Helaba

Focus on: SSAs & Financials

21 September 2023

Weekly Market Update

Primary market environment: The last few days have been dominated by central bank decisions. The end of the rate-hike cycle seems to be at least within reach. In the case of covered bonds, the market is looking for a new equilibrium level after this year's extensive issuance.

Primary market barometer

SSAs



Most of this week's issuance performed well. The Flemish Community's order book of EUR 17.7bn stood out. Pricing remains very important. It is becoming increasingly difficult to issue bonds that are too expensive from a market perspective.

Covered Bonds



Sentiment in the covered bond segment is currently dampened. The example of pbb demonstrates that German issues are increasingly struggling, while "exotic" names such as KHFC are still generating sufficient demand.

Senior Unsecured



The primary market for senior unsecured bank bonds is in good spirits, buoyed by tighter spreads and good inflows. Investors have seen a broad range of supply this week, both in terms of credit quality and in terms of structure and maturity. This picture is likely to continue after the central bank decisions.

Risk trend indicator: Mixed market conditions across segments

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	-0.02	0.17	0.48	0.66	1.94	0.03
European Union	-0.02	0.04	0.26	0.19	1.62	2.15
Germany Covered	-0.04	0.08	0.43	0.56	1.28	1.68
EU Covered	-0.03	0.02	0.23	0.27	1.07	1.62
Banks senior preferred	-0.01	-0.12	-0.33	-0.35	-0.36	1.69
Banks senior bail-in (SNP)	-0.01	-0.12	-0.29	-0.46	-0.84	1.46
Banks subordinated	-0.02	-0.14	-0.17	-0.29	-0.73	2.26
Supranational	-0.04	0.00	0.15	0.03	1.52	1.73
Agencies	-0.06	0.10	0.45	0.61	2.24	0.86
Sub-Sovereigns Germany	-0.03	-0.03	0.08	-0.03	0.80	-0.50
Sub-Sovereigns	-0.04	-0.02	0.14	0.03	1.08	0.47

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

spread widening* | spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: Refinitiv, Helaba Research & Advisory

As our risk trend indicator shows, the market environment is challenging in many segments. One exception is the senior unsecured segment. For some weeks now, issuers have found a friendly environment here.



SSAs

In the SSA segment, three issuers entered the primary market on Tuesday. **Rentenbank** placed a 10-year, EUR 1 billion green bond. The bond was well received with an order book of EUR 1.75 billion. The issuer was last active with a green bond in July 2022; including the latest transaction, the total number of green bonds has reached 14.

The **Flemish Community** offered a dual tranche: a shorter (conventional) tranche (EUR 1.25 billion) with a 9-year maturity and a long bond (EUR 1.5 billion) with a 19-year maturity as a social bond. Given the cumulative book of EUR 17.7 billion (EUR 5.0 + 12.7 billion), the spread could tightend by 4 and 5 bps respectively to OLO +37/OLO+30 bps. between the IPT and the pricing.

BNG Bank also issued in social format. The benchmark (EUR 500 million, WNG, 15 years) generated an order book volume of EUR 790 million. The proceeds from the bond will be used to lend to Dutch social housing associations to finance their SDG-related investments (further details see framework). **The city of Bremen** followed on Wednesday with a state treasury bond (EUR 500m, 7 years, WNG). The order book was not disclosed, suggesting that the issue met only moderate demand.

Outlook: The recent issuances show an overall good condition of the primary market, provided spreads are sufficiently attractive. In the coming week we expect further transactions, including from federal states.

