Helaba

Focus on: SSAs & Financials

29 Febuary 2024

Weekly Market Update

Primary market environment: The DAX remains at record levels. ECB President Christine Lagarde expects inflation in the eurozone to continue to fall. The Fed's Bostic and Williams believe that inflation has not yet reached its target. The primary market environment remains constructive and we believe that issuance should continue at least until the Easter holidays.

Primary market barometer

SSAs



In a rather subdued week overall, all new issues in the SSA segment reached their target volumes. However, the EIB clearly stood out with an order book of EUR 32bn. We are more optimistic for this week. Among other things, EU auctions are on the agenda.

Covered Bonds



The primary market for covered bonds has had some success recently. The highlight of the week was undoubtedly the 5-year issue from UBS. The Swiss company's bond impressed with an order book of EUR 7.4bn. However, demand for the week's other issues was also very strong.

Senior Unsecured



Senior Preferred issuance was up on the previous week. Lloyds Banking Group saw the strongest demand with the order book oversubscribed six times. Overall, spreads continued their rally and tightened again. The primary market remains receptive.

Risk trend indicator (heat map): Mixed picture

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,02	0,13	0,49	1,01	1,74	3,68
European Union	0,00	0,05	0,23	0,44	0,99	3,29
Germany Covered	-0,03	-0,03	0,43	0,98	2,69	3,38
EU Covered	-0,03	-0,03	0,08	0,36	1,79	3,14
Banks senior preferred	0,02	-0,17	0,04	-0,20	0,44	0,92
Banks senior bail-in (SNP)	0,05	-0,10	-0,07	-0,29	-0,15	0,45
Banks subordinated	0,01	-0,22	-0,04	-0,50	-0,33	0,03
Supranational	0,00	0,05	0,21	0,46	1,15	3,16
Agencies	0,00	0,07	0,24	0,60	1,89	3,46
Sub-Sovereigns Germany	0,00	0,03	0,10	0,32	0,93	0,55
Sub-Sovereigns	0,00	0,03	0,14	0,35	1,15	1,80

strong middle weak unchanged weak middle strong

spread widening* spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

The slight improvement in sentiment shown recently in our heat map has already passed. Only covered bonds have seen a moderate improvement in the short term.



SSAs

The general sentiment in the SSA sector is broadly positive, although the large wave of supply has lost momentum since the beginning of the year. Spreads at least seem to have bottomed out for the time being. Although the selling pressure on the secondary curves has eased, there is still a lack of follow-on buying that could lead to further performance.
The SSA primary market is often quiet at the start of the week. This Monday was no exception. **EIB** kicked things off on Tuesday with its third issue of the year. EUR 5bn was easily placed with an outstanding order book of EUR 32bn. The spread eventually tightened by 2bp to MS +5bp. EUR 6bn and EUR 3bn had already been placed on 9 and 30 January respectively. The EIB estimates its total issuance for the year at EUR 60bn. In December, the EIB's Board of Directors approved a borrowing authorisation of up to EUR 65bn to provide a degree of flexibility. Bond redemption in 2024 is estimated at EUR 62bn. In 2023, the EIB raised EUR 49.8bn, while repayments totalled EUR 60.4bn. The Land of **Schleswig-Holstein** successfully issued a EUR 1bn 7-year bond from an order book of EUR 1.15bn. The new issue premium was low at just 1 bp. The **State of Hesse** (EUR 1bn, 15 years) successfully completed this week's issuance today with the order book oversubscribed twice.

Outlook: The outlook for next week is optimistic, not only for a further stabilisation of secondary market spreads. We also expect more participants in the primary market. The next EU auction is scheduled for 4 March. The market expects maturities to increase by up to EUR 3 bn in 2028 and up to EUR 2 bn in 2038. The Auckland Council has already mandated a 10-year social benchmark and other states are likely to follow..

€ SSAs issues week of 26 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,750%	EIB	Aaa /AAA/AAA	5,000bn		17.07.2029	ms +5 bps		27.02.2024	32,000bn	ms +7 area
2,875%	Schleswig-Holstein	- /-/AAA	1,000bn		06.03.2031	ms +13 bps		28.02.2024	1,150bn	ms + 13 area
3,125%	Hessen	- /AA+/-	1,000bn		10.03.2039	ms +36 bps		29.02.2024	2,100bn	ms + 38 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

