Helaba

# Focus on: SSAs & Financials

## 28 March 2024

## Weekly Market Update

**Primary market environment:** The DAX continues its record run. Equity volatility remains very low. According to the Fed's Waller, key rates may have to remain stable for longer than expected and there is no rush to cut rates. Primary market activity is very low due to the Easter holidays.

### Primary market barometer

#### SSAs



Only 2 issuers took advantage of the quiet but still constructive environment this week. KfW and BNG Bank issues were several times oversubscribed. April is likely to see a return to significantly more projects.

#### Covered Bonds



There were no new issues this week. The Easter holidays, the end of the quarter and the absence of many market participants due to holidays may have contributed to this. We expect a similar picture next week, with a small chance of a little more activity.

#### Senior Unsecured



The Easter break has resulted in low activity this week. Since Monday there have only been two senior transactions for a total of EUR 1.3 billion. However, both deals were heavily oversubscribed, once again demonstrating the very constructive state of the market environment.

### Risk trend indicator (heat map): Is the upturn in sentiment over?

Relative* ASW spread change

| IBOXX EURO | 1 day | 1 week | 4 week | 13 weeks | 52 weeks | 104 weeks |
|---|---|---|---|---|---|---|
| Germany | -0,02 | -0,11 | 0,24 | 1,04 | 2,41 | 3,36 |
| European Union | 0,03 | 0,05 | 0,10 | 0,40 | 1,06 | 2,74 |
| Germany Covered | -0,01 | -0,04 | -0,10 | 0,68 | 2,32 | 2,97 |
| EU Covered | -0,02 | -0,07 | -0,15 | 0,13 | 1,44 | 2,81 |
| Banks senior preferred | 0,00 | 0,01 | -0,24 | -0,58 | -0,96 | 1,21 |
| Banks senior bail-in (SNP) | 0,00 | 0,00 | -0,21 | -0,74 | -1,53 | 0,78 |
| Banks subordinated | 0,00 | 0,02 | -0,17 | -0,44 | -1,90 | 0,57 |
| Supranational | 0,03 | 0,05 | 0,13 | 0,46 | 1,18 | 2,87 |
| Agencies | 0,04 | 0,11 | 0,18 | 0,65 | 2,10 | 3,17 |
| Sub-Sovereigns Germany | 0,02 | 0,04 | 0,11 | 0,32 | 0,93 | 0,81 |
| Sub-Sovereigns | 0,04 | 0,08 | 0,21 | 0,43 | 1,16 | 2,10 |

strong middle weak unchanged weak middle strong

spread widening* spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

In our heat map, which was dominated by the colour green last week, the colour scheme is turning negative. It remains to be seen if this is a temporary phenomenon.



## SSAs

The pattern of a lack of primary market activity at the start of the week continues, as it did on Monday. On Tuesday, KfW successfully issued a EUR 5bn 5-year benchmark bond. The issue was 3.8x oversubscribed and the final spread tightened by 2bp to MS+ 3bp. On Wednesday, the Dutch BNG Bank completed this week's expected low supply with a EUR 1.75bn 5-year social bond. The issue crossed the finish line easily with an order book of EUR 2.9bn. The final spread of MS +13 was 2 bps tighter than at the time of marketing. In addition, as expected, the upcoming Easter holidays significantly decimated primary market business.

**Outlook**: The upcoming Easter holidays and the end of the quarter will significantly dampen primary market activity. We can see a slight revival next week and the pipeline is starting to build for April.

**€ SSAs issues week of 25 March 2024**

| Coupon | Issuer | Rating (M/S&P/F) | Volume € | Tap | Maturity | Launch-Spread vs. Mid-Swaps | ESG | Launch | Orderbook | 1st Spread-Indication |
|---|---|---|---|---|---|---|---|---|---|---|
| 2,625% | KFW | Aaa /AAA/AAA | 5,000bn | | 26.04.2029 | ms +3 bps | | 26.03.2024 | 18,900bn | ms +5 area |
| 2,750% | BNG | Aaa /AAA/AAA | 1,750bn | | 05.04.2029 | ms +13 bps | ✓ | 27.03.2024 | 2,500bn | ms +15 bp area |

Sources: Bloomberg, Helaba DCM



## Covered Bonds

With no issuance this week, let's take a look at how the covered bond market has performed since the beginning of the year.