€ SSAs issues week of 18 September 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3.250%	Landwirtschaftliche Rentenbank	Aaa /AAA/AAA	1.000 Mrd.		26.09.2033	ms +1Bp	✓	19.09.2023	1.750 Mrd.	ms +2 area
3.500%	BNG	Aaa /AAA/AAA	0.500 Mrd.		27.09.2038	ms +33 Bp	✓	19.09.2023	0.790 Mrd.	ms +34 area
3.625%	Flemish Community	- /-/AA	1.250 Mrd.		22.06.2032	BGB +37 bp		19.09.2023	5.000 Mrd.	BGB +41area
4.000%	Flemish Community	- /-/AA	1.500 Mrd.		26.09.2042	BGBs +30 bp	✓	19.09.2023	12.500 Mrd.	BGBs +35 area
3.250%	Bremen	- /-/AAA	0.500 Mrd.		27.09.2030	ms +0 Bp		20.09.2023	?	ms flat area
2.875%	Kommuninvest I Sverige AB	Aaa /AAA/-	0.500 Mrd.		23.05.2030	ms +1Bp	✓	15.05.2023	2.500 Mrd.	ms +5 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Deutsche Pfandbriefbank kicked off the second half of the month in the primary market on Monday. The benchmark (EUR 500m, WNG, 4 years) ended at MS +27bps, unchanged from the marketing. On Tuesday, Korea Housing Finance Corporation (KHFC) and S-Bank used the issuance window. **KHFC** placed a EUR 1 bn social format covered bond with a 4 year tenor. The order book reached a good level of EUR 1.5 bn. Finland's **S-Bank** ventured into the 5-year window with a benchmark (EUR 500m, WNG) and was successful, twice oversubscribing the book.

Another successful Italian issuer this week was **Banca Popolare Dell'Alto Adige** (EUR 250m, 5-year, green). Pricing was at MS+73bps versus MS+80bps in the market. The book was significantly oversubscribed at EUR 825m. Total issuance from Italy since the beginning of the year stands at EUR 7.8bn.

> *"The primary transactions completed so far this week have set new price points. The PBBGR 10/27, EUR 500m, MS+27, struggled to cross the finish line despite a visually huge yield advantage, end investors were cautious in their underwriting and as a result the spread widened again by 5-6bps on the secondary side. Secondary activity was generally dominated by selling interest across all maturities. The few, selective purchases by domestic clients from the Association are one-off events that do not help the overall poor sentiment."*
>
> *Comment from the Helaba trading floor*

In the **secondary market**, swap levels are extreme in a historical context, according to our trading. The market currently lacks liquidity providers, and regulatory constraints are limiting position taking by market makers. In addition, there is a lack of liquidity in existing issues, while no substantial asset allocation by large investors towards covereds is discernible.

In addition, there is too much supply of new product, question marks over the development of cover pools due to the "background noise" in real estate financing, and additional supply pressure from public issuers, for example due to the green restructuring of society, as well as further increases in social spending. Stubbornly high inflation rates and discussions about an even more active withdrawal of quantitative easing by the major central banks also play a role. The latter gives the Bund/swap differential new narrowing momentum and makes swap-based products such as covereds appear more expensive, thus further swap spreads could well be justified.

Outlook: The **importance of choosing the "right" spread levels** is illustrated by recent new issues. There is more differentiation between issuers. Issues with attractive spreads tend to be successful. The officially mandated covered issue from Australia's Bendigo and Adelaide Bank is still in the pipeline. Other issuers are likely to be looking for favourable issuance windows, although many are already well advanced with their issuance plans for this year.

€ Covered Bond issues week of 18 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%	Deutsche Pfandbriefbank AG	Aa1/-/-	0.500 Mrd.		28.10.2027	ms +27 Bp		18.09.2023	not disclosed	ms +27 area
3.750%	S-Bank Plc	-/AAA/-	0.500 Mrd.		26.09.2028	ms +46 Bp		19.09.2023	1.000 Mrd.	ms +46-48 wpir
4.082%	Korea Housing Finance Corporation	Aaa/AAA/-	1.000 Mrd.		25.09.2027	ms +63 Bp	✓	19.09.2023	1.450 Mrd.	ms +65 area
4.000%	Banca Popolare dell'Alto Adige SpA	-/-/AA	0.250 Mrd.		27.09.2028	ms +73 Bp	✓	20.09.2023	0.825 Mrd.	ms +80 area
3.750%	KBC Bank NV	Aaa/-/AAA	1.000 Mrd.		28.09.2026	ms +15 Bp		21.09.2023	2.000 Mrd.	ms +18 area

Sources: Bloomberg, Helaba DCM

Senior Unsecured

The primary market for senior unsecured bank bonds **continues to run smoothly after the ECB provided more clarity with its interest rate decision** last week. Both preferred and non-preferred paper are being sought by fund investors, who have recently seen good inflows and are therefore interested in attractive investment opportunities. Issuers have made good progress with their funding plans, but further maturities are still to come and also pre-funding is already gaining in importance. The outlook for the market environment for the rest of the year remains uncertain and they therefore prefer to execute their transactions in a timely manner.

