Helaba

Focus on: SSAs & Financials

22 Febuary 2024

Weekly Market Update

Primary market environment: The DAX hit a new record high and the Japanese Nikkei reached its highest level in around 35 years. In the US, the FOMC minutes do not point to a rapid rate cut and according to Barkin of the Fed, the current data underlines the ongoing price pressures. The primary market environment remains constructive and issuance is likely to remain strong.

Primary market barometer

SSAs



New issues in the SSA segment continue to meet their targets easily. Once again the EU stands out with an order book of EUR 67bn. Given the constructive environment and the fact that new issue premiums are currently low, we expect issuance to remain buoyant.

Covered Bonds



Portugal's Novo Banco's covered bond issue met with exceptionally strong demand of around EUR 5bn. All other issuers this week also had no problems meeting their funding targets.

Senior Unsecured



New issues have been well received in the primary market. Some have seen the best performance in weeks. As the banks' quarterly reporting season draws to a close, we expect primary market activity in this segment to pick up further.

Risk trend indicator (heat map): Slight mood enhancement

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,02	0,15	0,32	0,97	1,49	3,12
European Union	0,00	0,00	0,25	0,42	0,83	3,02
Germany Covered	0,00	0,13	0,53	1,07	2,61	3,38
EU Covered	0,00	0,07	0,13	0,44	1,68	3,13
Banks senior preferred	-0,02	-0,06	-0,01	-0,09	0,58	1,08
Banks senior bail-in (SNP)	-0,02	-0,15	-0,15	-0,28	-0,05	0,43
Banks subordinated	0,00	-0,04	0,03	-0,46	-0,12	0,35
Supranational	0,00	0,02	0,23	0,47	0,98	2,91
Agencies	0,01	0,03	0,18	0,69	1,60	3,08
Sub-Sovereigns Germany	0,00	0,03	0,11	0,37	0,77	0,61
Sub-Sovereigns	0,00	0,01	0,16	0,45	0,95	1,72

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

spread widening* | spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

Our heat map shows a slight improvement in sentiment since the last update. However, it is too early to give the all-clear.



SSAs

The SSA primary market started this week without a "Monday break" as the **State of Lower Saxony** increased the size of its September 2034 bond by EUR 500m (WNG). The deal was successfully oversubscribed twice. On Tuesday, the **EU** issue (EUR 7bn, 10 years) met with strong investor demand. Bookbuilding totalled over EUR 67bn. The spread tightened by 2 bps to MS+29 bps. Despite strong competition in the EU primary market, the **Autonomous Community of Madrid** also ventured onto the trading floor on Tuesday with a **sustainability** bond. The EUR 1bn (10 years) issue was ultimately 4.2 times oversubscribed. The spread tightened by 6bp to SPGB + 16bp compared to the marketing. **BayernLabo** (EUR 500m, 7 years, **social**, WNG) and **Erste Abwicklungsanstalt** (EAA) (EUR 500m, 3 years, WNG) easily met their issuance targets on Wednesday.

Outlook: The SSA primary market remains constructive and there is currently little or no need to pay new issue premiums.

€ SSAs issues week of 19 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,625%	Niedersachsen	- /-/AAA	0,500bn	✓	09.02.2034	ms +17 bps		19.02.2024	0,850bn	ms+18 area
3,125%	EU	Aaa /AA+/AAA	7,000bn		04.12.2034	ms +29 bps		20.02.2024	60,000bn	ms + 31 area
3,462%	Madrid	Baa1 /A/-	1,000bn		30.04.2034	SPGB+16	✓	20.02.2024	3,900bn	SPGB + 22 area
2,875%	Erste Abwicklungsanstalt	Aa1 /AA/AAA	0,500bn		01.03.2027	ms +4 bps		21.02.2024	1,150bn	ms +5 area
2,875%	Bay. Landesbodenkreditanstalt	Aaa /-/-	0,500bn		28.02.2031	ms +17 bps	✓	21.02.2024	0,850bn	ms + 18 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Momentum in the primary market has picked up again this week. On Monday, **Arkea Public Sector SCF** was the first issuer to take the stage. Out of a bookbuilding of EUR 2.2bn, the issuer decided to print EUR 750m. The final spread was 7bps tighter than at the time of marketing. Austria's **Bawag PSK** followed successfully on Tuesday with a 7-year benchmark (EUR 750m).

