Helaba

# Focus on: SSAs & Financials

## 23 May 2024

## Weekly Market Update

**Primary market environment:** According to the FOMC minutes, a 2% inflation target in the US is achievable over the medium term, even if disinflation is likely to last longer than expected. Several Fed members have signalled a willingness to raise interest rates if inflation risks increase. Mr Schnabel, a member of the ECB's executive board, believes that a rate cut in June is likely.

### Primary market barometer

#### SSAs



The SSA segment was characterised by very brisk issuing activity this week. The high oversubscription rates in some cases and the virtual absence of new issue premiums emphasise the continued good market environment.

#### Covered Bonds



This week's issuance was lower than last week's, but this does not alter the positive sentiment. The range of maturities on offer has narrowed to 3-7 years. The primary and secondary markets are starting to develop their own momentum.

#### Senior Unsecured



Owing to the public holidays, the primary market only picked up momentum in the middle of the week, with less frequently acitve issuers coming to market with lower volumes. Spreads tightened nicely on strong initial indications and order books were well filled. The market environment remains constructive.

### Risk trend indicator (heat map): Slight rise in risk aversion

Relative* ASW spread change

| IBOXX EURO | 1 day | 1 week | 4 week | 13 weeks | 52 weeks | 104 weeks |
|---|---|---|---|---|---|---|
| Germany | 0,04 | 0,09 | 0,29 | 0,43 | 2,46 | 3,80 |
| European Union | 0,02 | -0,03 | 0,02 | -0,11 | 0,83 | 2,63 |
| Germany Covered | 0,01 | -0,01 | -0,05 | -0,31 | 1,95 | 2,79 |
| EU Covered | 0,01 | -0,01 | -0,12 | -0,54 | 1,08 | 2,71 |
| Banks senior preferred | 0,00 | -0,04 | -0,09 | -0,53 | -0,62 | -0,25 |
| Banks senior bail-in (SNP) | -0,01 | -0,05 | -0,14 | -0,50 | -1,17 | -0,84 |
| Banks subordinated | -0,03 | -0,12 | -0,16 | -0,55 | -1,54 | -1,18 |
| Supranational | 0,02 | -0,01 | 0,05 | -0,02 | 1,03 | 2,85 |
| Agencies | 0,05 | 0,02 | 0,03 | 0,02 | 1,94 | 3,54 |
| Sub-Sovereigns Germany | 0,02 | 0,02 | 0,05 | 0,08 | 0,89 | 1,43 |
| Sub-Sovereigns | 0,03 | -0,02 | 0,02 | 0,01 | 1,06 | 2,17 |

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

spread widening* | spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

The colours on our heat map have recently shifted back towards red. Nevertheless, conditions on the primary market are still good.

## SSAs

The SSA primary market had a relatively dynamic start to the shortened week after Whitsun. Medium-term maturities were the main focus of supply. The **EFSF** kicked off with a EUR 4bn issuance spread over 2 transactions - EUR 1.5bn for the tap of the November 2028 bond and a new issue of a 7-year bond (EUR 2.5bn). The tap was 7x oversubscribed and the new issue 8.5x oversubscribed, although both barely moved after pricing.

**Madrid** (EUR 500m, 5 years, green), **Kommuninvest** (EUR 1bn, 3 years, WNG), **Bpifrance** (EUR 750m, 2028 tap, green, WNG), the **Land of Rhineland-Palatinate** (EUR 750m, 2 years), **British Columbia** (EUR 1.5bn, 15 years**), IB Berlin** (EUR 500m, WNG) and the Finnish state financing company - **Finnvera** (EUR 1bn, 5 years, WNG) were seven issuers competing in the primary market on Wednesday. Most of the funding targets were easily met. Bpifrance stood out with an order book of EUR 8 bn. Priced at MS - 6bp, the Rhineland-Palatinate bond was apparently not the first choice of investors. In the end, however, the order book was almost covered. The **State of Schleswig-Holstein** successfully tested the 10-year maturity range today with a EUR 600m issue.

