Helaba

Focus on: SSAs & Financials

16 May 2024

Weekly Market Update

Primary market environment: Interest rate cuts remain the dominant driver in the markets. Yesterday's US inflation figures came in slightly below market expectations, supporting hopes for rate cuts in the near future. The environment for primary market transactions remains supportive.

Primary market barometer

SSAs



Total issuance in the SSA segment increased significantly this week to EUR 12.5bn. Particular attention was paid to the new 30-year EU benchmark, which alone accounted for EUR 6bn and was placed very successfully. We expect activity in this segment to remain buoyant.

Covered Bonds



The covered bond segment has also picked up significantly. The market environment has been characterised by narrowing spreads for several weeks. Investors were able to choose from a wide range of new issues. Here, too, we expect the primary market to remain buoyant.

Senior Unsecured



The picture was similar in senior unsecured. In total, more than EUR 6bn of benchmark securities were issued in 10 transactions, with the volume of preferred bonds increasing significantly after the subdued activity of previous weeks. Things could remain lively ahead of the next central bank meetings.

Risk trend indicator (heat map): Senior unsecured bonds increasingly expensive

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	-0.05	0.06	0.31	0.47	2.41	3.66
European Union	0.04	0.02	0.00	-0.03	0.85	2.80
Germany Covered	-0.05	-0.03	-0.08	-0.33	1.93	2.76
EU Covered	-0.06	-0.06	-0.16	-0.56	1.04	2.67
Banks senior preferred	-0.02	-0.01	-0.15	-0.66	-0.78	-0.19
Banks senior bail-in (SNP)	-0.02	-0.01	-0.25	-0.55	-1.28	-0.75
Banks subordinated	-0.01	-0.03	-0.32	-0.65	-1.60	-0.98
Supranational	0.02	0.00	0.02	0.04	1.03	2.94
Agencies	-0.04	0.03	-0.04	0.06	1.88	3.57
Sub-Sovereigns Germany	-0.01	-0.03	0.01	0.09	0.86	1.26
Sub-Sovereigns	0.00	-0.03	-0.02	0.07	1.05	2.13

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

spread widening* | spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

While senior unsecured bonds continue to perform relatively well over the longer term, covered bonds and the SSA segment are also looking increasingly optimistic.



SSAs

There has been a lot of activity in the SSA segment this week. In total there have been eight transactions so far with a volume of EUR 12.5bn. Particular attention was paid to the **new EU 30-year benchmark issue** on Tuesday, which alone accounted for EUR 6bn. Marketing started at MS +91bp. This spread was apparently so attractive to investors that the order book eventually grew to a very impressive EUR 86bn and the issue was placed at MS +88 bp. However, the volatility of the EU curve did not diminish. In addition to the June auction, the next important date for the EU is the issuance plan for H2 2024, which is due to be published at the end of June.

Another topic this week was the **inclusion of the EU in various credit indices**. MSCI is now the second index provider to consider inclusion in September, October or November, and thus in several steps. Inclusion in an index should have a long-term positive impact on demand for EU bonds. However, major index providers such as Bloomberg, FTSE or S&P Markit are still missing.

German states and development banks (Brandenburg, IFBH) remain active in 10-year bonds. After very strong supply in this maturity in recent weeks, demand appears to be easing somewhat. Today, Thursday, the State of Hesse successfully placed a 'short' 5-year bond at MS+6bp with an order book of over EUR 3.3bn.

Outlook: The market environment for SSA issuance remains positive. We expect active activity at least until the summer break. A new EFSF benchmark is in the pipeline.

€ SSAs issues week of 13 May 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3.375%	EU	Aaa /AA+/AAA	6.000bn		05.10.2054	ms +88 bps		14.05.2024	86.000bn	ms + 91 area
3.296%	Galicia	Baa1 /A/-	0.500bn		30.04.2031	ms +22 bps		14.05.2024	1.500bn	SPGB + 27 area
3.400%	British Columbia	Aaa /AA/AA+	1.500bn		24.05.2039	ms +60 bps		14.05.2024	4.000bn	ms + 62 area
2.875%	African Development Bank	Aaa /AAA/AAA	0.500bn		23.05.2028	ms +2 bps		15.05.2024	3.200bn	ms + 5 area
2.875%	Brandenburg	Aaa /-/-	0.500bn		23.05.2034	ms +16 bps		15.05.2024	0.475bn	ms + 16 area
2.875%	amburgische Investitions- und Förderbar	- /-/AAA	0.250bn		24.05.2034	ms +23 bps		16.05.2024	0.320bn	ms + 23 area
2.875%	Asian Infrastructure Investment Bank	Aaa /AAA/AAA	1.000bn		23.05.2031	ms +17 bps		16.05.2024	5.600bn	ms + 21 area
2.875%	Hessen	- /AA+/-	2.250bn		12.03.2029	ms +6 bps		16.05.2024	3.400bn	ms + 6 area