This was not what many market participants were expecting. The flurry of new issuance has been well received by market participants, with the majority of bonds achieving double-digit spread performance. Another theme was the increased attractiveness to buyers of bonds outside the core eurozone. There seems to be growing confidence and hope that the eurozone will be able to respond as a united front to the challenges of global conflicts, not least on its own doorstep. The **clinical thermometer of this development** is undoubtedly the evolution of the BTP/Bund spread, which is approaching levels last seen before the Lehman crisis, especially in the short maturity range. Covered bonds outside the super-core are also benefiting from this development. Broadening the geographical horizon, this also applies to the strong regions outside the eurozone (Scandinavia, Canada), i.e. the alliance of the "West" plus the associated Asia-Pacific regions.

Technically speaking, the **group of global asset managers** has perfectly filled the demand gap that has emerged since the end of quantitative easing (QE). There is constant discussion in the industry that in addition to regulatory buyers and fast money, they are now also willing to pay for new issues through the respective secondary curves. From our trading perspective, this is a consequence of the post-QE regime. We must always bear in mind that the **central bank has literally dried up the market over the years**; the static holdings of other buyer groups from that period are still not available as free float today. This is particularly evident in the large number of EUR 500m 'no-growth' bonds, which have rarely been reopened. Although these securities are therefore visible on the screens, the veracity of the levels often has more of a "placeholder" function. **The days of real relative value trading are long gone**. Overall, the market is more focused on the current price points of the primary trades. One could also speak of a certain bifurcation of the market: going forward, it is likely that the **secondary market will increasingly build up tradable volumes** in order to generate more allocation transactions, all the more so as significant volumes will soon be in the hands of investors who are not as static as the central banks of the Western hemisphere used to be.

Helaba would like to draw your attention to the upcoming pan-European Non Deal Related Roadshow (NDR) of Maybank Singapore Limited, for which Helaba has been mandated as Arranger.
From 15 to 19 April, Helaba will accompany the issuer on its roadshow and present the new Covered Bond Programme.

**Outlook:** The primary market came to a standstill around the Easter holidays. This is unlikely to change significantly next week.

**€ Covered Bond issues week of 25 March 2024**

| 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 Unsecured

The **Easter break** was clearly felt in the primary market for senior unsecured bank bonds. There were only two senior transactions this week, totalling EUR 1.3bn. Both deals were heavily oversubscribed, demonstrating once again the very constructive state of the market environment.

**Nova Kreditna Banka Maribor** of Slovenia issued a EUR 300m sub-benchmark bond on Monday. The 4-year preferred issue was more than 7 times oversubscribed, the spread tightened significantly during the bookbuilding and also performed well in the secondary market. On Tuesday, **Deutsche Bank** was able to issue EUR 1bn of 6NC5 Senior Non-Preferred without a new issue premium. The spread in the secondary market for this bond also narrowed further.

> „ The record-breaking run in equity markets continues and the credit markets are treading water. Central bank meetings, including the possibility of the first rate cuts in June, continue to keep markets euphoric, even if the economic data does not fully support this. Interest rate volatility is still significantly higher, while credit spreads have recently been unable to continue their wave of tightening and have lost some of their strength. The new iTraxx 41 series is also trading quietly and without much volatility. In general, the Easter week will be rather quiet, despite the end of the quarter."
>
> *Comment from the Helaba trading floor*

**Outlook:** The market environment remains very constructive, but the Easter break will also ensure low activity next week. Thereafter, the primary market should pick up again this year given the high volume of maturities.

**€ Senior Preferred issues week of 25 March 2024**

| Coupon | Issuer | Rating (M/S&P/F) | Volume € | Tap | Maturity | Launch-Spread vs. Mid-Swaps | ESG | Launch | Orderbook | 1st Spread-Indication |
|---|---|---|---|---|---|---|---|---|---|---|
| 4,750% | Nova Kreditna Banka Maribor d.d. | Baa2 /-/- | 0,300bn | | 03.04.2028 | ms +190 bps | | 25.03.2024 | 2,250bn | ms +235 area |