**Outlook:** Secondary turnover remains low as most of the fresh money continues to flow into the primary markets. We expect SSAs to continue to move sideways compared to swaps given their recent performance.

**€ SSAs issues week of 20 May 2024**

| Coupon | Issuer | Rating (M/F) | Volume € | Tap | Maturity | Launch-Spread vs. Mid-Swaps | ESG | Launch | Orderbook | 1st Spread-Indication |
|---|---|---|---|---|---|---|---|---|---|---|
| 2,375% | EFSF | AAA/AA- | 1,500bn | ✓ | 11.04.2028 | ms +0 bps | | 21.05.2024 | 10,500bn | ms + 2 area |
| 2,875% | EFSF | AAA/AA- | 2,500bn | | 28.05.2031 | ms +12 bps | | 21.05.2024 | 21,400bn | ms + 14 area |
| 2,625% | Investitionsbank Berlin | -/AAA | 0,500bn | ✓ | 05.08.2029 | ms +11 bps | | 22.05.2024 | 0,680bn | ms + 11 area |
| 3,250% | Rheinland-Pfalz | -/AAA | 0,750bn | | 29.05.2026 | ms -6 bps | | 22.05.2024 | 0,614bn | ms - 6 area |
| 3,000% | Kommuninvest I Sverige AB | Aaa/- | 1,000bn | | 15.09.2027 | ms +0 bps | | 22.05.2024 | 2,600bn | ms + 3 area |
| 3,173% | Madrid | Baa1/A- | 0,600bn | | 30.07.2029 | SPGB +14 Bp | | 22.05.2024 | 3,000bn | SPGB + 20 area |
| 0,000% | Bpifrance Financement | Aa2/AA- | 0,750bn | ✓ | 25.05.2028 | FRTR +19 Bp | ✓ | 22.05.2024 | 7,700bn | FRTR +24 area |
| 2,875% | Finnvera Plc | Aa1/AA+ | 1,000bn | | 30.08.2029 | ms +8 bps | | 22.05.2024 | 2,500bn | ms + 11 area |
| 2,875% | Schleswig-Holstein | -/AAA | 0,600bn | | 30.05.2034 | ms +17 bps | | 23.05.2024 | 0,680bn | ms + 17 area |

Sources: Bloomberg, Helaba DCM

## Covered Bonds

After EUR 7bn of issuance in the previous week, activity in the primary covered bond market has been lower since Tuesday, totalling EUR 4.4bn. However, this does not alter the fact that sentiment remains positive. The range of maturities on offer has narrowed to between 3 and 7 years, while supply remains very heterogeneous in terms of jurisdictions: Australia, Singapore, Italy, Spain, Austria and Canada were all represented.

> *"The two market segments, primary and secondary, are beginning to diverge in terms of momentum. In contrast to Q1, when primary transactions were fuelled by high absolute swap levels and decent new issue premiums, the current environment in the secondary market is rather sluggish. It seems that the "over hunger" for liquidity has been satisfied for the time being".*
>
> *Comment from Helaba's trading floor*

Another new issuer was **Standard Chartered** (Singapore) (EUR 500m, 3 years). With a book of EUR 1.45bn and a spread of MS +22bp, 6bp tighter than target, the debut was successful. Demand for the **Bank of Queensland**'s EUR 600m 5-year covered bond was also strong, with a book of EUR 2.75bn. Italy's **Banco BPM** issued a EUR 500 million covered bond. The bond has a maturity of seven years and is part of a EUR 10 billion Obbligazioni Bancarie Garantite programme and was the second issue this year. **Banco Santander** achieved the highest bid/cover ratio in the sector at 7.4 for a five-year covered bond. The issues by the Austrian **Hypo Vorarlberg** (EUR 500 million, 6

years) and the Canadian **Federation des Caisses Desjardins du Québec** (CCDJ) (EUR 1 billion, 5 years) were also well received by investors, with oversubscriptions of 3.4 and 2.8 times respectively.

