ 9 bps.) was 3 bps tighter than the marketing.

> *"At the moment, buyers of covered bonds can be confident that new projects will come with respectable premiums. There is currently no reason to buy "old" bonds. Issuers are in a dilemma, especially as they can only realise their projects with increased price concessions. Otherwise their books will not be sufficiently filled. All in all, the market is in a kind of one-way street."*
>
> *Comment from the Helaba trading floor*

Outlook: The psychological element of quantitative tightening by central banks combined with advanced investment activity by bank treasuries is keeping the market under pressure. After this week's reduced issuance activity due to the ECBC conference, we expect more primary market activity next week. Officially mandated so far are Finland's S-Bank, which has been authorised to issue covered bonds from 30 June 2022, and Australia's Bendigo and Adelaide Bank.

€ Covered Bond issues week of 11 September 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3.875%	Banco BPM Spa	Aa3/-/-	0,500 bn		18.09.2026	ms +49 Bp	✓	11.09.2023	0,900 bn	ms +52 area
3.500%	DekaBank	Aaa/-/-	0,250 bn		09.10.2026	ms +9 Bp		12.09.2023	0,530 bn	ms +12 area

Sources: Bloomberg, Helaba DCM

The annual meeting of the Covered Bond Community took place on 13 September as part of the ECBC Plenary Meeting in Munich.

Representatives of the ECB and the EBA provided information on key financial stability issues, upcoming impact assessments of the Covered Bond Directive and the development of the green covered bond market.
In addition, representatives of German and European covered bond issuers discussed recent developments and trends in the Pfandbrief market as well as challenges and opportunities in the covered bond market.

We have summarised the key points of the two panel discussions:

- The trend towards repricing and differentiation in the covered bond market continues.
- With the reduction of the ECB's covered bond holdings and repricing, the EUR covered bond market is facing increased competition from other markets - for example, the domestic Norwegian market is often more favourable for Norwegian issuers.
- Macro issues, the inverted yield curve and the expanded investment opportunities for investors resulting from the transposition of the EU Covered Bond Directive into national law (and the resulting harmonised minimum standards) are the main drivers of the market at present. As a result, investors are increasing their holdings of securities with higher risk premiums.
- The implementation of the EU Covered Bond Directive makes the work of investors easier, especially as, according to a Norwegian issuer, investors can focus more on economic than on legal issues.
- There are no credit concerns, only price concerns, according to one panellist, but covered bonds remain "credits", according to others.
- A representative from FitchRatings raised the issue of liquidity provision for covered bonds. This is mandatory under the EU Covered Bond Directive, but the way it is implemented varies from country to country. The agency plans to take this into account in its covered bond rating methodology and invites market participants to comment on the proposal by 25 September.
- Shorter covered bond maturities are an issue for ALM management, issuers acknowledge. Fitch sees a risk of maturity concentrations, e.g. several large-volume issues maturing within a short period of time.
- Green and social covered bonds: The Pfandbrief Panel continues to see Germany as a pioneer and driver of sustainable covered bonds. The generation of ESG data remains a challenge

Senior Unsecured

Activity in the primary market for senior unsecured bank bonds was subdued this week. Only three transactions were executed in EUR benchmark format for a total volume of EUR 1.5 billion. Ahead of **today's ECB and next Wednesday's Fed decisions**, market participants are taking a wait-and-see approach. Many investors are using the time to position themselves for further new issues. Among others, asset managers are making room for new material.

The new issues since Monday have all been non-preferred bonds from institutions that are relatively infrequent in the market. With attractive spread premiums, the **transactions have been quite successful**. Favourable market conditions have contributed to this. The new issues of recent weeks have performed well in the secondary market, which has often been used for profit taking.