Sources: Bloomberg, Helaba DCM

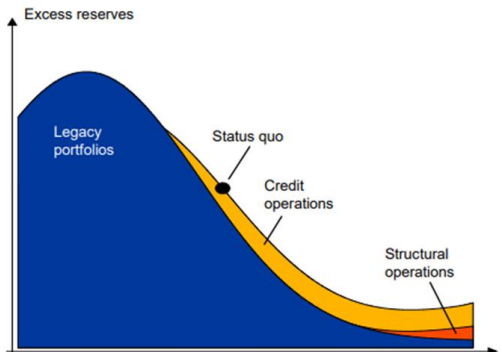
**€ Senior Non-preferred issues week of 25 March 2024**

| Coupon | Issuer | Rating (M/S&P/F) | Volume € | Tap | Maturity | Launch-Spread vs. Mid-Swaps | ESG | Launch | Orderbook | 1st Spread-Indication |
|---|---|---|---|---|---|---|---|---|---|---|
| 4,125% | Deutsche Bank | Baa1 /BBB/A- | 1,000bn | | 04.04.2030 | ms +150 bps | | 26.03.2024 | 3,800bn | ms +185 area |

Sources: Bloomberg, Helaba DCM

## Chart of the Week

**ECB plans "structural portfolio of securities"**
Stylised breakdown of reserve supply over time




Sources: ECB, Helaba Research & Advisory

The ECB on 13 March, shortly after its recent monetary policy decisions on 7 March, presented planned **changes to the operational framework for implementing monetary policy** that are relevant to banks' liquidity management. The review of the current operational framework had been announced in December 2022 to ensure that it remains appropriate even as the Eurosystem's balance sheet normalises. According to the latest announcement, the Eurosystem will continue to provide liquidity through a broad mix of instruments. The purchase of a **structural portfolio of securities as a key component** is to be introduced at a later stage. In this way, the ECB aims to make a substantial contribution to meeting the structural liquidity needs of the banking sector. In line with its monetary policy decisions, the Governing Council expects that the portfolios acquired under the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP) will continue to be reduced.

In our view, **the ample liquidity provision, introduced by the ECB in the aftermath of the Global Financial Crisis (GFC) will thus be maintained**. Key components are the full allotment procedure (as opposed to the pre GFC auction-based system with a fixed level of liquidity) and a minimum reserve of 1 % (2 % before 2012, 0 % remuneration from September 2023). As the bond portfolio acquired during the period of quantitative easing is reduced, the aforementioned structural portfolio will be introduced. Last but not least, the rate on the main refinancing operations (MROs) will be adjusted so that the spread between the MRO rate and the deposit facility rate (DFR) will be reduced to 15 Bp. from the current spread of 50 Bp., which will reduce the incentive for banks to tap the interbank market for short-term funding. In our opinion, the measures should reduce financing costs overall. The parameters will be reviewed in 2 years.

## Short news

**3/26 ESMA consults on draft technical standards under the EU Green Bond Regulation:** In this consultation paper, ESMA presents draft technical standards relating to the registration and supervision of entities interested in acting as external auditors for EU green bonds.. The EU Green Bond Regulation establishes uniform requirements for bond issuers wishing to use the designation "European Green Bond" or "EuGB" for their environmentally sustainable bonds. The Regulation introduces a registration system and a supervisory framework for external auditors of European Green Bonds. The consultation paper is the first of two consultations planned by ESMA, with the second scheduled for the first quarter of 2025.

**3/25 ECBC welcomes new member:** The European Covered Bond Council (ECBC) is pleased to announce the addition of law firm Mayer Brown as its latest member. Mayer Brown is a global law firm, advising the world's financial services industry on complex finance, capital markets, regulatory and litigation matters.

**4/22 S&P confirms Germany's top rating:** Following Fitch, S&P has also confirmed Germany's AAA rating with a stable outlook. This means that Germany can continue to borrow on preferential terms. Fitch had recently left its rating for Germany unchanged at AAA with a stable outlook.

**4/22 ECB blog: Who buys bonds now?:** The Eurosystem is shrinking its balance sheet, which makes more government bonds available for purchase. The **European Central Bank Blog** looks at how markets are adjusting to this new situation with regard to bond price volatility, liquidity and the impact on repo markets.

