Helaba

Focus on: SSAs & Financials
31 May 2024

Weekly Market Update

Primary market environment: The European Central Bank has held out the prospect of a rate cut next Thursday. What happens next remains to be seen. The key factor for monetary authorities is the development of inflation. According to Mr Williams of the Fed, inflation in the US is still too high. The positive sentiment in the primary markets remains unchanged.

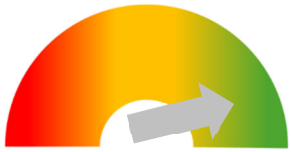
Primary market barometer

SSAs



The primary market in the SSA segment continues to run smoothly. In the holiday-shortened week, 7 transactions were completed with a volume of EUR 8.64 billion. With the exception of the issue by the State of Mecklenburg-Western Pomerania, all issues reached their target volume without any problems.

Covered Bonds



Despite the shortened week, the issuance volume of EUR 6.25 bn was almost EUR 2 bn higher than the previous week. Of note was the first benchmark issue from Sparkasse Hannover, and Maybank (Singapore) was a completely new player in the market.

Senior Unsecured



Due to the public holiday on Thursday and the end of the month on Friday, Wednesday was a particularly active day in the primary market for senior unsecured bank bonds this week. The market environment continues to be very constructive and all transactions have been very successful. We expect this to continue into next week.

Risk trend indicator (heat map): Constructive market environment

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0.08	0.10	0.29	0.41	2.78	3.54
European Union	0.01	0.03	-0.01	-0.25	0.82	2.43
Germany Covered	-0.02	-0.02	-0.12	-0.42	1.90	2.54
EU Covered	-0.02	-0.03	-0.18	-0.71	1.03	2.44
Banks senior preferred	0.03	-0.04	-0.16	-0.67	-0.78	0.00
Banks senior bail-in (SNP)	0.02	-0.03	-0.19	-0.64	-1.25	-0.51
Banks subordinated	0.01	-0.05	-0.31	-0.76	-1.57	-1.03
Supranational	0.02	0.00	-0.03	-0.21	0.99	2.66
Agencies	0.08	0.01	0.07	-0.16	2.07	3.29
Sub-Sovereigns Germany	0.00	-0.04	-0.03	-0.09	0.82	1.40
Sub-Sovereigns	0.02	-0.01	-0.05	-0.27	1.00	2.13

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

spread widening* | spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

The market environment remains constructive, although the last two days have been more subdued due to the public holiday and the end of the month.



SSAs

Issuance activity increased sharply in May, particularly in the SSA segment. However, the strong supply led to a slight decline in oversubscription rates, which remain at a very comfortable and high level. New issue premiums, as calculated by us, have tended to narrow and are now only one basis point on average.

The SSA primary market did not start until Tuesday this week due to the public holidays in the UK and US on Monday. The **Asian Development Bank** (ADB) (EUR 500m, 5 years, green, WNG) and the **State of Mecklenburg-Western Pomerania** (EUR 500m, 10 years) led the way. While the ADB easily met its funding target with an order book of more than EUR 2 billion, the state of Mecklenburg-Vorpommern was only partially successful. In the end, demand was around EUR 415m and the spread remained unchanged at MS +17bp. This was followed in the middle of the week by the **Land of North Rhine-Westphalia** (EUR 1.5bn, 5 years), the **Walloon Region** with a 30-year social benchmark (EUR 750m) and **NWB BANK** (Nederlandse Waterschapsbank NV) with a water bond (EUR 1bn, 7 years). All reached their target without any problems.

Outlook: Conditions remain good, so we expect issuance to continue over the next four weeks before the summer holidays, which are starting in some countries, are likely to slow activity.