Sources: Bloomberg, Helaba DCM

> *„Asset managers, the most important driver of spread tightening for the time being, are slowing down their secondary buying. This should not be a cause for concern or fuel fears of repricing. Absolute valuations are certainly not overly expensive in a historical context, even after the distance already covered this year. Although the gap with other asset classes is narrowing, there is no sign of outright overheating (yet). However, it is clear that the continued high number of primary market transactions is currently more than satisfying players' appetite for investment, resulting in fewer follow-on purchases than in Q1. On the positive side, almost no new bond is trading wider than at re-offer, but some bonds are struggling to trade tighter from the original level. On the supply side, it may help that the market is about to enter the seasonal summer lull, which will also balance out the supply side."*
>
> *Comment from Helaba's trading floor*

Covered Bonds

With a total issue volume of EUR 7 billion, the covered bond segment experienced a **significant revival**. The range of securities on offer was remarkable. From short floaters (**UBS Switzerland, Santander UK**) to 10-year bonds (**BPCE SFH, ING Bank N.V.**), there was something for every investor this week. There was also a wide spread in terms of jurisdictions. The aforementioned names were joined by Nordic issuers (**Sparebanken Vest Boligkreditt, Aktia Bank**). The good subscription rates and low to slightly negative new issue premiums are striking. Spreads, which were initially very attractive, narrowed by up to 8 bp during the marketing phase (Sparebanken Vest & Aktia Bank).

Outlook: The 'newcomer' to the covered bond market, **Standard Chartered Bank (Singapore)**, already has a 3-5 year EUR benchmark in the pipeline. The **Bank of Queensland** is also planning a transaction. The environment remains constructive and further issuance is likely in the pipeline.

€ Covered Bond issues week of 13 May 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3m€ +23 Bp	UBS Switzerland	- /-/AAA	0.750bn		21.04.2027	ms +23 bps		13.05.2024	1.300bn	3m€ + 28 area
3.146%	UBS Switzerland	- /-/AAA	1.000bn		21.06.2031	ms +36 bps		13.05.2024	1.900bn	ms + 43 area
3m€ +18 Bp	Santander UK plc	Aaa /AAA/AAA	0.500bn		12.05.2027	ms +18 bps		13.05.2024	1.000bn	3m€ + 25 area
3.125%	Santander UK plc	Aaa /AAA/AAA	1.000bn		12.05.2031	ms +35 bps		13.05.2024	1.500bn	ms + 40 area
3.125%	BPCE SFH	Aaa /AAA/-	1.500bn		22.05.2034	ms +37 bps		13.05.2024	6.000bn	ms + 44 area
3.000%	Sparebanken Vest Boligkreditt	Aaa /-/-	0.500bn		31.07.2029	ms +22 bps		14.05.2024	1.700bn	ms + 30 area
3.000%	ING Bank N.V.	Aaa /AAA/AAA	1.250bn		21.05.2034	ms +32 bps		14.05.2024	1.700bn	ms + 38 area
3.000%	Aktia	Aaa /-/-	0.500bn		22.10.2029	ms +25 bps		15.05.2024	1.900bn	ms + 33 area

Sources: Bloomberg, Helaba DCM

Senior Unsecured

The primary market for senior unsecured bank bonds **also picked up noticeably**. The end of the reporting season and thus the blackout period contributed to this, while the market environment remained encouragingly receptive. A total of 10 transactions were successfully completed for a total volume of EUR 6.2 billion. In terms of preferred issues, it was one of the strongest weeks since the beginning of the year, with a volume of EUR 3.7 billion in 7 transactions.

As with covered bonds, a **wide range of terms** (maturity, coupon) was offered. Oversubscriptions remained solid and spread tightening of more than 20bp during bookbuilding was the rule rather than the exception.

