Helaba

Focus on: SSAs & Financials

20 June 2024

Weekly Market Update

Primary market environment: Risk aversion in the financial markets has not increased further recently and the widening of spreads in the EMU has come to a halt. Overall, however, uncertainty among market participants persists and is unlikely to change until the French parliamentary elections at the end of June.

Primary market barometer

SSAs



Two Länder and KommuneKredit ventured into the primary market this week with an increase. The order books were slightly oversubscribed for the total issue volume of EUR 2.25bn. Nevertheless, all reached their funding targets.

Covered Bonds



No, the primary market was not closed. Rather, issuers have been reluctant due to the current gloomy sentiment. As a result, planned and new issues were postponed.

Senior Unsecured



Here too, issuers are holding back due to the gloomy sentiment. We do not expect a significant recovery before the summer break.

Risk trend indicator (heat map): Risk aversion continues

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,04	-0,35	-0,36	-0,16	1,83	3,24
European Union	0,01	0,13	0,35	0,15	1,08	2,53
Germany Covered	0,03	0,04	0,01	-0,20	1,85	2,45
EU Covered	0,05	0,12	0,16	-0,23	1,18	2,47
Banks senior preferred	-0,04	0,16	0,32	0,04	-0,35	-0,79
Banks senior bail-in (SNP)	-0,07	0,14	0,34	0,04	-0,68	-1,33
Banks subordinated	-0,06	0,25	0,43	0,05	-0,97	-1,67
Supranational	0,02	0,11	0,27	0,13	1,19	2,53
Agencies	0,06	0,21	0,64	0,49	2,50	3,93
Sub-Sovereigns Germany	0,02	0,06	0,05	0,02	0,87	1,48
Sub-Sovereigns	0,03	0,17	0,40	0,21	1,40	2,26

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

spread widening* | spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

The generally gloomy market environment persists. This is reflected in our heat map. There are only a few bright spots in the senior unsecured segment.



SSAs

After last week's turbulence and the sometimes massive widening of spreads, the market environment has eased somewhat in recent days and spreads have recovered at least some of their losses. The widening of the bund/swap, combined with further levels of SSA paper versus swaps, has attracted buying interest, but also short covering, which has provided good support to the SSA market. Overall, however, the market remains fragile and in the wake of French government bonds. This is likely to continue until the French elections.

The primary market was opened this week by the state of **Schleswig-Holstein** with a 5-year benchmark (EUR 750m). With an order book of EUR 840m, the issue was oversubscribed and the final spread remained unchanged at MS + 8bp over the marketing. The increase in **KommuneKredit** (EUR 500m, green) was priced at the same spread level on Tuesday. Another German state, **Baden-Württemberg** (EUR 1bn, 7 years, WNG), followed on Wednesday. The issue closed with an order book of EUR 1.2bn. The spread remained unchanged at MS + 12bp.

Outlook: On Wednesday, the next EU auction was scheduled for next Monday. The market expects an increase in the 2 and 10 year maturities. The EU issuance calendar for the second half of the year will also be announced in the coming days.

€ SSAs issues week of 17 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,875%	Schleswig-Holstein	- /AAA	0,750bn		25.06.2029	ms +8 bps		17.06.2024	0,840bn	ms + 8 area
1,500%	KommuneKredit	Aaa /-	0,500bn		16.05.2029	ms -5 bps	✓	31.05.2022	0,975bn	ms -3 area
2,875%	Baden-Wuerttemberg	Aaa /-	1,000bn		26.06.2031	ms +12 bps		18.06.2024	1,350bn	ms + 12 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

A week without a primary market transaction is a rarity. The negative impact of the French malaise continues unabated. A quick solution is not to be expected before the election date, if at all. Although this mixed situation does not directly affect the covered bond market, the overall picture is not supportive. With French covered bonds now trading almost in line with OATs, they lack an additional selling point at the moment. One can react calmly to structurally similar phenomena in the periphery - these are traditionally often traded through local govies - but in the case of France as a core/semicore location, this is more of an extreme scenario. Bonds are trading accordingly with a widening bias versus swaps, especially at the long end.