**4/22 BdB states that capital markets union should be a priority in the next EU legislature:** "It is a success that the European heads of state and government have approved the Eurogroup's proposal to finally move forward with the Capital Markets Union. The issue must be a priority for the next EU Commission and must be pursued with determination." says Heiner Herkenhoff, **German Bankers Association** (BdB) Managing Director.

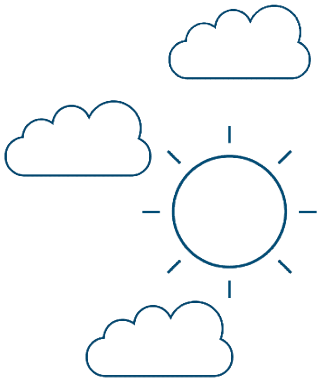
**4/18 Commission to delay review of GAR for banks:** The European Commission is to postpone a review of the much-maligned Green Asset Ratio (GAR) reporting indicator for banks. According to Andrei Gurin, team leader of the European Commission's Sustainable Finance Unit, responsible for EU taxonomy and reporting, speaking on a webinar hosted by the European Banking Federation (EBF). "We should look at something like 2025 for a proper review" he said. (**Environmental Finance**)

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

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| E-STOXX 600 Banks | 189 | 2,11% | 8,14% | iBoxx € Cov. Germany | 28,8 | 0,1 | -0,4 | iTraxx Senior Financial | 64,1 | -0,7 | -0,8 |
| 10Yr-Yield | 2,29 | -0,14 | -0,17 | iBoxx € Cov. Bonds | 35,2 | -0,3 | -1,1 | iBoxx € Supranational | 33,4 | 1,6 | 2,3 |
| Swap 10J | 2,58 | -0,13 | -0,20 | iBoxx € Banks PS | 72,1 | 0,4 | -6,3 | iBoxx € Agencies | 18,4 | 2,1 | 2,3 |
| iBoxx € Germany | -16,65 | -0,91 | 3,70 | iBoxx Banks NPS | 92,4 | 0,0 | -7,1 | iBoxx € Sub-Sov. Germany | 25,2 | 1,4 | 2,3 |
| iBoxx € EU | 40,41 | 1,98 | 2,31 | iBoxx Banks Subordinated | 152,7 | 0,1 | -7,8 | iBoxx € Sub-Sovereign | 41,5 | 2,1 | 3,2 |

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

**Leisure tip for the weekend: Pop-up hike in Breuna (Hesse)**



What has the rabbit got to do with Easter? These and many other questions about Easter can be answered at the Pop-up Easter Trail in Breuna. Pop-up trails are theme trails that are set up for a few weeks at a time.
The new Easter trail explains our customs and describes how nature changes in spring. There are also short stories and riddles on boards along the way. The trail is about three kilometres long and is suitable for families, even with prams.
Find out more: **Pop-up hike**

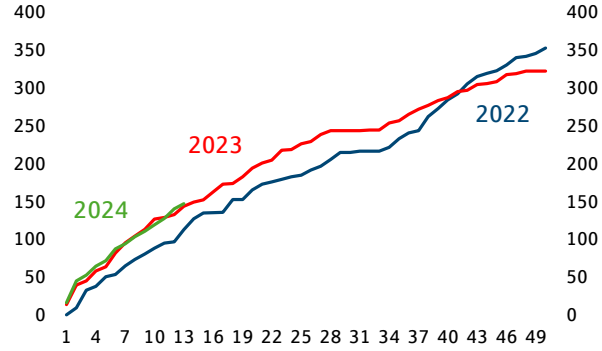
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.hr-inforadio.de/prgramm/themen

# Chartbook SSAs, Covered Bonds, Senior Unsecured

## SSAs: Primary volumes

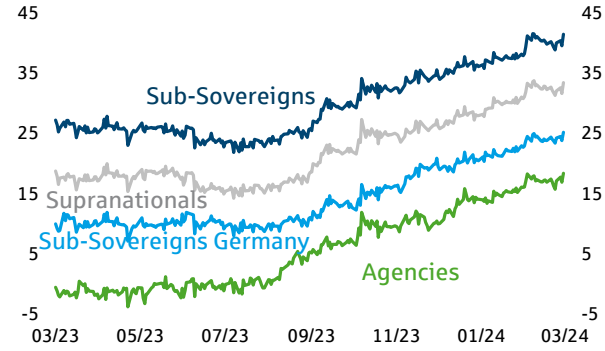
EUR benchmark issue volume cumulative by weeks, bn EUR