> *„The credit segment is stable, with positive sentiment reflected in the iTraxx indices, which are close to series lows. Cash is tightening by 2-3bps on average. German banks' non-preferred bonds (-6 bp) and peripheral bonds (-5 bp) are outperforming. Investor flows are below average due to the holidays. However, good 2-way flows in size are possible at the short end with real money. Money managers tend to trade the remaining maturities and especially FRNs on the money side as space is created for future new issues. ETF funds and fast money accounts have also been selling recently."*
>
> *Comment from Helaba's trading floor*

Outlook: We expect primary market activity to remain buoyant in this segment next week. On the one hand, the quarterly reporting season is now over and on the other, the market environment remains receptive. Issuers still have refinancing needs in view of this year's high maturities (see our **Primary Market Update EUR Benchmark**

Bank Bonds dated 3 April 2024). The upcoming central bank meetings at the beginning of June could have a dampening effect.

€ Senior Preferred issues week of 13 May 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3m€ +40 Bp	ANZ New Zealand (Int'l) Ltd., London Branch	Aa2 /AA-/A+	1.500bn		21.05.2027	ms +40 bps		13.05.2024	1.750bn	3m € +65/70
4.625%	Arion Banki	A3 /-/-	0.300bn		21.11.2028	ms +175 bps		13.05.2024	2.500bn	ms + 220 area
5.150%	Raiffeisen Bank Zrt	Baa3 /-/-	0.300bn		23.05.2030	ms +225 bps		14.05.2024	2.000bn	ms + 275 area
3m€ + 100 Bpp	Banque International Luxembourg	A2 /-/-	0.300bn		24.05.2027	ms +100 bps		15.05.2024	0.325bn	3m € +100 area
4.000%	BPER Banca S.p.A.	- /BBB-/BBB	0.500bn		22.05.2031	ms +125 bps		15.05.2024	2.250bn	ms + 155 area
3.500%	SpareBank 1 SMN	Aa3 /-/-	0.500bn		23.05.2029	ms +72 bps		16.05.2024	0.800bn	ms + 95-100
5.375%	LHV Group	Baa3 /-/-	0.300bn		24.05.2028	ms +240 bps		16.05.2024	1.300bn	ms + 300 area

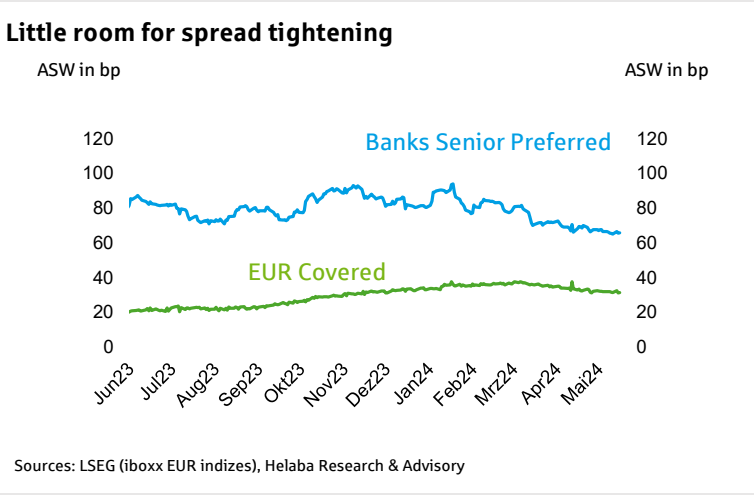
Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 13 May 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3.755%	HSBC Holdings PLC	A3 /A-/A+	1.250bn		20.05.2029	ms +80 bps		13.05.2024	2.200bn	ms + 115 area
3m€ + 80 Bp	U.S. Bancorp	A3 /A/A	0.500bn		21.05.2028	ms +90 bps		14.05.2024	0.500bn	3m € +90 area
4.009%	U.S. Bancorp	A3 /A/A	0.750bn		21.05.2032	ms +120 bps		14.05.2024	0.750bn	ms + 135 area

Sources: Bloomberg, Helaba DCM

Chart of the Week



Since mid-January the spreads between covered bonds and senior preferred bonds have converged significantly. While the difference was still around 53bp on 18 January, it was around 34bp on 15 May. In our view, this development is not only spread supportive for covered bonds in general, but has also led to increased underlying demand for covered bonds from asset managers in the first few months of the year.

In our view, this is a very significant development, as this group of investors has been instrumental in filling the demand gap following the end of central bank purchases. Although banks, as regulatory buyers, continued to use the primary market extensively, the high supply in the first few months would probably not have been absorbed without asset managers. As a result, covered bond spreads have remained "stable", i.e. unstable to a limited extent. At present, the continued high level of supply in the primary market, coupled with declining demand from asset managers, leaves little appetite for follow-up purchases.