The debut issue of the UK's TSB Bank (EUR 500m, 5 years, WNG), mandated last week, was successfully printed on Monday with a bookbuilding of over EUR 3.4bn. The spread narrowed by 8 bps to MS +52 bps compared to the marketing. This example alone shows the bullish sentiment in the market at the moment. Many are looking to take advantage of the current high spreads. The highlight of the week was undoubtedly **UBS**'s first EUR covered bond issue. With a bookbuilding of EUR 7.4bn, the issue set an impressive benchmark, breaking the annual order book record set the previous week by Portugal's Novo Banco. The spread on the five-year bond, which had been set in the low MS +60s during marketing and was certainly an eye-catcher, tightened to MS +48bp. The success of this transaction is all the more remarkable given that it is a "structured" issue and the covered bond does not qualify as HQLA nor can it be deposited as collateral with the ECB. Not surprisingly, asset managers were the largest investor group at 59%. In terms of geographical distribution, investors from Germany (26%) were ahead of investors from the UK/Ireland (20%). The **Iccrea Banca** covered bond (EUR 500m, 8 years, WNG) also saw very strong demand from almost 140 investors totalling EUR 5.1bn, with a good mix of bank treasuries, asset managers and fast money accounts. On Wednesday, **DZ Hyp** (EUR 500m, 10 years, WNG) also had no problems filling its order book. With a bookbuilding of over EUR 2.3bn, the spread tightened by 6bp to MS +41bp vs. guidance.

Outlook: The mood in the primary market remains very constructive and we expect more issuers to take advantage of the opportunities available.

> „The two transactions of UBS Switzerland 5y (reofferspread +48) and the Italian Iccrea Banca 8y (reofferspread +80) are exemplary for the current situation. Both issues were historically heavily oversubscribed in the bookbuild (factor 7 and 10 respectively). Even if the "order book inflation" typical of constructive sentiment is factored out, the underlying bid for non-core bonds is very high. This can be seen from the strong follow-on performance of almost all bonds that have been issued from this region recently. In the case of UBS, the premium is 6 bp. The same can be said for TSB Ltd. 5Y, Novo Banco 3Y, Iccrea Banca 8Y, Banco BPI 6Y and others, and similarly for the bulk of French and Dutch bonds".
>
> *Comment from the Helaba trading floor*

€ Covered Bond issues week of 26 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,319%	TSB Bank	Aaa /-/-	0,500bn		05.03.2029	ms +52 bps		26.02.2024	3,400bn	ms + 60 area
3,500%	Iccrea Banca S.p.A.	Aa3 /-/-	0,500bn		04.03.2032	ms +80 bps		27.02.2024	5,100bn	ms +92 area
3,304%	UBS Switzerland	- /-/AAA	1,000bn		05.03.2029	ms +48 bps		27.02.2024	7,500bn	low 60 area
3,125%	DZ HYP AG	Aaa /AAA/-	0,500bn		28.02.2034	ms +35 bps		28.02.2024	2,200bn	ms +41 area

Sources: Bloomberg, Helaba DCM

Senior Unsecured

The primary market is much quieter than a few weeks ago, although market sentiment remains positive. This gives market participants a chance to digest the strong spread performance. The new Credit Agricole 12y Non Preferred tightened by 10bps. Of particular note is **UniCredit S.p.A.**'s Senior Preferred benchmark, which initially saw very strong demand and peaked at EUR 4.3bn. After aggressive spread tightening and an issue size of EUR 1.25bn, the final order book was "only" EUR 1.9bn. The successful transaction was priced well below its own secondary curve. Demand for **Lloyds Banking's** floating rate benchmark was strong as expectations of interest rate cuts faded, and with a bid/cover of 6, the re-offer spread was tightened by a good 35bp to EUR 3m +70bp. In addition, **Standard Chartered PLC** (Holdco) was active in the senior non-preferred format and S-Bank of Finland and Novo Banco of Portugal were active in the senior preferred format.

Preferred bonds traded 4-5bps tighter and the non-preferred segment 7bps tighter. The positive sentiment and spread tightening between non-preferred and preferred bonds is evident across all jurisdictions and maturities. Only German financials are out of line and remain the underperformers as they continue to be affected by the current news situation.

> „Credit strength continues. While equity markets continue to climb to new all-time highs and interest rate volatility remains high, credit spreads are tightening again. The broad spread rally that has been in place since the autumn is now very much exhausted, but the market has so far proved robust in the face of macro news and ahead of next week's ECB meeting. The cash and iTraxx indices are showing a solid performance with further tightening as the week progresses, supported by calmer primary markets."
>
> *Comment from the Helaba trading floor*

Outlook: The ECB meeting in the coming week is gradually coming into focus, meaning that the potential for setbacks from further hawkish statements is increasing by the day. A few more issuers, especially from Scandinavia, are likely to come to the market before the Easter break.