> *"The primary market is reacting to the current events by postponing new issues, which means that no additional material is being pushed onto the markets from this side, which would depress spreads given the current reluctance to buy. In this respect, we can speak of a certain sideways trend in risk premiums.*
> *However, there is currently a lack of imagination for a sustained and broad-based resumption of spread tightening, which is unlikely to improve significantly over the remainder of the year given the increased event risks. The decline in interbank liquidity (low volumes in broker quotes, lack of interest in switching bond pairs as the last attempt to generate actionism) is also a clear indicator that markets are in a wait-and-see mode."*
>
> *Comment from Helaba's trading floor*

In the **secondary market**, buying has become much more selective and is likely to be one of the key themes throughout the trading year.

Outlook: We continue to believe that issuance will be slow to recover given the gloomy conditions. Issuers still in the pipeline include Australia's **Bendigo & Adelaide Bank** and Italy's **Banca Popolare Dell' Alto Adige** with a sub-benchmark.

€ Covered Bond issues week of 17 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 Unsecured

The cautious mood among market participants led to a wait-and-see attitude among issuers of senior unsecured bank bonds. There was no activity in EUR benchmark format this week.

> *„Investor flows remain at reasonable levels, but continue to be characterised by selling. ETF funds in particular have been consistent sellers. Maturities longer than 5 years, especially French and peripheral bonds, are being offered. Meanwhile, real money has returned to risk-on mode since Monday and is buying opportunistically. However, dealers with inventory are reluctant to cash in last week's extensions, leading to extremely wide quotes in some cases. At the short end, however, they are unimpressed by the latest events. FRNs and fixed maturities up to 1 year continue to trade in both directions. "*
>
> *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 17 June 2024

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

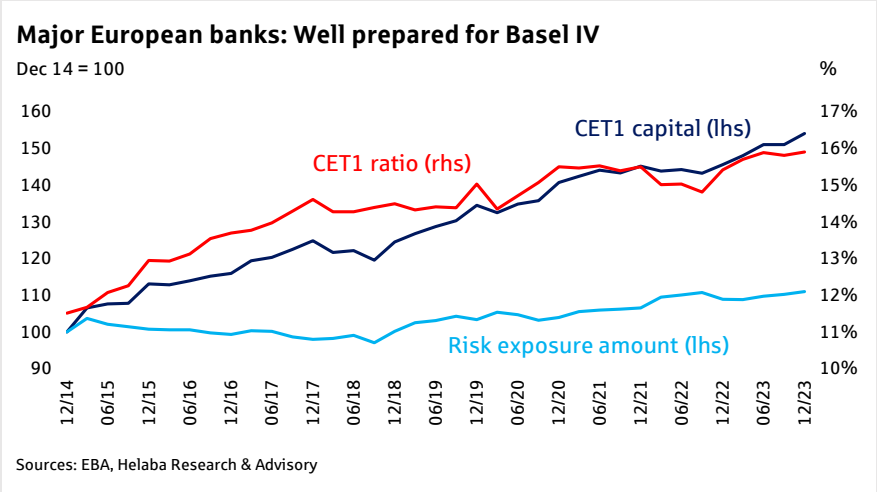
Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 17 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

Chart of the Week



At the end of May this year, the EU Council adopted the outstanding legislative amendments for the full implementation of Basel IV. This completes a multi-year overhaul of the central framework for banks at EU level. The aim is to make the sector even more resilient to potential economic shocks. While the new version of the framework did not contain any surprises, institutions now have more regulatory clarity. The long lead time has allowed them to prepare well for the changes. European banks also have high capital ratios. This is helped by the fact that banks are once again generating strong profits on the back of the changed interest rate environment, allowing them to increase their capital buffers. High dividend payments and share buyback programmes reflect this.

Recently, there has been repeated talk of postponing some rules. The EU Commission has the power to grant relief from market risk capital requirements for up to three years in order to create a level playing field (Article 461a CRRIII). This is in response to differences in the pace of implementation of Basel IV, particularly in the US. Rumours in the press about the possible postponement of regulatory components refer only to this passage.