€ SSAs issues week of 27 May 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,875%	EU	Aaa /AAA	2,362bn	✓	06.12.2027	Auction		27.05.2024	4,500bn	Auction
1,250%	EU	Aaa /AAA	1,000bn	✓	04.02.2043	Auction	✓	28.11.2022	1,930bn	Auction
2,950%	Asian Development Bank	Aaa /AAA	0,500bn		05.06.2029	ms +3 bps		28.05.2024	2,300bn	ms + 4 area
2,950%	Mecklenburg-Vorpommern	- /AAA	0,500bn		05.06.2034	ms +17 bps		28.05.2024	0,415bn	ms + 17 area
3,000%	Nederlandse Watershapsbank	Aaa /-	1,000bn		05.05.2031	ms +18 bps	✓	29.05.2024	4,000bn	ms + 22 area
3,900%	Région Wallonne	A3 /-	0,750bn		22.06.2054	OLO +34 Bp		29.05.2024	3,300bn	OLO + 37 area
3,000%	NRW	Aa1 /AAA	1,500bn		06.06.2029	ms +6 bps		29.05.2024	4,300bn	ms + 7 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Sparkasse Hannover entered the primary market this week with its first benchmark issue. The 7-year covered bond was very well received by investors and was 2.5 times oversubscribed. It was priced 7 bps tighter than the marketing at MS + 35 bps. On Tuesday, **Companie de Financement Foncier** (CFF) attracted a strong issue volume of EUR 1.5bn at a price 2 bps above market for its 6-year bond. Bookbuilding closed at EUR 2.3bn. On the same day, **Banco de Sabadell**'s issue (EUR 1bn, 10 years) impressed with a spread tightening of 12bp to MS + 48bp, one of the largest of the year. The issuance round continued on Wednesday with a double tranche (EUR 500m, 3-year FRN, EUR 750m, 7-year fixed) from **Danske Bank**, **DNB Boligkreditt** (EUR 1bn, 7-year), **Iccrea Banca** (EUR 750m, 10-year) and **Maybank Singapore**'s debut issue (EUR 500m, 3-year, WNG). All issues went smoothly.

> *"In the secondary market, as recent commentary has suggested, disillusionment is spreading. Most importantly, the Street's books are pretty full, secondary demand is losing momentum across the board and spread widening is hard to come by. On the demand side, market makers are currently engaged in a 'who can undercut the screen offers the most' challenge. There are small volume bids in the interbank, but these are more of an indicator test; people are sounding out where the real levels are. And they have definitely not got tighter."*
>
> *Comment from Helaba's trading floor*

The **primary market** also contributes to the mixed picture in the **secondary market.** The fact that new issues are being priced at ever greater discounts to the original issue price is not only causing growing resentment among many investors, but is also making market makers, who are supposed to provide liquidity and risk transfer for the

bonds over the life of the issue, nervous. It is therefore not surprising that more and more bonds are being traded slightly above the re-offer level. Provided that the right hedging instrument has been chosen, this is not (yet) economically dramatic, as the Bund/Swap tightening in the macro trend continues. The strongest moves have been in longer-dated bonds, e.g. from the Netherlands or France, followed by some Scandinavian bonds. The picture for peripheral bonds is mixed, with a sideways trend at best. Of course, as has been pointed out here several times, in a market that is not very homogeneous and sometimes has dysfunctional structures, there are always outliers in the other direction. Iberian bonds, for example, have tended to outperform this year. This is because there have been relatively few new issues so far. As for the future of spreads in general, there are many reports/readings out there: During the upcoming summer break, the bid/offer ratio will be calibrated more spread-positive again with a presumed decline in primary projects. However, our traders believe that this alone will not be enough. It will also be essential to offer more new issue premiums in the primary market. Otherwise, the annual performance of covered bonds may have peaked and will at best move sideways for the rest of the year. Gone are the days when "mandate buyers" drove spreads like a herd, and it is important not to alienate the purely economically motivated buyer groups.

Outlook: The environment remains favourable and we expect issuance to continue.

€ Covered Bond issues week of 27 May 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,125%	Sparkasse Hannover	- /AAA	0,500bn		05.06.2031	ms +35 bps		27.05.2024	1,250bn	ms + 42 area
3,125%	CFF	Aaa /-	1,500bn		06.06.2030	ms +30 bps		28.05.2024	2,300bn	ms + 35 area
3,250%	Banco de Sabadell SA	Aa1 /-	1,000bn		05.06.2034	ms +48 bps		28.05.2024	2,000bn	ms + 60 area
3,125%	DNB Boligkreditt AS	Aaa /-	1,000bn		05.06.2031	ms +25 bps		29.05.2024	1,100bn	ms + 31 area
3m€+18 Bp	Danske Bank A/S	- /AAA	0,500bn		04.06.2027	ms +18 bps		29.05.2024	0,950bn	3m€ + 23 area
3,125%	Danske Bank A/S	- /AAA	0,750bn		06.06.2031	ms +27 bps		29.05.2024	1,250bn	ms + 35 area
3,500%	Iccrea Banca S.p.A.	Aa3 /-	0,500bn		05.06.2034	ms +68 bps		29.05.2024	1,450bn	ms + 78 area
3,439%	Maybank Singapore Limited	Aaa /-	0,500bn		07.07.2027	ms +25 bps		29.05.2024	1,370bn	ms + 32 area