In the **secondary market**, the asset manager client group appears to have filled most of the post-QE demand gap, but currently appears to be much less active in the market in terms of follow-up purchases.
As this driver loses momentum, market participants' books will increasingly fill up and a certain supply overhang will emerge. This, in turn, leads to slight underbidding tendencies in the demand business compared to the official umbrella prices, and therefore spreads move little overall. Overall, spreads are still relatively high by historical standards and therefore attractive. However, the path to significantly lower levels appears to be rocky at present.

It is also clear that the phenomena described do not apply across the board to every covered bond in the universe; special factors such as a specific label (ESG) or a rare market presence (bonds from Spain/Portugal tend to be underrepresented at the moment) lead secondarily to stronger trading performance. In addition, vintage bonds are far less affected by current market sentiment due to their static ownership structure and "QE branding" than the growing number of bonds with a more natural free float. Overall, our traders expect the market environment to move sideways. It is to be hoped that this will not lead to feedback effects in the primary markets and that the current high demand for orders will cool down.

**Outlook:** The environment remains constructive and issuance should continue.

**€ Covered Bond issues week of 20 May 2024**

| Coupon | Issuer | Rating (M/F) | Volume € | Tap | Maturity | Launch-Spread vs. Mid-Swaps | ESG | Launch | Orderbook | 1st Spread-Indication |
|---|---|---|---|---|---|---|---|---|---|---|
| 3,125% | Banco Santander | Aaa/AA | 0,500bn | | 28.05.2029 | ms +35 bps | | 21.05.2024 | 3,700bn | ms + 45 area |
| 3,300% | Bank of Queensland | Aaa /AAA | 0,600bn | | 30.05.2029 | ms +42 bps | | 21.05.2024 | 2,750bn | m + 50 area |
| 3,250% | Banco BPM S.p.A. | Aa3 /- | 0,500bn | | 28.05.2031 | ms +58 bps | | 21.05.2024 | 1,600bn | ms + 68 area |
| 3,324% | Standard Chartered SG LT | Aaa /- | 0,500bn | | 28.05.2027 | ms +22 bps | | 21.05.2024 | 1,450bn | ms + 28 area |
| 3,125% | Fédération des Caisses Desjardins | Aaa /AAA | 1,000bn | | 30.05.2029 | ms +32 bps | | 22.05.2024 | 2,800bn | ms + 40 area |
| 3,125% | Hypo Vorarlberg Bank AG | Aaa /- | 0,500bn | | 29.05.2030 | ms +40 bps | | 22.05.2024 | 1,700bn | ms + 48 area |
| 3,125% | CRH | Aaa /AAA | 0,750bn | | 03.06.2036 | ms +38 bps | | 23.05.2024 | 1,400bn | ms + 45 area |

Sources: Bloomberg, Helaba DCM



## Senior Unsecured

Due to the public holiday on Monday, the primary market for senior unsecured bank bonds did not pick up until the middle of the week. With 7 transactions and a total volume of EUR 3.25bn in the EUR benchmark format, it was a solid week. The end of the reporting season blackout period provided a boost. With around EUR 100bn of issuance since the beginning of the year, institutions have already made good progress with their issuance: Although the record volume of last year was missed by around 15%, the two previous years were exceeded by 11% and 20% respectively.

The current week is characterised by less frequently acitve issuers and comparatively small transaction sizes. A total of five of the new bonds are in the preferred segment. Following the disproportionate tightening of spreads in the shorter maturities since the beginning of the year, transactions in the 4-6 year maturity range were realised. Overall, the transactions were well oversubscribed, and spreads narrowed favourably compared to initial indications, which in some cases resulted in limited potential for subsequent secondary trading. Aareal came to market today with a two-year non-preferred bond.

