Helaba

Focus on: SSAs & Financials

13 June 2024

Weekly Market Update

Primary market environment: In the US, the Federal Reserve unsurprisingly left its key interest rate range unchanged at 5.00-5.25%. The central bankers had previously called for patience and indicated that they were in no hurry to turn the tide on interest rates, especially as inflation remains high despite a slight decline in May and the labour market is robust.

Primary market barometer

SSAs



Last weekend's European elections left their mark on the SSA segment. French government bonds were particularly affected, with spreads widening significantly in some cases. Primary market sentiment is likely to remain subdued for the time being.

Covered Bonds



Given the political environment, it is not surprising that no EU issuers came to market in covered format this week. Only a rare guest to the primary market - the UK's Skipton Building Society - was active, issuing a EUR 500m benchmark.

Senior Unsecured



The dampening effect that the EU elections have had on the market environment is also clearly evident in this segment. Since the beginning of the week there has only been one non-preferred issue. The fact that issuance has been very active since the beginning of the year is now paying off. Issuers can wait and see for now, with the summer break just around the corner anyway.

Risk trend indicator (heat map): Risk aversion on the rise

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	-0,05	-0,14	0,08	0,07	2,12	3,72
European Union	0,10	0,08	0,20	0,07	0,97	2,38
Germany Covered	0,01	0,00	-0,03	-0,28	1,81	2,63
EU Covered	0,05	0,05	0,03	-0,42	1,06	2,60
Banks senior preferred	0,01	0,10	0,12	-0,12	-0,55	-0,74
Banks senior bail-in (SNP)	0,01	0,13	0,15	-0,09	-0,82	-1,33
Banks subordinated	0,06	0,18	0,05	-0,19	-1,16	-1,75
Supranational	0,10	0,06	0,15	0,07	1,12	2,44
Agencies	0,16	0,32	0,46	0,39	2,27	3,80
Sub-Sovereigns Germany	0,05	-0,02	0,01	0,00	0,88	1,47
Sub-Sovereigns	0,12	0,10	0,21	0,12	1,26	2,21

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 has clouded over in a short space of time. The clear red colouring of our heat map illustrates this. It remains to be seen how long the increased risk aversion will last..



SSAs

After very quiet weeks with manageable volumes, the SSA market was caught off guard by the results of the European elections over the weekend and saw some significant spread widening due to the underperformance of French government bonds. Once again, EU bonds at the longer end were the hardest hit as they are the most liquid and therefore the first to be sold. However, European names were also affected, although the widening was limited. Since Monday, some bonds have traded around 10bp higher than on Friday last week and there is a fear that the high volatility will continue and further underperformance can be expected. Another factor we have seen since Tuesday is that liquidity has dried up and bid/offer spreads have widened massively, exacerbating the moves.

On Monday, the **Province of British Columbia** successfully increased its bond maturing in July 2034 on the primary market by EUR 600 million with an order book of around EUR 1 billion. The spread of MS+ 44 bps remained unchanged compared to the marketing. With a bookbuilding of around EUR 40bn, the EU successfully completed the issue of a EUR 6bn benchmark bond with a term of 15 years on Tuesday. The final spread was set at MS+ 52 basis points, 1 bp tighter than the marketing, but the market had expected a more significant tightening.

The investment bank of the **State of Brandenburg** followed suit on Wednesday. The 8-year bond (EUR 500m, WNG) struggled to meet its funding target. The longer tenor was probably just one of the reasons. The spread remained unchanged from the marketing and was fixed at MS + 19bp. Today, the **State of Hesse** was active with a floater (EUR 500m, 4 years, WNG) and **Ville de Paris** with a **social bond** (EUR 400m, 24 years). The Ville de Paris issue went well, while no order book was announced for Hesse.

Outlook: The issuance environment has clouded over due to the recent high volatility. It is difficult to assess how long this situation will last. However, we expect the states to remain active in the primary market next week.

€ SSAs issues week of 10 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,000%	British Columbia	Aaa /AA+	0,600bn	✓	24.07.2034	ms +44 bps		10.06.2024	1,000bn	ms +44 area
3,375%	European Union	Aaa /-	6,000bn		04.10.2039	ms +52 bps		11.06.2024	37,000bn	ms + 53 area
3,000%	IB Brandenburg	Aaa /-	0,500bn		18.06.2032	ms +19 bps		12.06.2024	0,350bn	ms + 19
6m€ +0 Bp	Hessen	- /-	0,500bn		20.06.2028	ms -1 bps		13.06.2024	not disclosed	6m€-1 area
3,750%	Ville de Paris	Aa2 /-	0,400bn		25.05.2048	FRTR +25 Bp	✓	13.06.2024	0,800bn	FRTR +25 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