In our publication **"Major European Banks: Well prepared for Basel IV"** of 18 June 2024, we highlight the main changes and the background.

Short news

6/20 Fitch Ratings Finalises Structured Finance and Covered Bonds Country Risk Rating Criteria **Fitch Ratings** has published its updated Structured Finance and Covered Bonds Country Risk Rating Criteria and an associated Feedback Report following the completion of our formal criteria exposure draft process.The final criteria are unchanged from the published Exposure Draft.

6/18 Targeted consultation on AI in the financial sector: The **European Commission** is launching a targeted consultation to identify the key use cases, benefits, barriers and risks of Artificial Intelligence (AI) in finance. The targeted consultation will gather input from all financial services stakeholders including companies and consumer associations. Once again, it is clear that the relevance of AI to the industry is growing rapidly.

6/17 ECB's Lane downplays need to intervene in French bond market: A senior ECB official has dismissed the idea that it could start buying Eurozone government bonds after the announcement of a snap French parliamentary election caused a sell-off in the country's debt. "What we are seeing is a repricing but it is not in the world of disorderly market dynamics right now" the chief economist of the ECB Philip Lane said as quoted by the **Financial Times** (FT).

6/14 French banks warned of greenwashing risks: French banks have been warned of greenwashing litigation and public backlash if they fail to comply with existing EU sustainability regulations. As reported by **The Banker**,

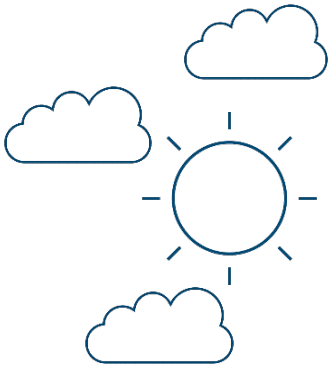
the warning comes as national political favours may turn after France's right-wing Reassemblement National party gained ground in the EU parliamentary elections.

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

E-STOXX 600 Banks	195	-1,52%	-3,64%	iBoxx € Cov. Germany	26,3	0,7	-0,2	iTraxx Senior Financial	72,4	11,1	14,1
10Yr-Yield	2,40	-0,13	-0,13	iBoxx € Cov. Bonds	32,6	1,4	1,3	iBoxx € Supranational	34,2	1,3	3,2
Swap 10J	2,74	-0,09	-0,05	iBoxx € Banks PS	72,0	3,7	7,2	iBoxx € Agencies	22,0	2,0	5,5
iBoxx € Germany	-19,54	-4,95	-6,01	iBoxx Banks NPS	92,3	3,4	9,1	iBoxx € Sub-Sov. Germany	24,7	0,7	0,5
iBoxx € EU	41,86	1,96	5,29	iBoxx Banks Subordinated	152,8	9,5	18,0	iBoxx € Sub-Sovereign	43,0	1,8	4,6

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

Leisure tip for the weekend: Wortreich in Bad Hersfeld (Hesse)



Bad Hersfeld is home to an unusual museum in Hessen. Wortreich is a 1200 square metre hands-on adventure world dedicated to language and communication.

Here you can not only experience language at first hand, but also practise it. A fun and educational outing - not just for German and linguistics students.

Find out more: **Wortreich**

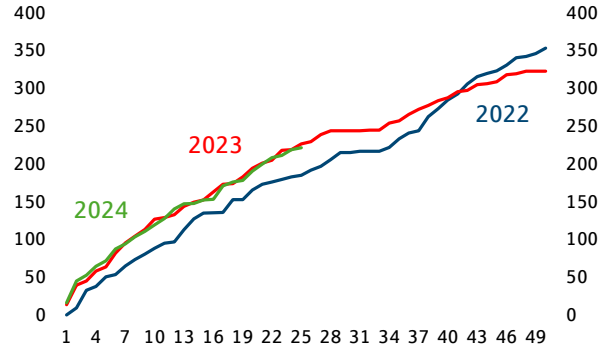
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.travellersarchive.de/ausflugsziele-hessen