Sources: Bloomberg, Helaba DCM



Senior Unsecured

This week's issuance was very successful: 5 EUR benchmark transactions with a total volume of EUR 3.25 billion generated order book demand totalling more than EUR 8 billion. Wednesday was particularly busy due to yesterday's holiday. **BBVA's dual tranche** preferred issuances were outstanding, including EUR 1.0bn with a 3-year tenor and EUR 0.75bn with a 6-year tenor. **Banca Popolare Sondrio** had already selected a 6-year maturity, issuing a EUR 0.5bn preferred bond on Tuesday. In addition, there were 2 non-preferred transactions - from **Jyske Bank** and **Raiffeisenbank AS** - also with 6.3 and 6 year maturities.

> *„Investor flows have been very solid over the past week, despite the holidays. Especially at the short end, real money accounts are active on both sides. In the medium and long maturities, real money is very selective in its buying and continues to be predominantly a seller in the tightening. The ETF funds are sellers across all maturities and jurisdictions, as is Fast Money, in preparation for new issues. Private banking activity is currently at a low level. Landesbanken bonds in particular are trading very actively. The new BayernLB 2/31 non-preferred is actively traded in 2-way with all investor groups. In addition, the prices of the Landesbanken FRNs issued at the beginning of 2024 have returned to the levels of February 2024 (i.e. before concerns about the commercial property market became widespread) and are also being bought by real money in larger volumes.“*
>
> *Comment from Helaba's trading floor*

The trend of relatively high initial spread indications followed by significant spread tightening during bookbuilding continued this week. The pleasingly constructive market environment is also reflected in the good secondary

market performance of the new bonds issued in recent weeks, despite the relatively low new issue premiums. The last two days of the week were more subdued due to the public holiday and the end of the month.

Outlook: Primary markets are likely to remain very active as the summer holiday period begins after the public holidays, with issuers taking advantage of the current good sentiment with tight spread levels and strong investor demand. However, issuance is likely to be concentrated in the first half of the week with the ECB meeting on Thursday.

€ Senior Preferred issues week of 27 May 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4.125%	Banca Popolare di Sondrio SpA	- /BBB-	0.500bn		04.06.2030	ms +130 bps		28.05.2024	1.650bn	ms + 165 area
3m€ +45 Bp	BBVA	A3 /A-	1.000bn		07.06.2027	ms +45 bps		29.05.2024	1.800bn	3m€ +70/75
3.625%	BBVA	A3 /A-	0.750bn		07.06.2030	ms +75 bps		29.05.2024	1.700bn	ms + 100 area

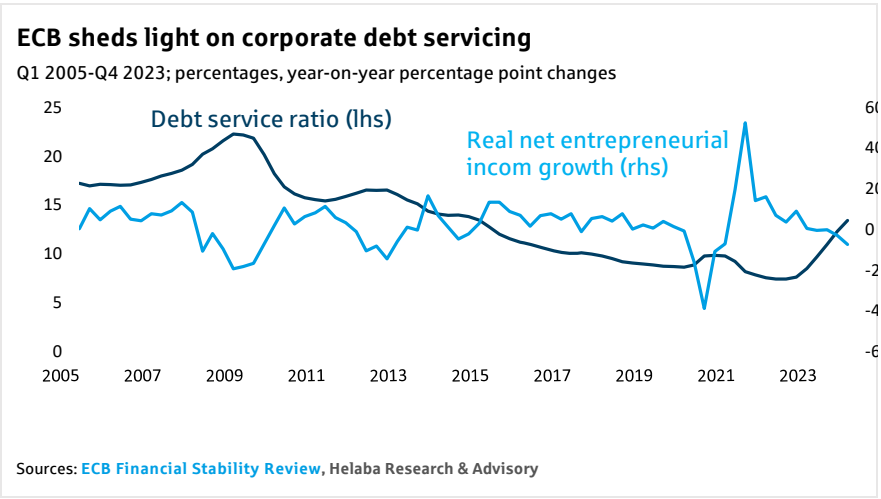
Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 27 May 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4.125%	Jyske Bank A/S	- /-	0.500bn		06.09.2030	ms +120 bps		29.05.2024	1.075bn	ms + 150 area
4.959%	Raiffeisenbank a.s.	Baa2 /-	0.500bn		05.06.2030	ms +195 bps	✓	29.05.2024	1.900bn	ms + 235 area