Supply was plentiful this week, with a total of 9 fixed coupon EUR benchmark transactions (one dual tranche) so far, of which 6 were preferred and 3 non-preferred. In terms of credit quality, there was also a wide range of supply, from top names such as BNP Paribas to less active houses such as Banca Popolare Sondrio. All transactions were able to generate at least solid order books, with Commerzbank being the outperformer with a more than 8x oversubscribed book based on an attractive spread offer. In the secondary market, spreads tightened again. Maturities offered ranged from 3 to 9 years, with an average of 6 years, which is probably relatively attractive at the moment.

> „ At the start of the week, issuers took advantage of the good sentiment to successfully meet their primary funding needs. Commerzbank was the outperformer, with its Green Non-Preferred Bond gaining 30 bps over IPT at the subscription stage. RCI Banque's dual tranche and BNP's 9NC8 preferred were also successfully placed. Investor flows remain well balanced. There is a renewed appetite for a little more risk. For example, short to medium term maturities have been swapped for medium to long term maturities. Short-dated coupons and the younger generation of bonds remain in vogue. Floaters have also been increasingly traded again."
>
> *Comment from the Helaba trading floor*

Outlook: Although institutions have already made good progress with their issuance plans, the high level of maturities this year means that the primary market for senior unsecured bank bonds is expected to remain active. Given the stable market environment and the high level of maturities next year, pre-funding is also already gaining in importance. This week has again been dominated by central bank decisions, especially from the Fed, so the primary market should continue to be undisturbed and active next week.

€ Senior Preferred issues week of 18 September 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4.875%	Credito Emiliano SpA	Baa3/-/-	0.500 Mrd.		26.03.2030	ms +160 Bp	✓	18.09.2023	1.000 Mrd.	ms +185 area
4.875%	Hamburg Commercial Bank AG	A3/-/-	0.500 Mrd.		30.03.2027	ms +145 Bp		19.09.2023	0.600 Mrd.	ms +160 area
5.500%	Banca Popolare di Sondrio	-/-/BB+	0.500 Mrd.		26.09.2028	ms +210 Bp	✓	19.09.2023	0.670 Mrd.	ms +225 area
4.125%	BNP Paribas SA	Aa3/A+/AA-	1.500 Mrd.		26.09.2032	ms +95 Bp		19.09.2023	2.250 Mrd.	ms +120 area
4.125%	Crédit Mutuel Arkéa	Aa3/-/AA-	0.500 Mrd.		02.04.2031	ms +95 Bp		21.09.2023	0.875 Mrd.	ms +120 area
4.250%	Société Générale	A1/A/A	1.500 Mrd.		28.09.2026	ms +70 Bp		21.09.2023	2.000 Mrd.	ms +95 area

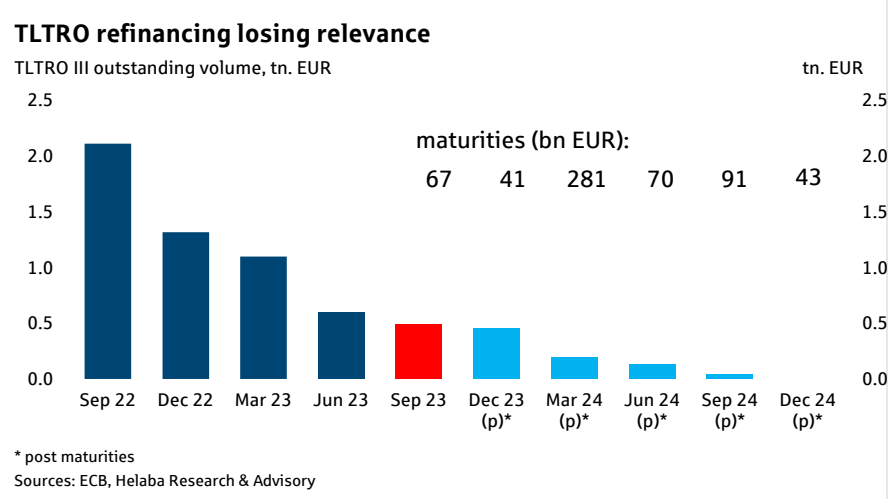
Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 18 September 2023