Sources: Bloomberg, Helaba Research & Advisory

## SSAs: Spread development

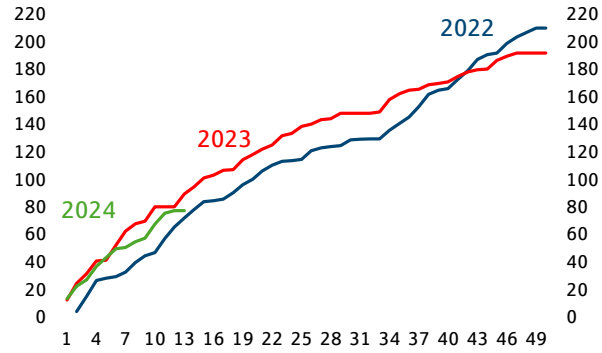
ASW spread, bp




Sources: LSEG, Helaba Research & Advisory

## Covered Bonds: Primary volumes

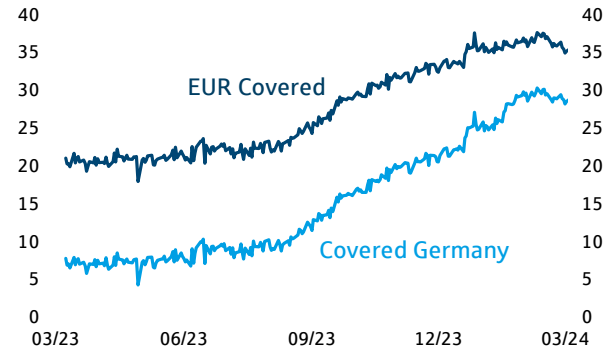
EUR benchmark issue volume cumulative by weeks, bn EUR




Sources: Bloomberg, Helaba Research & Advisory

## Covered Bonds: Spread development

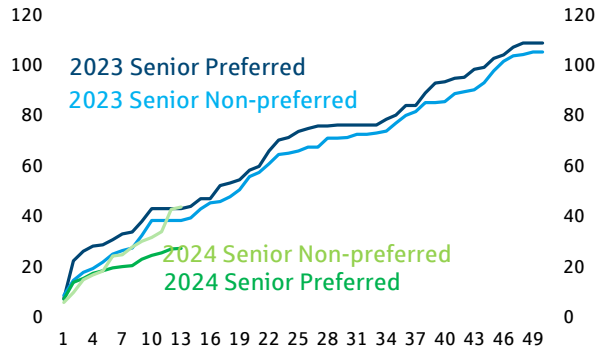
ASW spread, bp




Sources: LSEG, Helaba Research & Advisory

## Senior Unsecured: Primary volumes

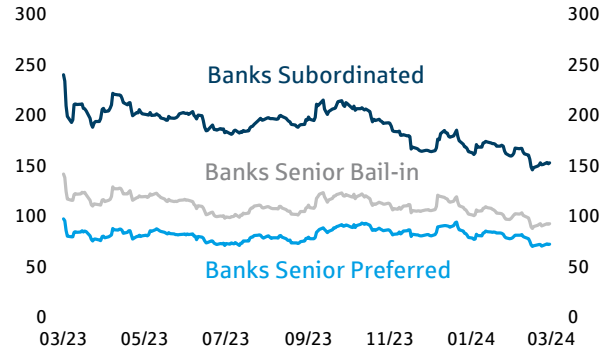
EUR benchmark issue volume cumulative by weeks, bn EUR




Sources: Bloomberg, Helaba Research & Advisory

## Senior Unsecured: Spread development

ASW spread, bp




Sources: LSEG, Helaba Research & Advisory

## News from Research & Advisory

- → Focus on Covered Bonds: APAC Covered Bonds: "Popular securities, limited supply"
- → Focus on Credit – MayorEuropean Banks: Heading into 2024 with strong credit risk buffers
- → Focus on: Credit - Primary market update bank bonds
- → Focus on: Credit – Primary market update corporate bonds
- → Focus on: Credit – Primary market update Schuldschein
- → Focus on: Credit – European banks: The sharpening contours of ESG disclosure
- → Markets & Trends 2024 – Global economy in a transition game

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