> „The cash market was a mixed bag last week. The preferred segment was largely unchanged and underperformed the non-prefs. The latter tightened by 3-4bps on average, mainly due to the strong performance of German and French bank bonds. The rest of the market saw subdued spread developments. Flows are well balanced and have picked up slightly again, but remain characterised by the caution of many investors due to primary market activity. Short and medium maturities are the most active segments on our trading platforms."
>
> *Comment from the Helaba trading floor*

Outlook: The primary market for senior unsecured bank bonds continues to be driven by high maturities. Many banks have already made good progress with their issuance plans, but pre-funding is already gaining in importance given the benign market environment. **We expect activity to pick up** following the central bank decisions.

€ Senior Preferred issues week of 11 September 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 11 September 2023

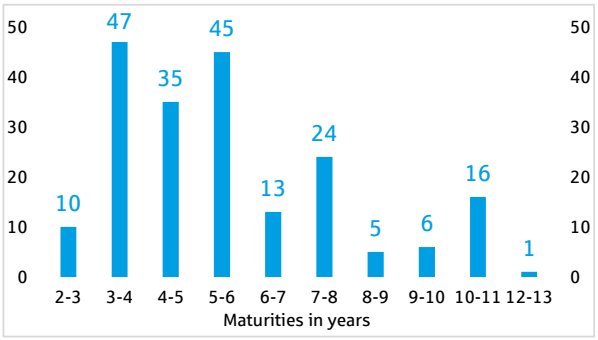
Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4.467%	Zürcher Kantonalbank	Aa2/-/-	0,500 bn		15.09.2027	ms +100 Bp		11.09.2023	0,750 bn	ms +115/120 area
9.875%	Bank Millennium SA	Ba2/-/BB	0,400 bn		18.09.2027	ms +640 Bp		11.09.2023	0,675 bn	10,000 % area
6.000%	Crelan SA/NV	Baa3/-/-	0,600 bn		28.02.2030	ms +285 Bp	✓	12.09.2023	1,150 bn	ms +300 area

Sources: Bloomberg, Helaba DCM

Chart of the Week

3-year maturities dominate for covered bonds

Number of transactions by maturity (1 Jnauary – 14 September 2023)



Sources: Bloomberg, Helaba Research & Advisory

All covered bond issues this week had a maturity of 3 years. This means that the sweet spot of around 5 years has moved forward. The inverted yield curve is likely to have contributed significantly to this development, especially as the most attractive absolute yields for investors are currently in the 2-3 year range. Relatively high new issue premiums (NIPs) are now the rule rather than the exception in the covered bond segment anyway, and the longer the maturity targeted by the issuer, the more generous the yield compensation via the NIP has to be. The last 10-year EUR benchmark covered bond was issued on 19 June. Which issuer will be the next to dare such a long window?

Short news

9/13 ECB criticizes new Italian tax on windfall bank profits: The European Central Bank (ECB) criticized the Italian government's proposed tax on windfall bank profits, saying it did not consider lenders' long-term prospects and could make some of them vulnerable to an economic downturn. Italy clarified that the new tax would amount to no more than 0.1% of lenders' total assets, **Reuters** points out.

9/13 Deutsche Bank set to get ECB capital relief on risky loans: Deutsche Bank is likely to win a reduction in the capital surcharge for its leveraged finance business from the European Central Bank, according to **Bloomberg**. The ECB is set to communicate individual capital requirements to banks later this year and the size of any reduction depends on the lender's efforts, says people familiar with the matter.

9/11 Spain rejects appeals to suspend banking tax payments: Spain's High Court has rejected appeals by Bankinter, Sabadell, and Cajasur to suspend payments of the extraordinary banking tax while it reviews the levy's validity, **Reuters** says. Some banks and associations objected to the tax and filed challenges, while the European Central Bank also warned of adverse effects on the banking system.

9/8 Robust companies, weak credit demand: The German economy is in a pronounced phase of weakness. Banks stand ready to finance creditworthy companies and investments and want to continue to support their customers in the transformation, the **Association of German Banks** (BdB) writes.