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

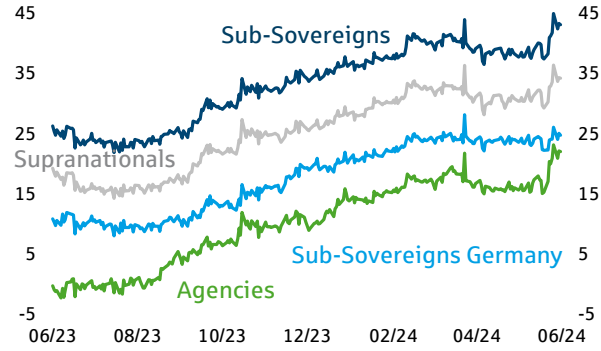
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

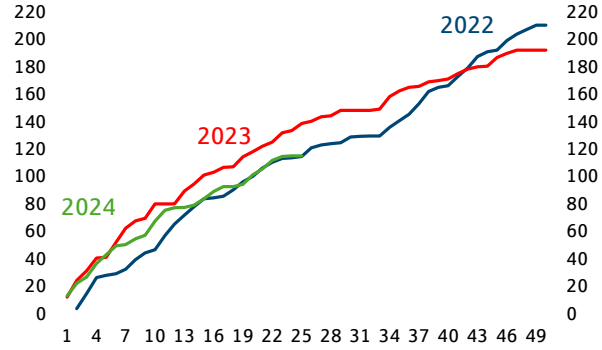
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

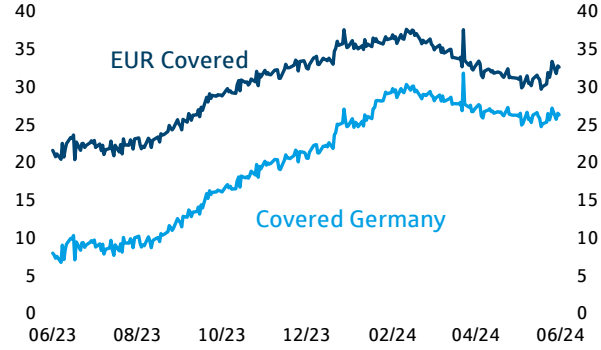
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

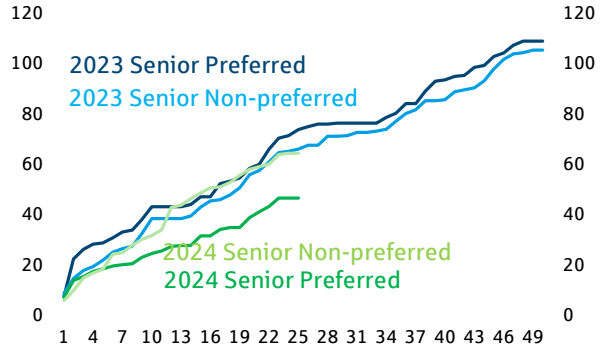
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

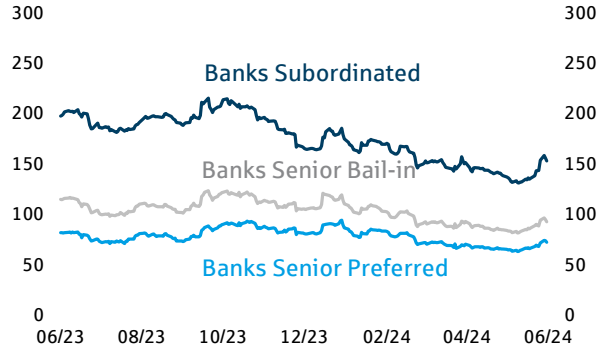
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

News from Research & Advisory

- → Focus on Credit: Mayor European banks: Well prepared for Basel IV
- → 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:
Stefan Rausch
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

Disclaimer

This publication has been prepared with the greatest care. However, it contains only non-binding analyses and forecasts of current and future market conditions. The information is based on sources which we consider to be reliable, but for whose accuracy, completeness or up-to-dateness we cannot assume any liability. All statements made in this publication are for information purposes only. They must not be understood as an offer or recommendation for investment decisions.

Here you can subscribe to our newsletter:
https://news.helaba.de/research/