Portugal's **Novo Banco** (EUR 500m, 3 years, WNG) issued its first benchmark covered bond on Wednesday. Following the successful issuance of Banco Santander Totta and Banco BPI this month, the issue went exceptionally well with an order book of EUR 5bn. The order book catapulted the issue to the top of the year alongside Argenta Spaarbank. However, with a bid-to-cover ratio of 9.8, the Novo Banco issue was the sole leader. **Hamburger Sparkasse** (EUR 500m, 7 years, WNG) and **Hypo Tirol** with a sub-benchmark (EUR 250m, 5 years, WNG) were also successful, albeit with lower oversubscriptions of 1.6 and 1.9 times respectively. **Crédit Agricole Home Loan SFH** rounded off Wednesday's primary activity. The benchmark issue (EUR 1.25bn) with a maturity of 6.75 years achieved a volume of EUR 2.7bn and the issue spread tightened by 8bp to MS+39bp compared to the marketing.

Outlook: Despite ongoing uncertainties, the primary market looks favourable. We therefore expect the primary market to remain buoyant.

> „Last week brought no new trends in the secondary market. German Pfandbriefe remained the underperformer in an otherwise quite constructive picture. Inflows tended to move from the euro core countries to the European periphery, notably Italy, Spain and the revived Portuguese market. Bonds from our western neighbour France also continue to be in greater demand. The main drivers are coming from abroad. Domestic investors are still providing some support for German securities, but even here a more cautious approach can be observed".
>
> *Comment from the Helaba trading floor*

€ Covered Bond issues week of 19 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,111%	Arkéa Public Sector SCF	Aaa /-/-	0,750bn		28.02.2029	ms +33 bps		19.02.2024	2,200bn	ms + 40 area
3,125%	BAWAG P.S.K.	Aaa /-/-	0,750bn		27.02.2031	ms +52 bps		20.02.2024	1,300bn	ms + 58 area
3,000%	Hamburger Sparkasse AG	Aaa /-/-	0,500bn		28.02.2031	ms +34 bps		21.02.2024	0,820bn	ms + 38 area
3,250%	Hypo Tirol Bank AG	Aa1 /-/-	0,250bn		28.02.2029	ms +54 bps		21.02.2024	0,530bn	ms + 60 area
3,000%	Credit Agricole Home Loan SFH	Aaa /AAA/AAA	1,500bn		01.12.2030	ms +39 bps		21.02.2024	3,058bn	ms + 47 area
3,250%	Novo Banco SA	Aaa /-/-	0,500bn		01.03.2027	ms +45 bps		21.02.2024	4,900bn	ms +55 area

Sources: Bloomberg, Helaba DCM

Senior Unsecured

The banks' reporting season is drawing to a close and the primary market is starting to pick up again. So far this week, two preferred and three non-preferred EUR benchmark bonds have been issued. The transactions met with **strong investor demand**, with order books typically around 5 times oversubscribed.

French cooperative group **Crédit Agricole** impressed with a 12-year transaction on Monday, with the order book for the non-preferred bond reaching over EUR 6.2bn. The spread narrowed by 35bp during the bookbuilding process and tightened further in subsequent trading. Interest in significantly shorter maturities was met by Danish **Nykredit Realkredit**, which launched both a fixed and a floating rate tranche at the beginning of the week. Although the order sizes of EUR 1.4bn and EUR 2.1bn were not in the same league as Crédit Agricole's, the no grow sizes of EUR 300m and EUR 500m resulted in impressive coverage ratios of 4.7x and 4.2x respectively.

> „The market continues to move sideways, with the iTraxx Financial currently back at the lower end of the spread range. However, a catalyst for a breakthrough is still missing. There is risk appetite, however, not for banks in Europe. Investors are taking a closer look and differentiate. After an overarching spread rally since November 2023, the market would be susceptible to a correction, but it remains very stable across the board. However, poor figures from individual companies are being severely penalised, as we know from the stock market. However, there is no contagion."
>
> *Comment from the Helaba trading floor*

Rarely seen **Banca IFIS** from Italy also saw strong investor demand for its EUR 400m preferred issue, with a 50 Bp. spread tightening during the bookbuilding followed by a further -26bp in the secondary market.