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
5.250%	Commerzbank AG	Baa2/BBB-/-	0.600 Mrd.		25.03.2029	ms +195 Bp	✓	18.09.2023	5.000 Mrd.	ms +225 area
4.750%	Lloyds Banking Group plc	A3/BBB+/A	1.250 Mrd.		21.09.2031	ms +160 Bp		18.09.2023	3.600 Mrd.	ms +190 area
4.750%	Société Générale	Baa2/BBB/A-	1.000 Mrd.		28.09.2029	ms +150 Bp	✓	21.09.2023	1.900 Mrd.	ms +175 area

Sources: Bloomberg, Helaba DCM

Chart of the Week



According to the ECB's repayment notice of 9/15/2023, the volume of TLTRO III loans European banks will return to the ECB as of 9/27/2023 **totals 101 bn EUR**. It comprises a maturing amount of 67 bn EUR and early repayments of amounts maturing between December 2023 and December 2024 of 34 bn EUR. The relevance of the program is thus continuing to decline - as recently as June 2023, the repayment total had added up to 506 bn EUR (see Weekly of June 22, 2023).

The Governing Council had decided at its meeting on Oct. 27, 2022, to change the previously extremely attractive terms of the program; at the same time, the participating institutions were given the opportunity to return their borrowed amounts for the first time on Nov. 23, 2022, and thereafter on a monthly basis. **The total amount of funds raised under the program will thus decrease from 2.2 tn EUR in March 2022 to 0.49 tn EUR per end-of September 2023.** This is in line with our expectations (see Market Weekly of Nov. 24, 2022). Given the high level of excess liquidity held at the ECB, most banks were able to reduce the funds without any significant burden on their liquidity ratios. The program is now unlikely to play a significant role for banks' refinancing plans any more.

Short news

9/19 Moody's upgrades six Greek banks: Moody's Investors Service on Tuesday upgraded the long-term deposit ratings of six Greek banks (Alpha, Attica, Eurobank, National, Pancreta and Piraeus) by either one or two notches, as well as the stand-alone Baseline Credit Assessment (BCA) of those banks after taking the sovereign higher by two notches on September 15.

9/19 SRB - Zweite Heat Map zur Abwicklungsfähigkeit: Der Ausschuss für die einheitliche Abwicklung (Single Resolution Board, SRB) hat die Ergebnisse seiner jährlichen Bewertung der Abwicklungsfähigkeit für das Jahr 2022 veröffentlicht. Der Vorsitzende des SRB, Dominique Laboureix, kommentierte: "Die Überprüfung zeigt, dass die meisten Banken weiterhin gute Fortschritte gemacht haben: Sie haben finanzielle Ressourcen aufgebaut, um schweren finanziellen Schocks zu widerstehen, und sind auf dem besten Weg, ihre Ziele bis Ende dieses Jahres zu erreichen, was ein wichtiger Meilenstein für die Finanzstabilität ist."

9/18 ECBC Expands its Presence in Finland as S-Bank Joins: The European Covered Bond Council (ECBC) is pleased to announce to announce the addition of **S-Bank** as its latest member, bringing the number of Finnish members to seven.

Mindestreservesätze sowie der baldige Abbau des Bond Portfolios. Die Währungshüter wollen Insidern zufolge demnächst darüber beraten, wie sie die Billionen Euro schwere Überschussliquidität im Bankensystem verringern können. (Handelsblatt)

18.9. Aufsichtsbehörden weisen auf Risiken aufgrund der unsicheren Wirtschaftsaussichten hin: Die drei europäischen Aufsichtsbehörden (EBA, EIOPA und ESMA - ESAs) haben ihren Bericht des Gemeinsamen Ausschusses vom Herbst 2023 über Risiken und Schwachstellen im EU-Finanzsystem veröffentlicht. Der Bericht unterstreicht die anhaltend hohe wirtschaftliche Unsicherheit.