As a result, the potential for further tightening in the future is likely to be limited. For investors, a differentiated view of the cover pool and the issuer (credit buyer) is once again clearly in the foreground. In relative terms, covered bonds may still appear attractive to some investors. However, it remains to be seen how asset managers will position themselves and when supply will diminish.

Short news

5/16 2024 MREL policy and latest MREL dashboard: Today, the **Single Resolution Board (SRB)** publishes its 2024 minimum requirement for own funds and eligible liabilities (MREL) policy. This new policy takes into account a public consultation held between 14 December 2023 and 13 February 2024.

5/15 Consumer credit: who's applying for loans now?: Despite rising interest rates, more consumers are applying for loans. This demand comes mainly from households with lower income. The **ECB Blog** takes a closer look into credit applications and how they affect banks' credit standards and credit issuance to households.

5/15 BNP Paribas CEO dampens hopes for EU bank M&A revival: The boss of the euro zone's most valuable lender BNP Paribas played down expectations for a revival of M&A activity in European banking, saying the economics of cross-border and even some domestic deals rarely made sense. According to Reuters, Eurozone regulators have long wanted more consolidation to boost financial stability and lenders, many of which have smaller market values than they did during the global financial crisis and even some domestic deals rarely made sense. **(Reuters)**

5/15 Danish Banks are financing climate-friendly activities: **Finans Danmark** is taking stock of the financial sector's contribution to supporting the sustainable transition of society. The results show that the financial sector has already met its own expectations for financing climate-friendly activities by 2030 and set greenhouse gas reduction targets for large parts of its investments and lending.

5/14 BdB: Simplify financial market regulation at last: "Mark Branson's call to simplify financial market regulation and remove overlaps is an important and correct impulse,' says Heiner Herkenhoff, Managing Director of the **Association of German Banks** (BdB). 'To ensure that Germany and Europe remain competitive in the future, it is high time for efficient, smart regulation. Existing contradictions must be resolved and the entire framework must become more consistent. This must be one of the key tasks not only for the German government, but above all for the next EU Commission".

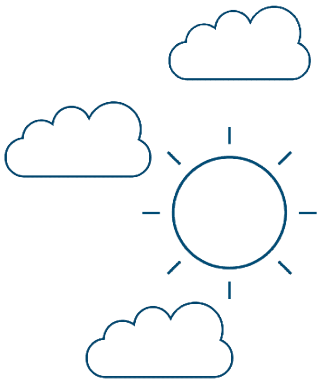
5/13 The ECB's pressure on banks to take account of climate risks is clearly having an effect: last year, 55% of banks took account of climate risks in their loan loss provisions, compared with 16% in the previous year, according to a presentation. The number of European banks taking environmental risks into account in their loan loss provisions has more than tripled in one year. This is an early success for regulators in their efforts to prepare for climate change. **(Bloomberg)**

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

E-STOXX 600 Banks	204	1.32%	8.53%	iBoxx €Cov. Germany	26.3	-0.3	-0.4	iTraxx Senior Financial	57.9	-1.6	-12.0
10Yr-Yield	2.42	-0.04	-0.05	iBoxx €Cov. Bonds	31.3	-0.5	-1.1	iBoxx €Supranational	31.3	0.9	1.1
Swap 10J	2.70	-0.04	-0.07	iBoxx €Banks PS	65.8	0.2	-3.5	iBoxx €Agencies	16.2	0.6	0.1
iBoxx €Germany	-16.08	-0.01	3.50	iBoxx Banks NPS	84.9	0.1	-7.5	iBoxx €Sub-Sov. Germany	24.1	0.0	0.8
iBoxx €EU	37.26	1.70	1.19	iBoxx Banks Subordinated	140.8	-0.8	-12.4	iBoxx €Sub-Sovereign	38.9	0.5	0.5

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

Leisure tip for the weekend: Glieniker Bridge (Brandenburg)



The Glienicke Bridge was built in 1907 to link Berlin and Potsdam. Together with the surrounding palaces and parks, it has been a UNESCO World Heritage Site since 1990. Glienicke Bridge formed the border between East and West Berlin from 1945, and was closed to allied troops from 1953.