Outlook: The quarterly reporting season for banks is drawing to a close, which means that the blackout periods for issuers are also coming to an end. The refinancing needs of European banks will remain high in 2024, mainly due to long maturities and declining customer deposits (see our **Primary Market Update EUR Benchmark Bank Bonds** dated 11 January 2024). We expect primary market activity to further pick up in the coming days.

€ Senior Preferred issues week of 19 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
5,500%	Banca IFIS S.p.A.	Baa3 /-/BB+	0,400bn		27.02.2029	ms +290 bps		20.02.2024	2,000bn	ms + 340 area
3m€ +35 Bp	KBC Ifima	A1 /A+/A+	1,000bn		04.03.2026	ms +35 bps		22.02.2024	2,500bn	3m€ +55 area

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 19 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,125%	Credit Agricole SA	A3 /A-/A+	1,250bn		26.02.2034	ms +135 bps		19.02.2024	6,000bn	ms + 170 area
3m€ +65 Bp	Nykredit Realkredit A/S	- /BBB+/A	0,300bn		27.02.2026	ms +65 bps		19.02.2024	1,400bn	3mE + 100 area
3,875%	Nykredit Realkredit A/S	- /BBB+/A	0,500bn		05.07.2027	ms +105 bps		19.02.2024	2,100bn	ms + 145 area

Sources: Bloomberg, Helaba DCM

Reporting dates of selected banks

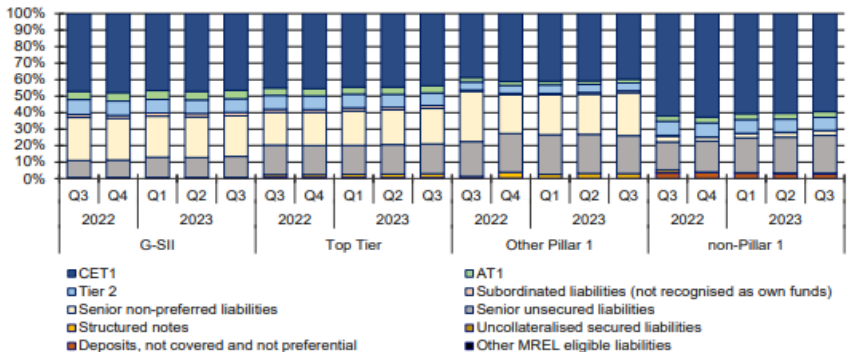
Issuer	Date	Issuer	Date
CREDIT SUISSE GROUP AG-REG	2/23	ERSTE GROUP BANK AG	2/29
STANDARD CHARTERED PLC	2/23	AAREAL BANK AG	2/29
BANK OF IRELAND GROUP PLC	2/26		

Sources: Bloomberg, Helaba Research & Advisory

Chart of the Week

MREL relies strongly on non-preferred senior bonds

MREL composition by bank category



Sources: SRB, Helaba Research & Advisory

The Single Resolution Board (SRB) published its Minimum requirement for own funds and eligible liabilities (MREL) dashboard for Q3 2023 recently. The dashboard presents the evolution of MREL targets and shortfalls for resolution and non-resolution entities as well as the level and composition of resources of resolution entities in the quarter.

The very large **majority of banks under the SRB remit closed their MREL shortfalls ahead of the final deadline of 1st January 2024**. The MREL shortfall against final targets (including the Countercyclical Buffer Requirement) of resolution entities was equal to EUR 8.9 bn, corresponding to only 0.1% the Total Risk Exposure Amount (TREA). This amount corresponds to 14 banks, of which 11 have a longer transitional period to meet their final targets ending, in most cases, in 2024-2025. The level of own funds and eligible liabilities (MREL resources) was equal to EUR 2,520 bn (33.8% TREA). For banks with capital markets access, the issuance of senior non-preferred bonds plays an important role to meet their MREL requirements. (**SRB MREL dashboard Q3 2023**)

Short news

2/21 BaFin signals tough stance on banks' bail-in bonds: Germany's top official for winding down failing banks said lenders must keep selling bonds that can absorb losses. While higher rates make it more expensive to replace maturing notes, banks will still need to meet a minimum requirement for securities such as AT1 bonds and subordinated debt, **Bloomberg** reports.