9/7 EU capital markets post Brexit: Asset managers, pension funds and brokers across Europe have stepped up their opposition to EU plans to shift trillions of euros of derivatives out of London, warning the move could hurt European companies and investors, according to the **Financial Times**. The EU plans are part of a package intended to boost Europe's capital markets and reduce the EU's reliance on the UK's financial services sector after Brexit. The proposals are currently before European parliamentarians and Brussels hopes to have the proposals signed off before elections next year. But the signatories said the plans "would negatively impact EU capital markets".

9/7 Moody's Investor Service: Mortgage covered bonds will stand strong in face of high inflation and interest rates. High interest rates and inflation, weak economic prospects and declining property prices are heightening risks for covered bonds in many countries. In the face of these risks, Moody's expect the credit quality of mortgage covered bonds will stand strong overall, in large part because of the strength of issuers, large collateral buffers and other structural protections.

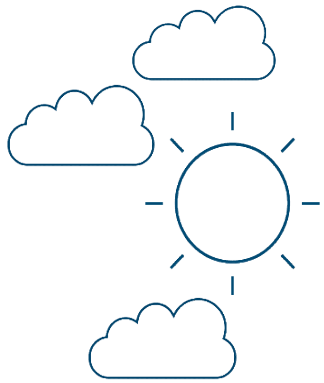
9/6 Moody's Investor Service: Equivalence would increase investor base for third-country covered bonds, reducing refinancing risk. The EU is looking into the possibility of an equivalence regime for covered bonds issued in countries outside the European Economic Area (third countries). If the EU introduces such a regime, covered bonds in third countries that achieve equivalence status will qualify for preferential treatment under EU regulations, which will enhance their appeal to European investors and therefore reduce refinancing risk.

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

E-STOXX 600 Banks	157	1,72%	-0,11%	iBoxx € Cov. Germany	11,4	0,8	1,9	iTraxx Senior Financial	81,1	-1,8	-2,8
10Yr-Yield	2,65	0,00	0,01	iBoxx € Cov. Bonds	24,6	0,8	2,0	iBoxx € Supranational	17,4	0,8	1,6
Swap 10J	3,21	0,01	-0,04	iBoxx € Banks PS	75,6	-4,9	-3,6	iBoxx € Agencies	3,5	0,9	2,7
iBoxx € Germany	-42,12	-1,08	3,66	iBoxx Banks NPS	105,0	-4,6	-3,0	iBoxx € Sub-Sov. Germany	11,0	1,1	1,4
iBoxx € EU	22,78	1,20	2,95	iBoxx Banks Subordinated	194,0	-5,3	5,2	iBoxx € Sub-Sovereign	25,2	0,7	1,7

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

Leisure tip for the weekend: Falconry on the Rennsteig, (Waltershausen, Thuringia)



Get up close to the kings of the air and let eagles, eagle owls and other birds of prey land on your arm! The Rennsteig falconry makes it possible. In the flight show you can experience eagles, owls, falcons, buzzards and vultures in their majestic free flight. There is a unique opportunity to land a bird of prey on your arm. The specially trained raptors and owls will fly to you! The flight show is interactive, so visitors don't just watch, they become a bit of a falconer!

More information: Falconry

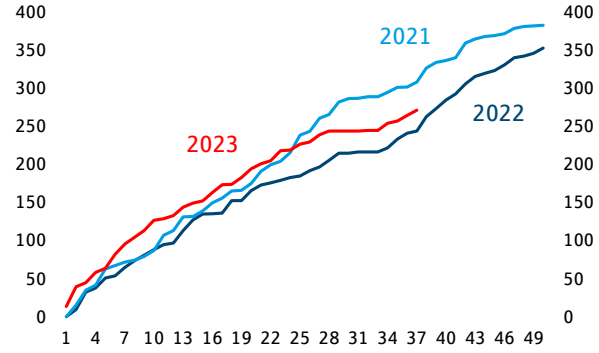
Do you have ideas for leisure tips? We would be happy to receive your suggestions at research@helaba.de.