18.9. SocGen sieht Kapitalverluste durch EZB-Prüfung strukturierter Produkte: Das Eigenkapital der Societe Generale wird nach einer aufsichtsrechtlichen Untersuchung ihres Geschäfts mit strukturierten Produkten stärker belastet als bisher angenommen. Die Prüfung durch die EZB wird die Common Equity Tier 1-Quote der SocGen um etwa 20 Bp. senken. Wie Bloomberg berichtet, ist ein Plan zur Erhöhung der Kapitalstärke der SocGen ein Schlüsselelement ihres neu vorgelegten Strategieplans, der vom neuen CEO Slawomir Krupa vorgestellt wurde. (Bloomberg)

15.9. EU-Banken zahlen freiwillig 34,2 Milliarden Euro an EZB-Finanzmitteln zurück: Die Banken im Euroraum haben beschlossen, freiwillig weitere 34,2 Mrd. EUR an günstigen längerfristigen Refinanzierungsmitteln an die Europäische Zentralbank zurückzuzahlen, zusätzlich zu den 67 Mrd. EUR, die Ende des Monats fällig werden. Durch die Rückzahlungen wird der ausstehende Betrag der so genannten TLTRO-Mittel weiter auf weniger als 500 Mrd. EUR schrumpfen. (siehe unser Chart der Woche)

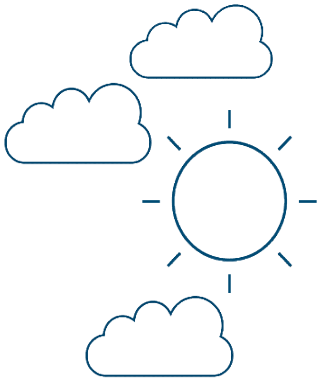
14.9. Konsultation zur Umsetzung der SFDR: Die Europäische Kommission hat eine gezielte Konsultation zur Umsetzung der Verordnung über die Offenlegung nachhaltiger Finanzprodukte (SFDR) eingeleitet. Die Frist für die Teilnahme an beiden Konsultationen endet am 15. Dezember 2023.

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

E-STOXX 600 Banks	161	2.97%	3.67%	iBoxx€Cov. Germany	12.0	0.6	3.2	iTraxx Senior Financial	78.7	-2.4	-6.3
10Yr-Yield	2.70	0.05	0.18	iBoxx€Cov. Bonds	24.8	0.3	3.0	iBoxx€Supranational	17.5	0.1	1.6
Swap 10J	3.23	0.02	0.12	iBoxx€Banks PS	72.8	-2.9	-8.2	iBoxx€Agencies	4.3	0.7	4.4
iBoxx€Germany	-39.61	2.51	7.32	iBoxx Banks NPS	101.1	-3.9	-9.4	iBoxx€Sub-Sov. Germany	10.5	-0.6	1.1
iBoxx€EU	23.46	0.68	3.34	iBoxx Banks Subordinated	188.2	-5.8	-8.8	iBoxx€Sub-Sovereign	25.1	-0.1	1.4

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

Leisure tip for the weekend: Treburer Steindamm



The ‘Wave’, as it is known to water sports enthusiasts, is an insiders' tip for white-water kayakers who train here - but it is also great for surfing. At this point, near Trebur (Groß-Gerau), the Rhine flows into a low-flow oxbow, creating a small but steady wave.

If you have a small surfboard and are used to freshwater temperatures, you can have a lot of fun here - and you don't have to pay an entrance fee.

More information: Treburer Steindamm

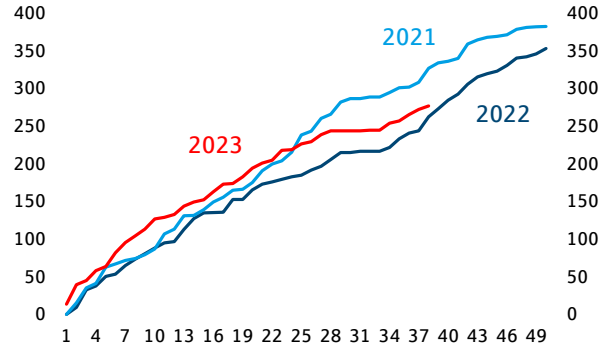
Do you have ideas for leisure tips? We would be happy to receive your suggestions at research@helaba.de.