€ Senior Preferred issues week of 26 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,000%	UniCredit S.p.A.	Baa1 /BBB/BBB	1,250bn		05.03.2034	ms +125 bps		27.02.2024	1,900bn	ms +170 area
3m€+70 Bp	Lloyds Banking Group plc	A3 /BBB+/A	0,500bn		05.03.2027	ms +70 bps		27.02.2024	3,000bn	3m€ + 105/110
4,875%	S-Bank	- /BBB/-	0,300bn		08.03.2028	ms +195 bps		28.02.2024	0,900bn	ms + 225 area
4,250%	Novo Banco S.A.	Ba1 /BBB-/BB	0,500bn		08.03.2028	ms +130 bps		28.02.2024	1,050bn	ms +155 area

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 26 February 2024

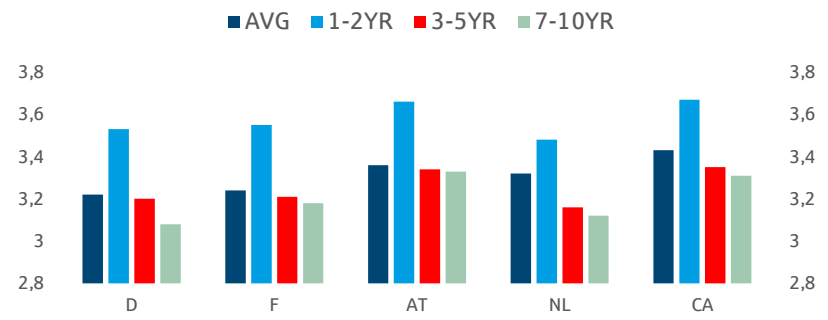
Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,196%	Standard Chartered PLC	A3 /BBB+/A	1,000bn		04.04.2031	ms +145 bps		26.02.2024	2,500bn	ms + 180 area
4,125%	BPCE SA	Baa1 /BBB+/A+	1,250bn		08.03.2033	ms +145 bps		29.02.2024	2,400bn	ms +170 area

Sources: Bloomberg, Helaba DCM

Chart of the Week

Yields on covered bonds: short end most attractive

Average yields of triple-A rated covered bonds by maturity band in %



Sources: Bloomberg, Helaba Research & Advisory

Low-risk assets such as Covered Bonds currently offer attractive yields, even in the AAA range. There are differences between countries and maturity bands, with the yield advantage of German Pfandbriefe over French Covered Bonds tightening recently. As the yield curve remains inverted, the short end remains attractive for investors. At an average of 3.71%, Austrian Covered Bonds offer the highest yields in the 1-2 year window. By comparison, German paper yields 3.57% and French covered bonds 3.55%. At 3.7%, Canadian covered bonds have a similarly high short-term yield to Austria. We expect Canadian issuers to become active soon, typically in early March. The free flow of investors and the yield level should ensure that the new bonds are sold without any problems.

Short news

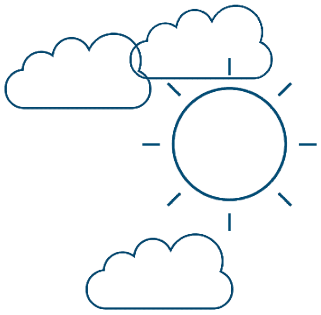
2/26 S&P Capital IQ: Italian banks' risk provisioning in focus amid higher credit costs. S&P Capital IQ expects Italy's largest banks to build higher reserves in 2024 to protect against potential new credit losses as concerns over higher interest rates and a slowdown in economic growth persist.

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

E-STOXX 600 Banks	175	2,12%	2,24%	iBoxx € Cov. Germany	29,2	-0,1	2,9	iTraxx Senior Financial	64,9	-1,3	-5,4
10Yr-Yield	2,46	0,02	0,30	iBoxx € Cov. Bonds	36,3	-0,1	0,0	iBoxx € Supranational	31,1	1,0	2,1
Swap 10J	2,78	-0,01	0,21	iBoxx € Banks PS	78,4	-3,6	1,1	iBoxx € Agencies	16,1	0,7	1,8
iBoxx € Germany	-20,35	1,78	7,98	iBoxx Banks NPS	99,5	-1,7	-1,9	iBoxx € Sub-Sov. Germany	22,9	0,9	1,0
iBoxx € EU	38,10	1,17	3,05	iBoxx Banks Subordinated	160,5	-8,7	-2,2	iBoxx € Sub-Sovereign	38,2	0,8	1,0

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

Leisure tip for the weekend: Fürther miniature world(Hesse)



Today the big world gets very small! In the middle of the Odenwald is one of the largest model railway worlds in Germany. 9 kilometres of track, over 400 trains, on an area larger than an ice hockey pitch.