Sources: Bloomberg, Helaba DCM

Chart of the Week



Resilient post-pandemic profitability has helped firms to service the rising cost of debt, but weak growth and high labour costs are creating challenges, according to the ECB's Financial Stability Review published last week. The interest payments faced by non-financial corporations (NFCs) have risen further in recent quarters and are expected to remain close to their current levels or even increase for some corporates in the near future, even if the cost of new borrowing continues to decline. This is because a large share of firms still need to refinance loans and bonds that were originated at low interest rates, before the recent surge in borrowing costs. Firms' debt repayment capacity has held up relatively well so far, supported by the strong revenue growth seen in recent years. At the same time, however, firms' profitability is weakening and labour costs are still growing strongly. Since access to external funding could remain constrained by tight bank lending standards for a longer period of time, a significant and protracted slowdown in earnings growth would make debt repayments much more difficult to meet, especially for firms that have already drawn on their cash buffers.

Short news

5/30 EU confirms January 2025 start for final Basel rules: The European Union announced on Thursday that it has given final approval to implement the remaining batch of Basel III rules, a set of tougher bank capital rules starting January 2025. These rules build on safeguards introduced after taxpayers had to bail out lenders during the global financial crisis over a decade ago. (**Trade Finance Global**)

5/29 Public banks call for less regulation: On the eve of the European elections, public banks reiterate their call for the implementation of the EU banking package (Basel III) to draw a line under the regulatory treatment of the financial crisis. (**VÖB**)

5**/29 ECB to impose first-ever fines on banks for climate failures:** The European Central Bank (ECB) is set to take the unprecedented step of imposing fines on several lenders for their protracted failure to address the impact of climate change. As many as four lenders face penalties after not meeting deadlines set by the ECB for assessing their exposure to climate risks, sources told **Bloomberg**.

5/28 Reforming the SREP: The **European Central Bank** Supervisory Board has decided to update its annual health check of banks, the Supervisory Review and Evaluation Process (SREP), says Chair Claudia Buch. Triggered by structural shifts, new risks and external shocks, changes aim at making the SREP more efficient and effective.

5/28 Fitch Ratings: Five Australian Banks Covered Bond Buffers improve: The recent upgrade of Australia's five largest banks' Long-Term Issuer Default Ratings (IDRs) has increased buffers for covered bond ratings against IDR downgrades in their Australian covered bond programmes, Fitch Ratings says.Australia and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Limited (NAB) and Westpac Banking Corporation (WBC) now have four-notch buffers for their covered bond ratings against a downgrade of their Long-Term IDRs instead of three notches. The smaller Macquarie Bank Limited (MBL) now has a three-notch buffer for its covered bond ratings against an IDR downgrade instead of two notches.

5/28 The European Performance Buildings Directive (EPBD) formally entered into force: EU member states now have 24 months to transpose the EU Buildings Directive into national law. On minimum energy performance standards for non-residential buildings, the co-legislators agreed that the worst performing buildings must be renovated so that all non-residential buildings are above the 16% worst performers by 2030 and above the 26% by 2033. As regards the renovation target for residential buildings, Member States must ensure that the average energy consumption of the residential building stock is reduced by 16% by 2030 and by 20-22% by 2035. 55% of the energy savings must be achieved by renovating the 43% of buildings with the worst performance. The Directive also requires that aggregated and anonymised data on the building stock, in particular energy performance certificates, be made publicly available, in compliance with EU and national data protection rules. For buildings offered for rent or sale, Member States should ensure that the full energy performance certificate is made available to potential tenants or purchasers authorised by the building owner. The co-legislators also agreed to adopt a delegated act for the European Commission to create a **voluntary framework to support financial institutions in targeting and increasing the volume of loans for energy renovations**: This is to be enacted in the next 12 months.

5/28 Central banks turn to generative AI for enhanced cybersecurity according to BIS: The Bank for International Settlements (BIS) believes in the potential for widespread adoption of generative artificial intelligence (AI), an area in which many central banks have developed a strong interest. As **Cointelegraph** reports, the report found that "Over two-thirds (71%) of respondents are already using gen AI, and 26% have plans to incorporate such tools into their operations within the next one to two years."

5/28 Deposit Guarantee Schemes going up: The European Banking Authority (EBA) today published end-2023 data related to two key concepts and indicators in the Deposit Guarantee Schemes Directive (DGSD), namely available financial means (AFMs) and covered deposits. The EBA publishes these data for the deposit guarantee

scheme (DGS) in each Member State on a yearly basis to enhance the transparency and public accountability of DGSs across the EEA to the benefit of depositors, markets, policymakers, DGSs and Members States.