> *„Investor flows remain below average during the holiday season. The picture is similar to last week. Size requests are coming exclusively from the short end and more from the cash side as asset managers want to be prepared for future new issues. ETF funds were granularly active on both sides."*
>
> *Comment from Helaba's trading floor*

**Outlook:** The primary market environment remains constructive and despite the substantial issuance already achieved, funding needs remain high due to the large number of maturities (see our **Primary Market Update EUR Benchmark Bank Bonds** dated 3 April 2024). However, there is another public holiday next week and central bank meetings in early June could dampen activity again.

**€ Senior Preferred issues week of 20 May 2024**

| Coupon | Issuer | Rating (M/F) | Volume € | Tap | Maturity | Launch-Spread vs. Mid-Swaps | ESG | Launch | Orderbook | 1st Spread-Indication |
|---|---|---|---|---|---|---|---|---|---|---|
| 3,375% | Swedbank AB | Aa3/AA- | 0,500bn | | 29.05.2030 | ms +65 bps | ✓ | 22.05.2024 | 1,750bn | ms + 90 / 95 |
| t.b.d | Caixa Económica Montepio Geral S.A. | Aa3/AA- | 0,250bn | | 29.05.2028 | ms +260 bps | | 22.05.2024 | 1,200bn | ms + 300 area |
| t.b.d | Nova Ljubljanska banka d.d. | Aa3/AA- | 0,500bn | | 29.05.2030 | ms +165 bps | | 22.05.2024 | 1,500bn | ms + 195 area |
| 3,625% | Sparebank 1 Oestlandet | Aa3/AA- | 0,500bn | | 30.05.2029 | ms +75 bps | | 23.05.2024 | 0,850bn | ms + 95/100 |
| 5,750% | illimity Bank | Aa3/AA- | 0,300bn | | 31.05.2027 | ms +265 bps | | 23.05.2024 | 0,400bn | ms + 275 area |
| 4,500% | Raiffeisen Bank International AG | Aa3/AA- | 0,500bn | | 31.05.2030 | ms +155 bps | | 23.05.2024 | 2,500bn | ms + 190 area |

Sources: Bloomberg, Helaba DCM

**€ Senior Non-preferred issues week of 20 May 2024**

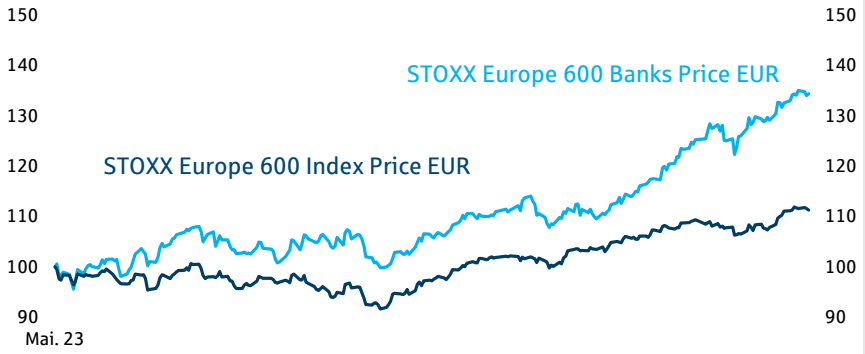
| Coupon | Issuer | Rating (M/F) | Volume € | Tap | Maturity | Launch-Spread vs. Mid-Swaps | ESG | Launch | Orderbook | 1st Spread-Indication |
|---|---|---|---|---|---|---|---|---|---|---|
| 4,125% | Sydbank A/S | A3/- | 0,500bn | | 30.09.2027 | ms +85 bps | | 23.05.2024 | 1,100bn | ms + 115 area |
| 5,875% | Aareal Bank AG | Baa3/BBB | 0,500bn | | 29.05.2026 | ms +255 bps | | 23.05.2024 | 1,700bn | ms + 280 area |