2/21 New Covered Bond Label Members: The Covered Bond Label Foundation **(CBLF)** is pleased to announce that **Bank of New Zealand** and **TSB Bank** has joined the Covered Bond Label, which now counts a total of **142** issuers and **178** cover pools in **25** jurisdictions.

2/21 The European Covered Bond Council (ECBC) publishes the 2024 update of its Global Concept Note on Third Country Equivalence for Covered Bonds. The ECBC Global Issues Working Group, developed the Global Concept Note in early 2023 to provide a roadmap aimed at helping regulators and national supervisory authorities outside of the EEA, and stakeholders in covered bond markets more generally, to act in the covered bond sphere by meeting the requirements and align policy and market best practices to achieve equivalence with the Covered Bond Directive. The third country equivalence regime offers a chance to harmonise policies and enhance regulatory treatment. This updated 2024 version of the Note aims to catalyse the ongoing harmonisation of the covered bond asset class at both EU and global levels.

2/19 A stronger crisis framework in a financial world always in motion: The Single Resolution Board (SRB) has published a **speech** by Dominique Laboureix, Chair of the SRB, on the lessons learned after the 2023 bank failures in the US and Switzerland, and the new risks that we may be facing. "The Basel III package, the Banking and Capital Markets Unions packages are good examples of reforms that have been pending for a long time and that would improve our financial systems," he says.

2/19 Europe's largest banks top €100 Billion profit for first time: Europe's largest banks exceeded €100 billion in profit for the first time last year as the lift from rising interest rates handed most of them record earnings. Three-quarters of the lenders in the group achieved the highest profit in their history, data compiled by **Bloomberg** shows. The surge in profitability has allowed banks to ratchet up the amount of money they are returning to investors.

2/16 Provisional deal with Parliament on crisis preparedness: The Council and the European Parliament reached a provisional agreement on the regulation for a **single market emergency instrument** (SMEI), which after the agreement will be renamed Internal Market Emergency and Resilience Act (IMERA).

2/16 ECB and Climate transition risk in the banking sector: Climate-related risks are due to increase in coming years and can pose serious threats to financial stability. This **European Central Bank paper**, by means of a DSGE model including heterogeneous firms and banks, financial frictions and prudential regulation, shows the need of climate-related capital requirements in the prudential framework.

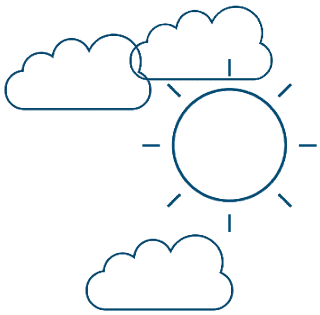
2/16 Droughts and heatwaves could dent Spanish banks' capital: Severe droughts and heatwaves in Spain could have a persisting impact on the domestic lenders' solvency by slowing down the economy and leading to more loan losses, says Pablo Hernandez de Cos, Governor of the Bank of Spain, according to **Reuters**.

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

E-STOXX 600 Banks	171	1,54%	1,53%	iBoxx € Cov. Germany	29,3	0,7	4,0	iTraxx Senior Financial	66,2	-1,9	-1,9
10Yr-Yield	2,44	0,09	0,11	iBoxx € Cov. Bonds	36,4	0,2	0,7	iBoxx € Supranational	30,0	0,0	1,9
Swap 10J	2,79	0,10	0,06	iBoxx € Banks PS	82,0	-2,1	-0,5	iBoxx € Agencies	15,4	0,1	1,0
iBoxx € Germany	-22,13	2,13	4,65	iBoxx Banks NPS	101,2	-5,0	-5,0	iBoxx € Sub-Sov. Germany	21,9	-0,1	1,2
iBoxx € EU	36,93	-0,09	2,85	iBoxx Banks Subordinated	169,3	-2,5	0,9	iBoxx € Sub-Sovereign	37,4	-0,3	1,1

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

Leisure tip for the weekend: Explorata, Zella-Mehlis (Thuringia)