5/28 ABN Amro Bank announces acquisition of Hauck Aufhäuser Lampe: Dutch lender **ABN Amro Bank NV** agreed to acquire German private bank Hauck Aufhäuser Lampe Privatbank AG (HAL) from Chinese conglomerate Fosun International Ltd. for roughly €672 million at closing. ABN Amro will combine HAL with its Germany-based private banking arm Bethmann Bank AG to create a wealth manager with assets under management of around €70 billion. The transaction is expected to close in the first quarter of 2025.

5/27 The green transition and the role of the ECB: "We are committed to supporting the green transition within our mandate", said Piero Cipollone, **European Central Bank**. Executive Board member. "But we cannot do it alone: stakeholders need to unite their efforts. In turn, we can benefit from them in the pursuit of our objectives", he added.

5/27 Von der Leyen's capital markets plan faces multiple hurdles: Ursula von der Leyen has pledged to build up the EU's financial markets as she campaigns for a second term at the European Commission – but, after a decade of work, there's still little consensus on how to do so. Some argue a stronger capital market is the key to building up Europe's competitiveness and autonomy, helping fund the green transition. **(Euronews)**

5/24 Non-EU banks may opt to produce CSRD reports ahead of deadline: Large banks headquartered outside the EU may opt to bring forward compliance with the bloc's Corporate Sustainability Reporting Directive (CSRD) requirements ahead of the 2029 deadline, with reporting by their European-based peers set to kick off next year. **(the Banker)**

5/23 New Covered Bond Label Member: The Covered Bond Label Foundation **(CBLF)** is pleased to announce that **Skipton Building Society**, the fourth largest building society in the UK, is the latest member to join the Covered Bond Label, which now comprises a total of 144 issuers and 180 cover pools in 25 jurisdictions.

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

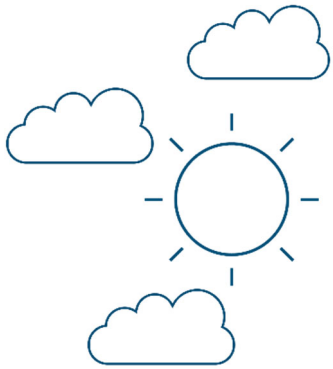
E-STOXX 600 Banks	203	0.21%	3.05%	iBoxx € Cov. Germany	25.3	0.4	-1.5	iTraxx Senior Financial	58.8	0.0	-4.1
10Yr-Yield	2.66	0.05	0.10	iBoxx € Cov. Bonds	30.1	0.3	-2.0	iBoxx € Supranational	31.1	0.7	-0.2
Swap 10J	2.88	0.05	0.06	iBoxx € Banks PS	64.1	-0.3	-3.5	iBoxx € Agencies	16.8	1.3	1.3
iBoxx € Germany	-10.83	0.93	4.68	iBoxx Banks NPS	82.7	-0.1	-5.4	iBoxx € Sub-Sov. Germany	23.4	-0.1	-0.4
iBoxx € EU	37.23	1.00	-0.12	iBoxx Banks Subordinated	131.8	-0.6	-13.7	iBoxx € Sub-Sovereign	38.4	0.7	-0.5

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

Due to the ICMA ***Covered Bond Investor Conference*** on Thursday (6. June 2024)

We will publish our next Weekly on Friday 7 June 2024

Leisure tip for the weekend: Gameshow Event, Düsseldorf, (NRW)



Are you ready for the ultimate competition? Here you are the stars of your own game show! In 2.5 hours you will compete in 8-10 games. Over 100 games in over 700 square metres - from tricky quizzes to tactical skill games and action-packed challenges. There's something for everyone! Compete against your friends or teammates and find out which team has what it takes to win.

Find out more: **Gameshow Event**

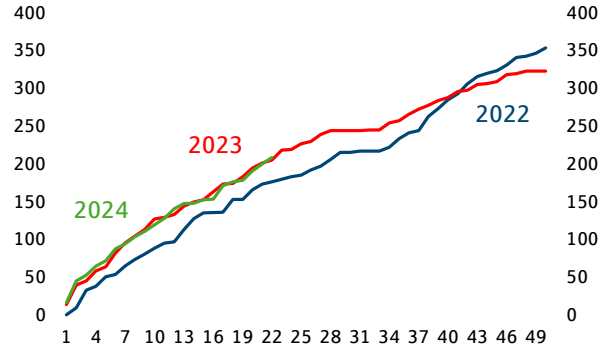
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.familienausflug.info/ausflugsziele