Sources: Bloomberg, Helaba DCM

## Chart of the Week

**Strong profits are reflected in the prices of European bank shares**

European Bank Share Prices vs. Stoxx 600




Sources: Bloomberg Intelligence, Helaba Research & Advisory

The market value of the European banking sector has risen by 34% to a new high within 12 months, with two thirds of the increase occurring in the last three months alone. The earnings risks from upcoming interest rate cuts have been increasingly ignored. The lower interest rate cuts now priced in by the market and rising shareholder dividend expectations for the sector have fuelled the rally, but there is a risk of disappointment if profits do not meet the high expectations in the coming quarters.

## Short news

**5/23 New Covered Bond Label Member:** The Covered Bond Label Foundation **(CBLF)** is pleased to announce the further expansion of its presence in the Asia-Pacific Region with the adhesion of **Maybank Singapore Limited**. The Covered Bond Label now covers a total of 143 issuers and 179 cover pools in 25 jurisdictions. Maybank's membership reinforces the global outreach of the Label, more specifically in the Asia-Pacific area, representing the fourth Covered Bond Label issuer from the Singaporean market.

**5/22 ESMA recommendations for more effective capital markets in the EU:** The European Securities and Markets Authority (ESMA) has published its **Position Paper** on "Building more effective and attractive capital markets in the EU", which includes recommendations to strengthen EU capital markets and address the needs of European citizens and businesses. The Paper includes 20 recommendations to strengthen EU capital markets and address the needs of European citizens and businesses.

**5/22 Banking association demands more Europe, less bureaucracy:** The challenges of the digital and green transformation are enormous. For this reason, an economically strong, strategically independent Europe needs efficient banks and capital markets. "Europe is more important than ever. An open and democratic Europe is essential for our cohesion and our competitiveness in the world," says Heiner Herkenhoff, Managing Director of the **Association of German Banks** (BdB).

**5/21 Europe sets benchmark for the world with landmark AI laws:** Europe's landmark rules on artificial intelligence will enter into force next month after EU countries endorsed on Tuesday a political deal reached in December, setting a potential global benchmark for a technology used in business and everyday life, **Reuters** reports. The EU's AI Act is more comprehensive than the US' light-touch voluntary compliance approach while China's approach aims to maintain social stability and state control.

**5/20 Basel Committee publishes report on the digitalisation of finance:** The Basel Committee on Banking Supervision of the Bank for International Settlements (BIS) published a **report** that considers the implications of the ongoing digitalisation of finance on banks and supervision. The report builds on the "Sound Practices: implications of fintech developments for banks and bank supervisors" published in 2018, and takes stock of recent developments in the digitalisation of finance.

**5/16 Financial stability vulnerabilities have eased but the outlook remains fragile:** The **European Central Bank's (ECB) Financial Stability Review** for May 2024 shows that Eurozone's financial stability benefited from an improving economic outlook, with inflation declining and investor confidence recovering. Yet, the outlook remains fragile.

**5/16 Digitalisation of banking creates new risks:** As the Basel Committee of banking regulators says in a new report, the digitalisation and entry of Big Tech into finance create new vulnerabilities and amplify existing risks in the banking system that may need new rules to mitigate, **Reuters** reports.

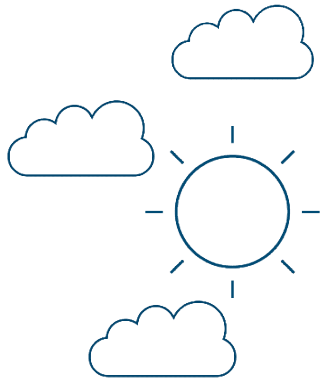
**5/16 High debt levels put Europe at risk of 'adverse shocks':** The European Central Bank (ECB) has warned that European countries are "vulnerable to adverse shocks" from geopolitical tensions and persistently high interest rates because of their failure to keep reducing their public debt. As reported by the **Financial Times (FT)**, the ECB said that many European governments had not fully reversed the support measures introduced to shield from the impact of Covid-19 and the war in Ukraine.