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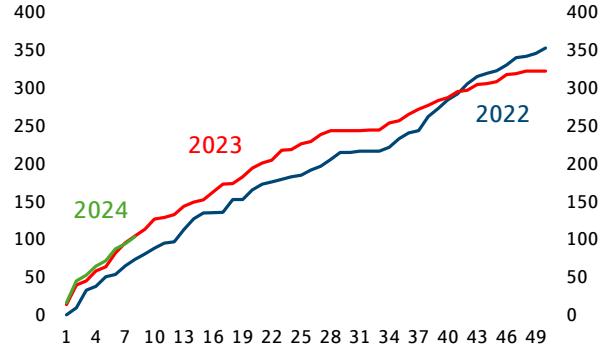
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Sources: www.traveloptimizer.de/www.mathildenhoehe.eu/homepage/

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

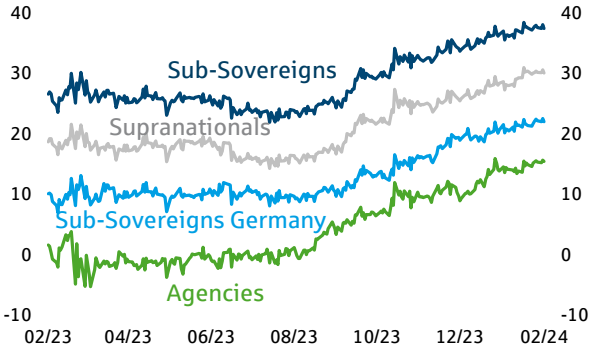
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

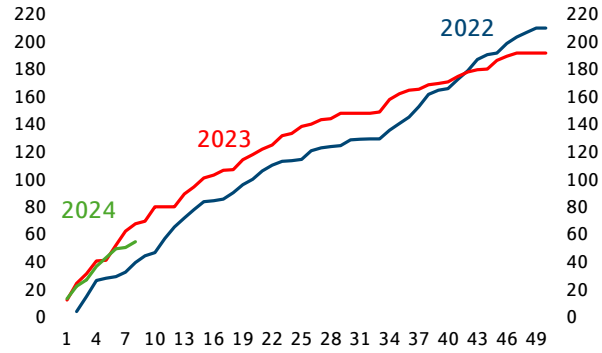
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

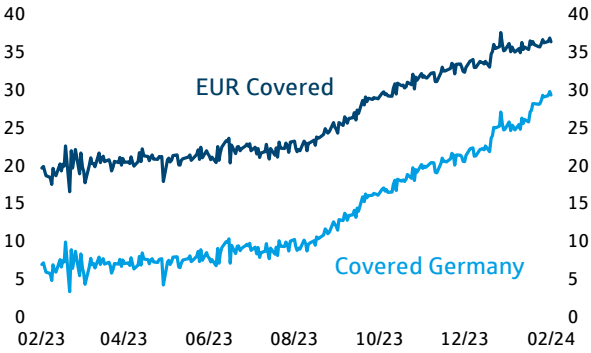
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

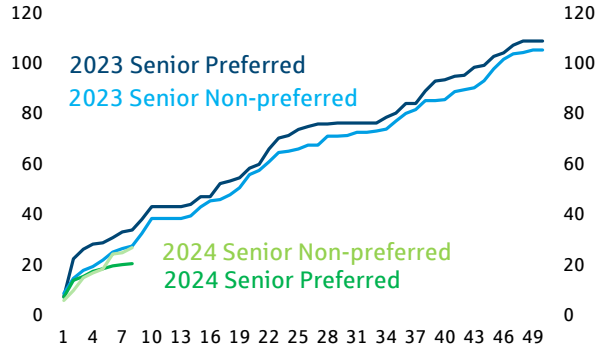
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

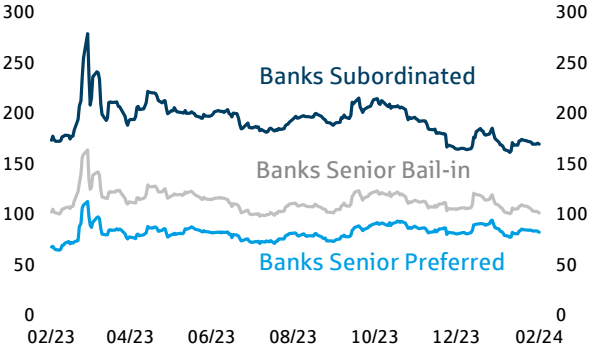
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

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- → Focus on: Credit – Primary market update corporate bonds
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- → Focus on: Credit – European banks: The sharpening contours of ESG disclosure
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