It is clear that French covered bonds are particularly exposed at the moment. In terms of maturities, spreads are highest at the long end, as expected. This suggests that a steeper spread structure curve is in order ahead of upcoming new issues and is probably also necessary to encourage buying. The general uncertainty coupled with high event risks (economic, but especially geopolitical) is likely to keep general market volatil-

> *"Starting with developments in France, events have spread to other countries in the semi-core and, in some cases, peripheral universe. Even the secondary covered bond market, which is already slightly affected in terms of spreads, has not remained unaffected. It is important to understand that the "French mix" is not the trigger for the movements in the secondary covered bond market, but "only" another negative factor for valuations versus swaps. Even without the current risk event, the market was at best in a consolidating mood, with spreads widening slightly. In this respect, the French issue came at an absolutely inopportune time and added to the pressure to adjust in the cash register."*
>
> *Comment from Helaba's trading floor*

ity high. The fact that the French elections will take place towards the end of the first half of the year should prevent many players from leaning too far out of the window. And then there is the fateful autumn for the western world with the US elections.

On Tuesday, **Skipton Building Society** issued its first euro-covered bond since 2019 (EUR 500m, 5 years, WNG). However, Skipton's successful issue - the order book totalled EUR 785m - did not match the results of recent UK issues by Santander UK, Nationwide and Yorkshire Building Society, which were on average 3.2 times oversubscribed.

Outlook: Issuance activity is likely to be subdued, at least in the short term, given the increased volatility. However, future projects are in the pipeline. Australia's **Bendigo & Adelaide Bank** (BMK, 5 years) started a roadshow this week (last date in London is 20 June) to gauge market sentiment. The earliest issue date is likely to be 24 June, but depending on investor feedback, the transaction could take place after the summer holidays. **Československá obchodná banka, a.s.** (CSOB), the Slovak financial institution subsidiary of KBC Bank NV, is also on a roadshow for a 5-year covered bond (EUR 500m, WNG). **Banca Dell'Alto Adige** is also in the pipeline with a sub-benchmark and could hit the screens on 17 June.

€ Covered Bond issues week of 10 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,250%	Skipton Building Society	Aaa /-	0,500bn		18.06.2029	ms +38 bps		11.06.2024	0,785bn	ms + 40

Sources: Bloomberg, Helaba DCM



Senior Unsecured

Political uncertainty in France following the EU elections and the war in Ukraine are weighing on the market environment. US interest rate projections are also dampening sentiment. Credit spreads widened significantly compared to the previous week. The movement in French bonds has been particularly strong. In this environment, the primary market for senior unsecured bank bonds cooled off abruptly. Only the Polish "national champion", **PKO Bank Polski**, issued a senior non-preferred benchmark bond. On a transaction size of EUR 500m, the initial spread target was narrowed by 25bp to a final MS+155bp.

> *„The EU elections have dealt a significant blow to markets and the positive sentiment that had prevailed for weeks, and political uncertainty in Europe has increased massively. In particular, the snap elections in France at the end of June are causing strong movements in the rates and credit sectors this week. The iTraxx indices widened after several weeks of tight trading around series lows. The political uncertainty in France and the gradual escalation of the geopolitical situation in Eastern Europe are definitely dampening sentiment."*
>
> *Comment from Helaba's trading floor*

Outlook: The fact that issuance has been very active since the beginning of the year is now paying off. Issuers can wait and see for now, as the summer break is just around the corner anyway. However, given the large number of maturities, there is still a strong need for issuance through to the end of the year, so market windows are likely to remain active.

€ Senior Preferred issues week of 10 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
none										

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 10 June 2024

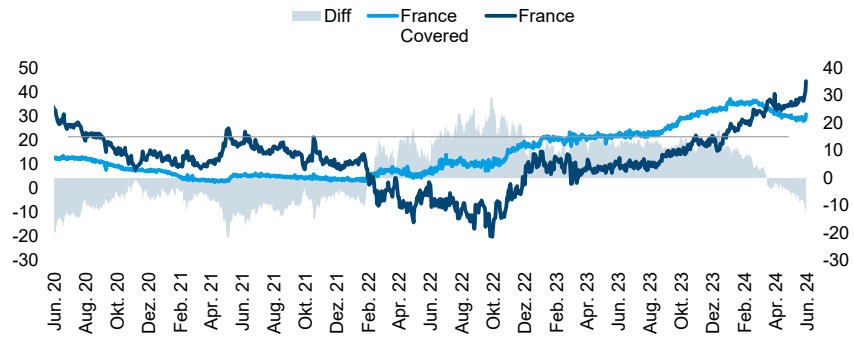
Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,500%	PKO Bank Polski SA	Baa3 /BBB	0,500bn		18.06.2029	ms +155 bps		11.06.2024	1,100bn	ms + 180 area

Sources: Bloomberg, Helaba DCM

Chart of the Week

European elections and France's rating downgrade leave their mark

ASW spread differential between government bonds and covered bonds in bp.