First you enter a small shop and then the door to the model railway world opens. Trains glide over high bridges, disappear into dark tunnels or stop at large stations.

Find out more: **Miniature world**

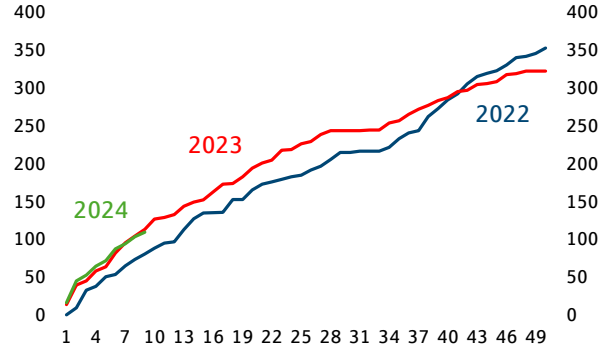
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Sources: www.ffh.de/Freizeit/100-dinge.html/www.fuerther-miniaturwelten.de

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

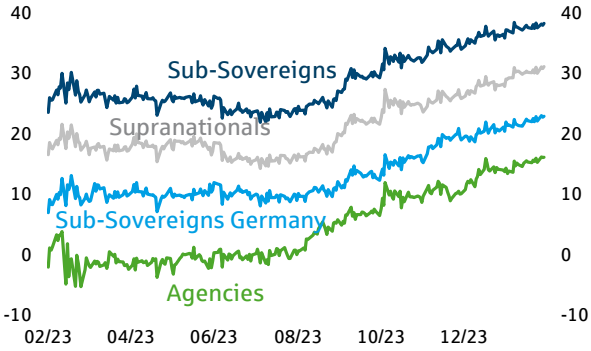
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

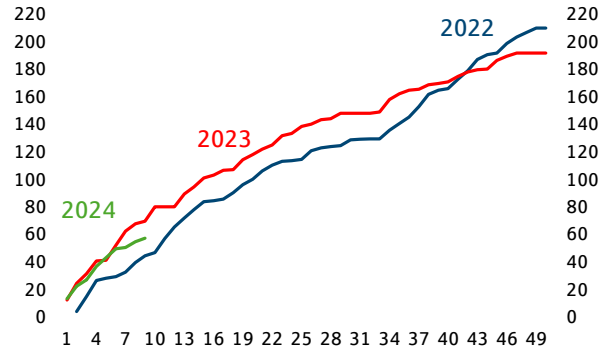
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

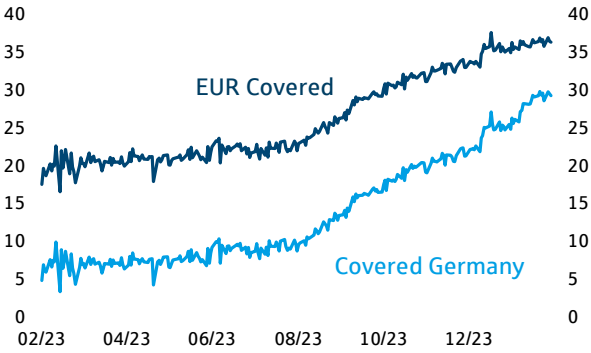
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

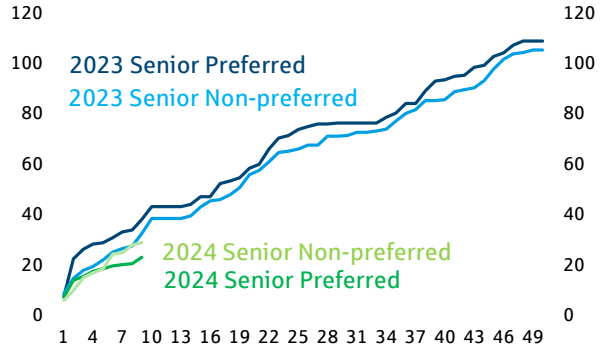
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

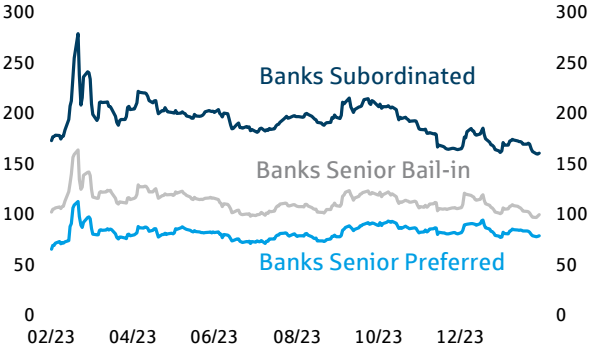
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

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