Source: https://www.rennsteigfalknerei.de

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

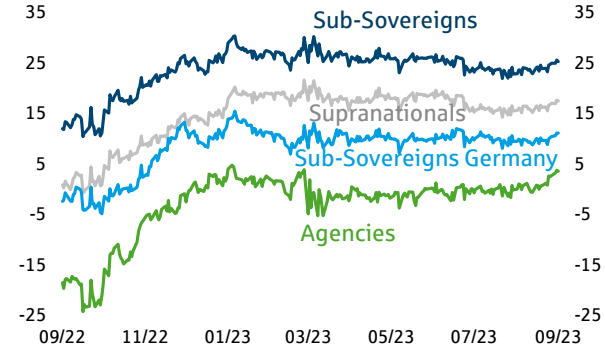
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

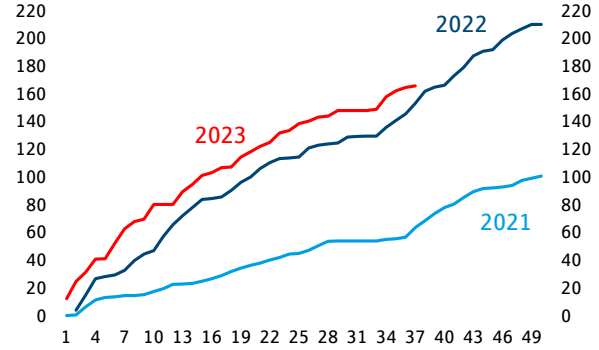
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Primary volumes

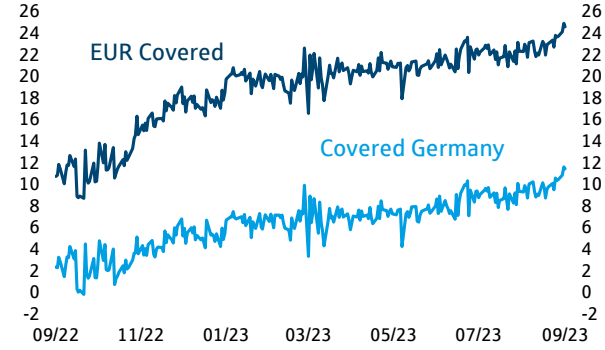
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

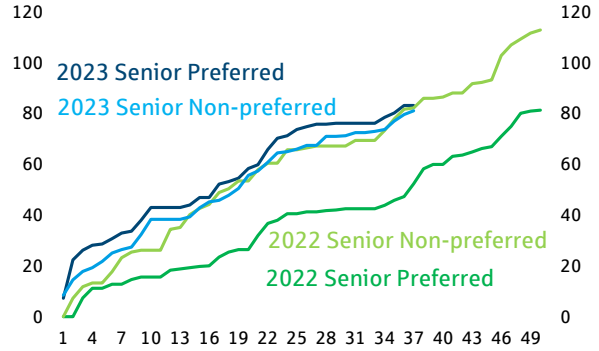
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Primary volumes

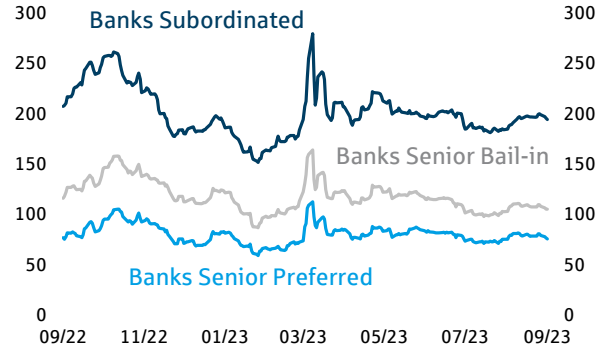
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

News from Research & Advisory

- → Focus on Credits: Primary market update EUR benchmark bank bonds H1 2023
- → Focus on Credits: EUR Corporate bonds: Primary market Q2 2023
- → Video: Sustainable Finance – ICMA & Helaba Talk 2023
- → Focus on Credits: Social and sustainability bonds: ICMA Principles - the freestyle element makes all the difference
- → European banks: An optimistic outlook for 2023

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