Sources:LSEG, Helaba Research & Advisory

The outcome of the European elections has caused turbulence in the markets. In particular, the news from France (dissolution of parliament, snap elections at the end of June/beginning of July and rumours of Macron's possible resignation in the event of a right-wing populist victory) led to a repricing of the French market. French sovereign and agency spreads quickly jumped to multi-month highs, accompanied by negative comments from some rating agencies. Overall, these events led to a widening of the spread differential between French government bonds (dark blue curve) and covered bonds. The fact that the risks of government bonds are weighted higher than those of covered bonds is not a new phenomenon, but over the last two years or so, higher yields have been achieved on covered bonds. In this respect, French covered bond issuers are likely to find it more difficult to place new issues with yield-oriented investors. Based on past "trend phases", this situation could be prolonged.

Short news

6/12 New Covered Bond Label Member: The Covered Bond Label Foundation (**CBLF**) is pleased to announce that **Equitable Bank, Canada's Challenger Bank**™ and 7th largest bank by assets, is the latest Canadian bank and the 145th issuer to join the Covered Bond Label, marking the 182nd covered pool located in 25 jurisdictions.

6/12 Project Viridis - a climate risk platform for financial authorities: Central banks recognise that climate change and the transition to a low-carbon economy are sources of financial risks. In response to these challenges, the **Bank for International Settlements** (BIS) launched Project Viridis to explore the development of a climate risk platform that could help identify material climate-related financial risks.

6/7 ESAs Joint Annual Report for 2023: The **Joint Committee of the European Supervisory Authorities (ESAs)** published its 2023 Annual Report, providing an account of the joint work completed over the past year. Through the Joint Committee the ESAs explore and monitor potential emerging risks for financial markets participants and the financial system as a whole.

6/7 BdB - Transition is becoming increasingly important: Initially, the EU legal framework for sustainable finance focused on which economic activities were considered green through the EU taxonomy. It soon became clear that this approach was not sufficient. According to the **Association of German Banks** (BdB), the focus is therefore increasingly shifting to how companies and thus the entire economy can become more sustainable - the transition.

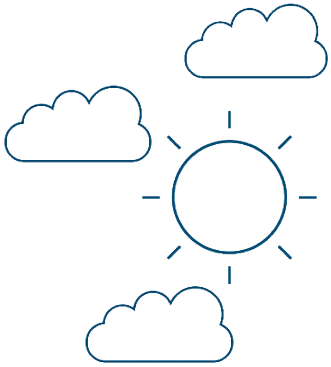
6/7 Banks say growing reliance on Big Tech for AI carries risks: The boom in artificial intelligence (AI) will increase banks' dependence on big U.S. tech firms, creating new risks for the industry, European banking executives said. As reported by **Reuters**, excitement around using artificial intelligence in financial services has soared since the launch of OpenAI's viral chatbot ChatGPT in late 2022.

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

E-STOXX 600 Banks	198	-0,47%	-2,92%	iBoxx € Cov. Germany	25,6	-0,3	-0,7	iTraxx Senior Financial	61,3	2,8	3,3
10Yr-Yield	2,54	0,04	0,11	iBoxx € Cov. Bonds	31,3	0,3	0,0	iBoxx € Supranational	32,8	1,1	1,5
Swap 10J	2,83	0,08	0,13	iBoxx € Banks PS	68,3	1,8	2,6	iBoxx € Agencies	20,0	2,8	3,8
iBoxx € Germany	-14,59	-2,05	1,49	iBoxx Banks NPS	88,9	2,7	4,0	iBoxx € Sub-Sov. Germany	24,0	-0,1	-0,1
iBoxx € EU	39,90	1,82	2,64	iBoxx Banks Subordinated	143,3	7,3	2,5	iBoxx € Sub-Sovereign	41,2	1,5	2,3

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

Leisure tip for the weekend: Petting zoos in the NRW region



There are many free zoos and wildlife enclosures in NRW where the four-legged inhabitants can not only be visited, but also petted and fed. Both the Alsdorf Zoo near Aachen and the Weeze Zoo on the Lower Rhine are fun for the whole family. The Olderdissen Wildlife Park in Bielefeld is also a worthwhile destination for night owls: the site, which is home to bison, tarpans, wolves, lynx, wild cats and eagle owls, is open daily until 10 pm.