The bridge and gardens of Glienicke Palace are open to the public.
Find out more: **Glieniker Bridge**

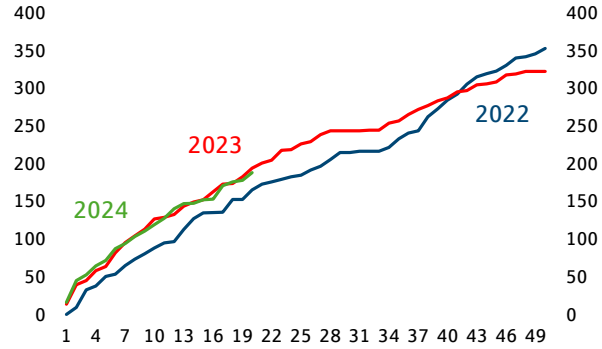
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.komoot.com/de-de/guide/209995/ausflugsziele-in-brandenburg

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

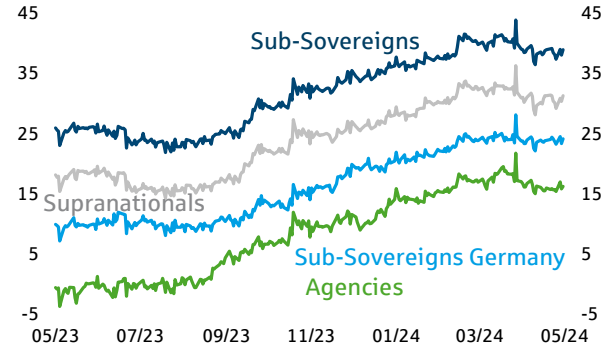
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

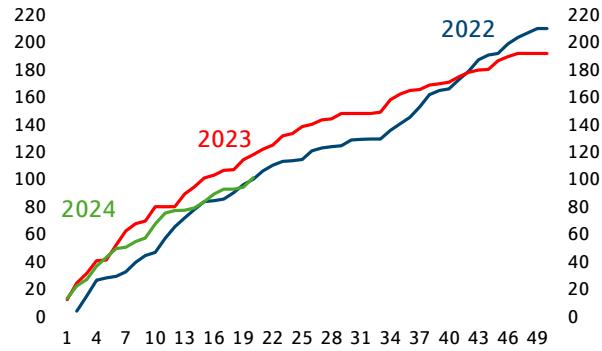
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

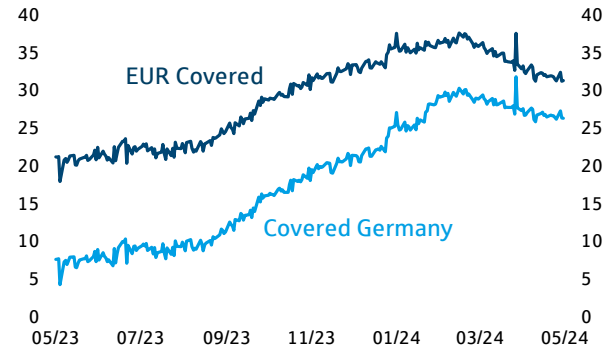
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

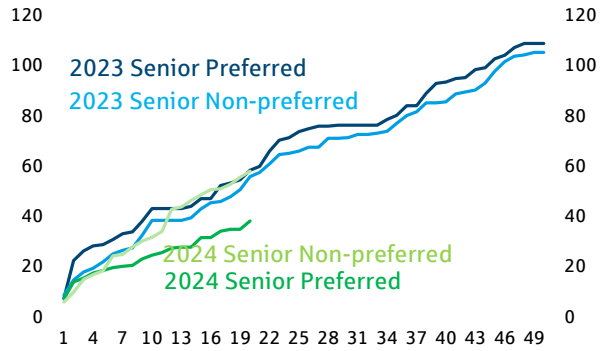
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

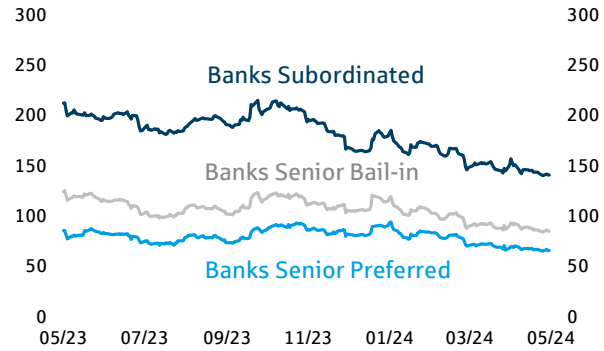
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

News from Research & Advisory

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