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

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| E-STOXX 600 Banks | 202 | -0,78% | 3,95% | iBoxx € Cov. Germany | 26,5 | 0,2 | 0,4 | iTraxx Senior Financial | 58,3 | 0,4 | -6,6 |
| 10Yr-Yield | 2,53 | 0,11 | -0,05 | iBoxx € Cov. Bonds | 31,4 | 0,0 | -0,2 | iBoxx € Supranational | 31,0 | -0,4 | 2,0 |
| Swap 10J | 2,80 | 0,09 | -0,10 | iBoxx € Banks PS | 64,8 | -0,9 | -1,5 | iBoxx € Agencies | 16,5 | 0,3 | 1,2 |
| iBoxx € Germany | -13,52 | 2,56 | 5,32 | iBoxx Banks NPS | 83,2 | -1,7 | -3,6 | iBoxx € Sub-Sov. Germany | 24,2 | 0,1 | 1,7 |
| iBoxx € EU | 36,57 | -0,69 | 2,04 | iBoxx Banks Subordinated | 134,8 | -6,0 | -7,1 | iBoxx € Sub-Sovereign | 38,5 | -0,4 | 1,5 |

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

**Leisure tip for the weekend: Barbecue on the river, Limburg (Hesse)**



Anyone can sit on the bank - we barbecue on the water! On the Lahn in Limburg you can hire barbecue boats. These are round plastic boats, called 'donuts', with an electric motor - you can sit with up to eight friends in a group, with the barbecue in the middle, and eat and drink on the water. When you cast off, the barbecue is already on, plates, cups and cutlery are included, you buy drinks on the shore beforehand, just bring something to grill, maybe some music - this is great fun in the summer with friends!

Find out more: **Barbecue boats**

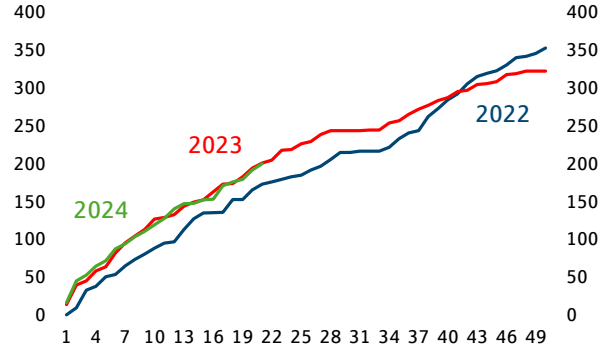
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.ffh.de/freizeit/100-dinge.html

# Chartbook SSAs, Covered Bonds, Senior Unsecured

## SSAs: Primary volumes

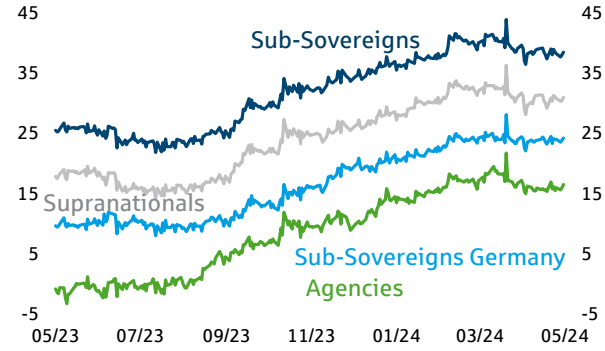
EUR benchmark issue volume cumulative by weeks, bn EUR