Source: https://www.hessenschau.de/freizeit

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

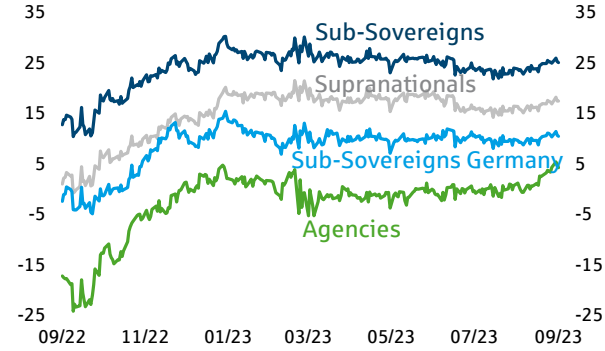
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

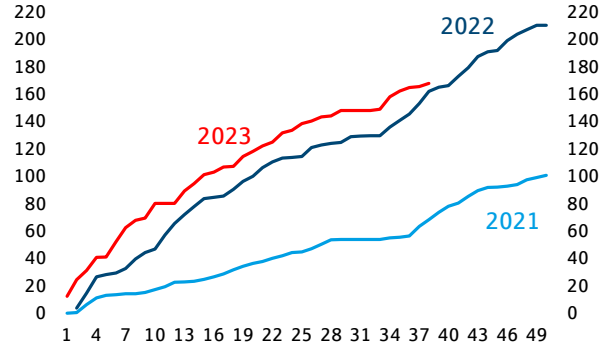
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Primary volumes

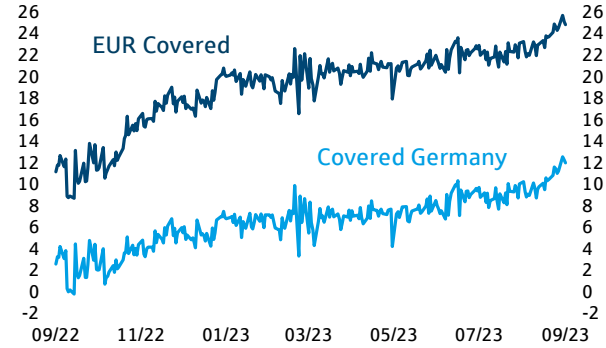
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Covered Bonds: Spread development

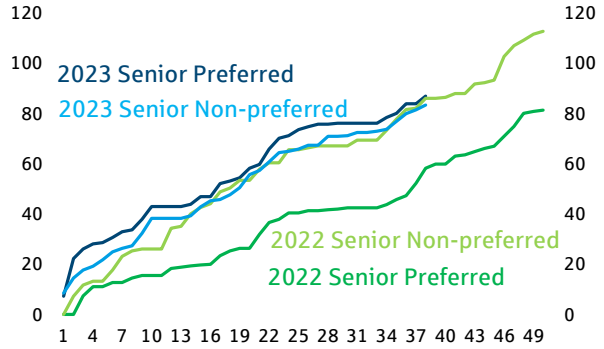
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Primary volumes

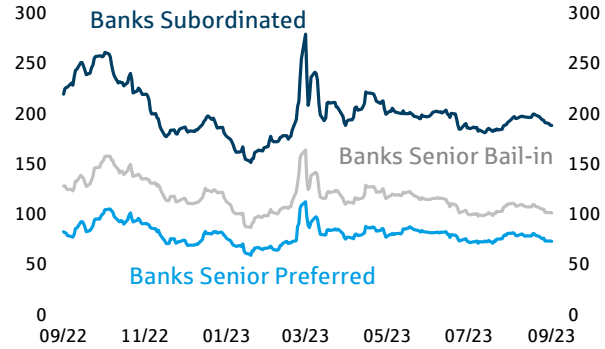
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

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- → 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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