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

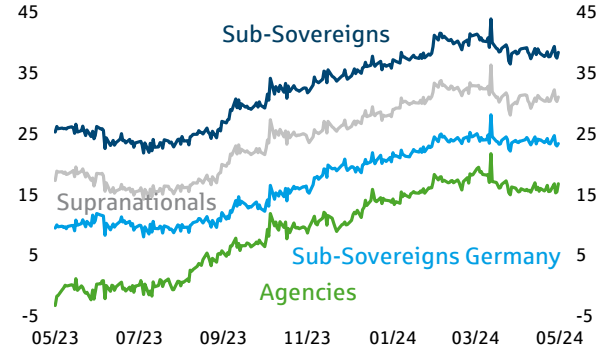
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

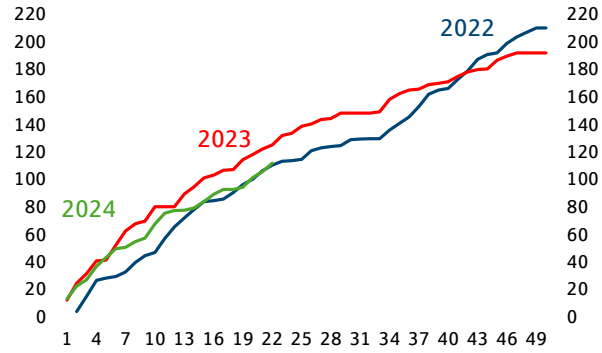
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

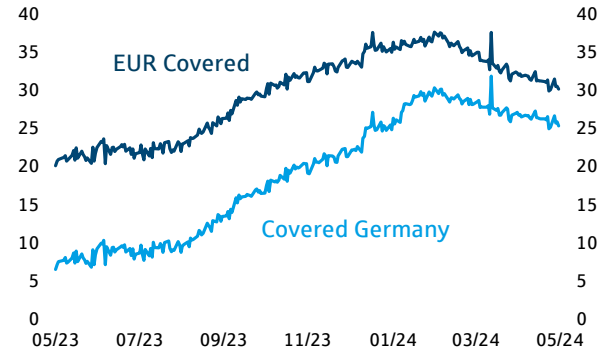
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

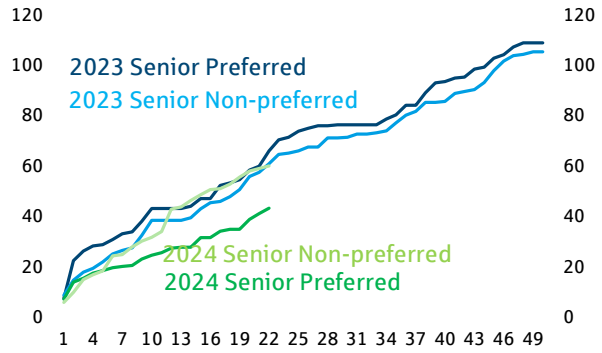
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

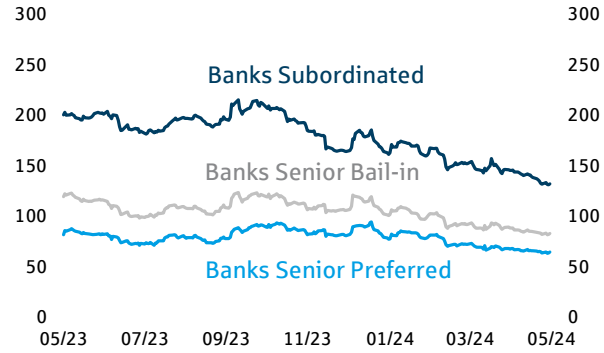
EUR benchmark issue volume cumulative by weeks, bn EUR



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

Please feel free to contact us


Sabrina Miehs, CESGA
Head of FI & SSA Research
Senior Advisor Sustainable Finance
T 069/91 32-48 90


Dr. Susanne Knips
Senior Credit Analyst
T 069/91 32-32 11


Christian Schmidt
Covered Bond & SSA Analyst
T 069/91 32-23 88

Publisher and editorial office

Helaba Research & Advisory

Editor:
Sabrina Miehs
Corporate Research & Advisory

Responsible:
Dr. Gertrud R. Traud
Chefvolkswirtin/
Head of Research & Advisory

Neue Mainzer Str. 52-58
60311 Frankfurt am Main
T +49 69 / 91 32 – 20 24
Internet: www.helaba.com

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