Sources: Bloomberg, Helaba Research & Advisory

## SSAs: Spread development

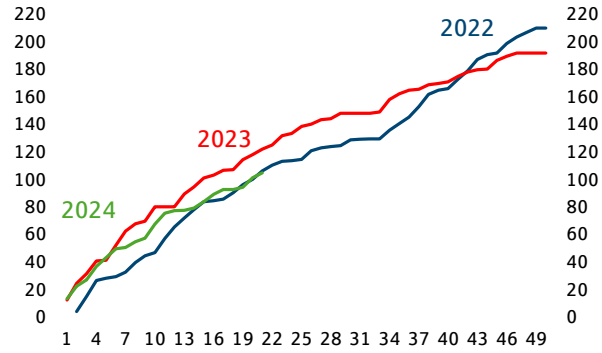
ASW spread, bp




Sources: LSEG, Helaba Research & Advisory

## Covered Bonds: Primary volumes

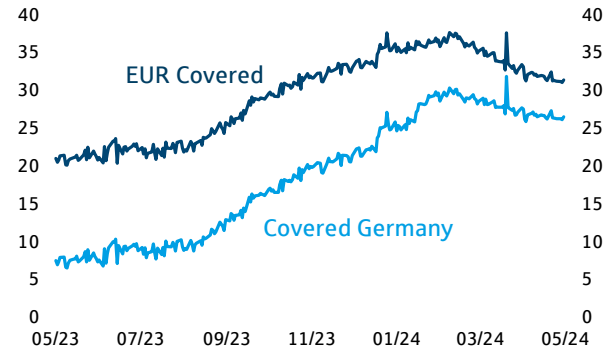
EUR benchmark issue volume cumulative by weeks, bn EUR




Sources: Bloomberg, Helaba Research & Advisory

## Covered Bonds: Spread development

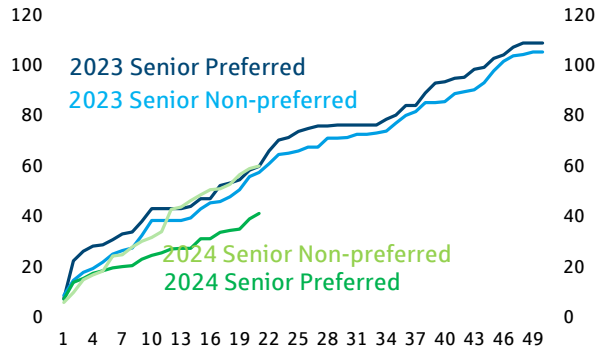
ASW spread, bp




Sources: LSEG, Helaba Research & Advisory

## Senior Unsecured: Primary volumes

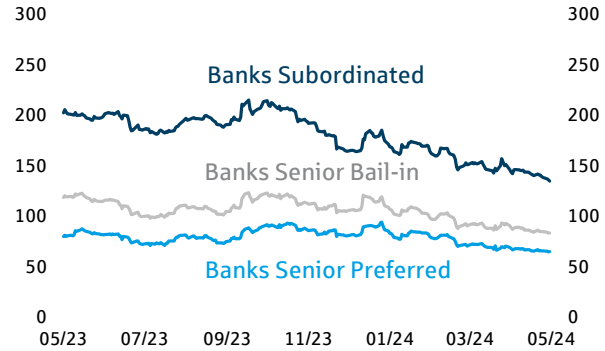
EUR benchmark issue volume cumulative by weeks, bn EUR




Sources: Bloomberg, Helaba Research & Advisory

## Senior Unsecured: Spread development

ASW spread, bp




Sources: LSEG, Helaba Research & Advisory

## News from Research & Advisory

- → Focus on Credit: Primary market update EUR benchmark bank bonds Q1 2024
- → Focus on Credit: Corporate Schuldschein - Primary market Q1 2024
- → Focus on Credit: EUR Corporate bonds – Primary market Q1 2024
- → Focus on Covered Bonds: APAC Covered Bonds - Popular instruments with limited supply
- → Focus on Credit – Major European Banks:- Heading into 2024 with strong credit risk buffers
- → Focus on: Credit – European banks: The sharpening contours of ESG disclosure
- → Markets & Trends 2024 – Global economy in a transition game

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