Find out more: **Alsdorf**, **Weeze**, **Olderdissen**

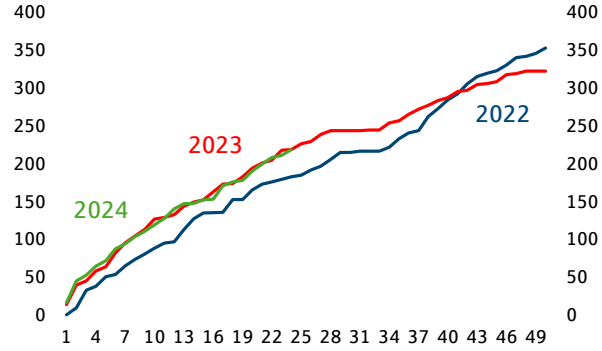
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.nrw-tourismus.de

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

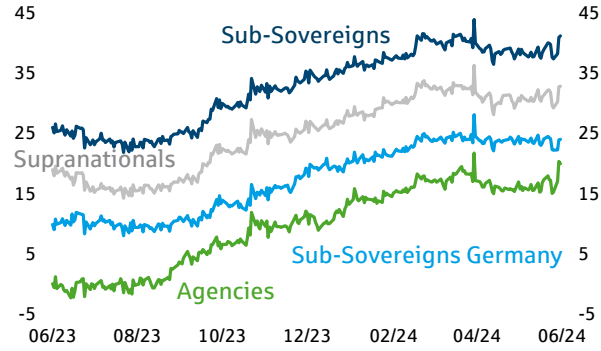
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

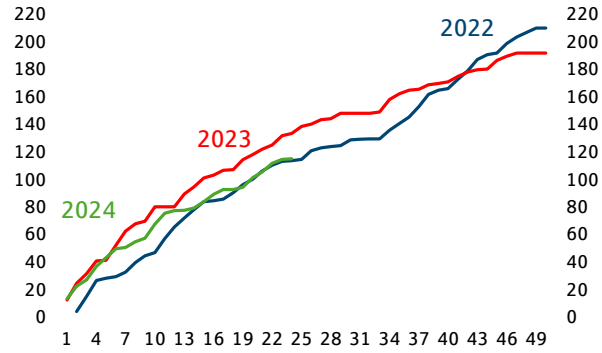
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

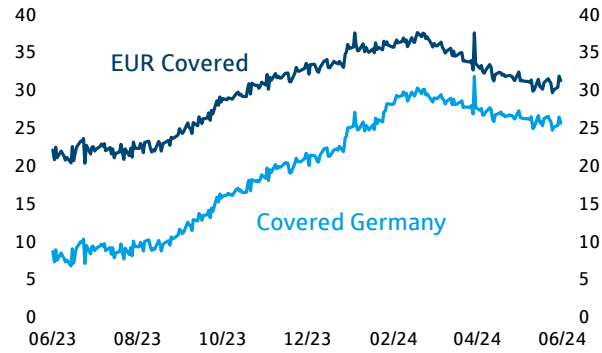
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

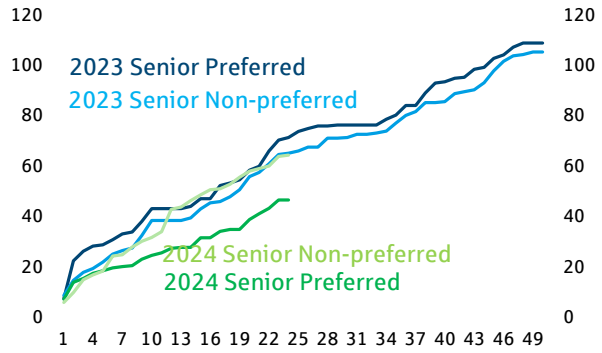
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

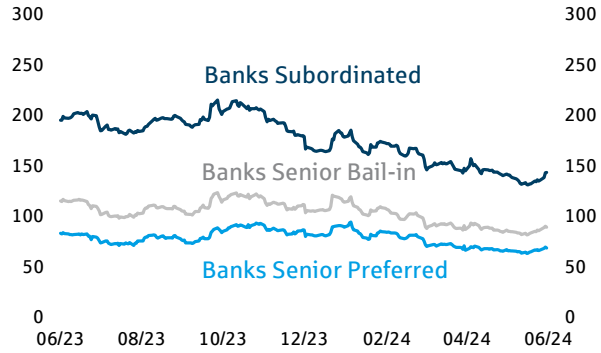
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

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
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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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