Helaba

Focus on: SSAs & Financials

27 June 2024

Weekly Market Update

Primary market environment: Both the European Central Bank and the US Federal Reserve are basing future interest rate decisions on economic and inflationary developments. Mr Rehn, a member of the ECB's Governing Council, believes it is reasonable to expect two more rate cuts from the ECB this year. The primary markets continue to operate with the handbrake on.

Primary market barometer

SSAs



The SSA segment continues to be characterised by low turnover and few primary market transactions. The gloomy mood following the European elections persists. In addition, issuers remained cautious ahead of the French legislative elections.

Covered Bonds



Deutsche Kreditbank and Československá obchodná banka were two issuers active this week. Both were able to meet their funding targets. The transactions were also seen as a sentiment test. However, given the summer holidays in many countries, primary market activity is likely to remain limited.

Senior Unsecured



In a more favourable market environment, three EUR benchmark transactions have come to the market this week. Issuers are not under pressure but are taking advantage of refinancing opportunities as they arise. For now, however, the summer break is just around the corner.

Risk trend indicator (heat map): Sentiment brightens

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,03	-0,02	-0,50	-0,25	2,01	3,47
European Union	0,00	-0,05	0,27	0,06	1,25	2,55
Germany Covered	0,01	0,02	0,08	-0,15	1,83	2,43
EU Covered	0,03	0,06	0,30	-0,12	1,22	2,50
Banks senior preferred	-0,02	-0,09	0,31	-0,01	-0,44	-1,08
Banks senior bail-in (SNP)	-0,03	-0,10	0,30	0,00	-0,83	-1,67
Banks subordinated	-0,04	-0,11	0,41	-0,02	-1,17	-2,08
Supranational	0,00	-0,04	0,25	0,08	1,28	2,53
Agencies	0,00	-0,13	0,61	0,20	2,46	3,84
Sub-Sovereigns Germany	0,00	-0,05	0,06	0,00	0,80	1,42
Sub-Sovereigns	0,00	-0,08	0,36	0,12	1,39	2,17

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

spread widening* | spread tightening*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

Sentiment has brightened recently, although market participants remain cautious. Our heat map shows that there is also a differentiation between asset classes.



SSAs

A very quiet trading week so far in the Euro SSA market with continued low turnover, although the market in general has been somewhat divided in terms of flows. We have seen better buying in KfWs and in this move KfWs have become slightly more expensive versus swaps while E names have traded in the wake of French government bonds with spreads almost unchanged.

The primary market barely picked up this week. **KfW** successfully issued a 3-year benchmark (EUR 4bn). The book was 2.6x oversubscribed and the spread was set at MS - 5bp versus MS - 3bp in the marketing. Canada's **PSP Capital** issued a EUR 750m 10-year bond. The **Nordic Investment Bank** today issued a EUR 500 million 3-year bond. The issue was successfully completed with a bookbuilding of EUR 1.2 billion.

The **European Commission** has published its financing plans for the second half of the year. It plans to issue a total of EUR 65 billion in long-term EU bonds through six auctions and four to five syndicated transactions. The funds raised will be used to meet payments related to the NextGenerationEU programme and additional payment needs from other EU bond-financed policy programmes, including financial assistance to Ukraine, the Western Balkans Reform and Growth Facility and macro-financial assistance programmes.

Outlook: Parliamentary elections will be held in France on 30 June. Polls show a weakening of President Macron's camp and point to a significant increase in votes for the Rassemblement National (RN). It remains to be seen how the outcome of the election will affect market sentiment. In addition, the holiday season is just around the corner and it is quite possible that one or two states will become active before the summer break. There is one EU transaction on the agenda for the week commencing 8 July.

€ SSAs issues week of 24 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,750%	KFW	Aaa /AA+	4,000bn		01.10.2027	ms -5 bps		25.06.2024	12,900bn	ms - 3 area
3,250%	PSP Capital Inc	Aaa /-	0,750bn		02.07.2034	ms +53 bps		25.06.2024	1,200bn	ms + 53 area
2,875%	Nordic Investment Bank	Aaa /-	0,500bn		04.07.2027	ms -5 bps		27.06.2024	1,200bn	ms -4 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

After the previous week's lack of issuance in the primary market, one issuer did step up to the plate this week: The covered bond, limited in advance to EUR 500 million, has a maturity of 6 years. With an order book of EUR 970m, the issue was a success. The spread tightened by 4bp against the marketing to MS +27bp. The issue was seen as a test for the market as a whole, particularly in terms of spread evolution. As a reminder, the last public sector transaction was executed by LBBW at the beginning of June and priced at MS +20bp. **Československá obchodná banka** (CSOB) successfully debuted on Wednesday with a five-year benchmark (EUR 500m, WNG). With the order book 2.6 times oversubscribed, the final spread was tightened by 8 bps to MS + 57 bps over the target. The success of the transaction shows that the market is open and remains receptive provided a reasonable spread is paid.

Outlook: The outcome of the French election will also be closely watched in the covered bond segment. Australia's Bendigo & Adelaide Bank and Italy's Banca Popolare dell' Alto Adige are also in the pipeline with a sub-benchmark, all of which were mandated two weeks ago. The start of the summer holidays in many countries is beginning to cast its shadow. This will be clearly felt by 14 July at the latest.

€ Covered Bond issues week of 24 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,000%	Deutsche Kreditbank AG	Aaa /-	0,500bn		02.07.2030	ms +27 bps		25.06.2024	1,100bn	ms + 31 area
3,375%	Československá obchodná banka	Aaa /-	0,500bn		03.07.2029	ms +57 bps		26.06.2024	1,250bn	ms + 65 area

Sources: Bloomberg, Helaba DCM



Senior Unsecured

The primary market for senior unsecured bank bonds has opened its window again. On Monday, Deka Bank came to market with a 3-year fixed preferred bond. Despite the current tensions, the premium for this issue was also relatively low, which meant that it traded more favourably in the secondary market than at the re-offer. This was followed on Tuesday by a green 4NC3 FRN in non-preferred rank from Royal Bank of Canada. Ceska Sporitlena issued another non-preferred fixed coupon bond. Based on a generous spread, it was oversubscribed by a remarkable 3.2x.

> *„After two mixed weeks, the cash register has recovered for the first time. Preferred bonds were able to tighten by an average of 1-2 bp. They benefited from recovery effects in French, Italian and Spanish securities, which fell 3-5 bp, but still traded 5-10 bp higher on a longer-term comparison. Underperformers of the rank with an average 1-2 bp. widening have been Scandinavian bonds. The situation is similar for non-preferred bonds. Outperformers are the French bonds, which have recently come under pressure, and those from the periphery, which have narrowed by 11 bps and 5-7 bps respectively. On average, the rank is trading 4bps tighter. "*
>
> *Comment from Helaba's trading floor*

Outlook: With heavy issuance since the beginning of the year, issuers are not under too much pressure to move forward with their transactions. However, this week's activity shows that opportunities can be well exploited. There is still some refinancing to be done this year, given the large number of maturities. For now, however, the summer break is just around the corner.

€ Senior Preferred issues week of 24 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,375%	DekaBank	Aa1 /-	0,500bn		02.07.2027	ms +45 bps		24.06.2024	0,950bn	ms + 65 area

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 24 June 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,570%	Ceska Sporitelna AS	- /A	0,500bn		03.07.2031	ms +180 bps		25.06.2024	1,600bn	ms + 215 area
3m +60 Bp	Royal Bank of Canada	A1 /AA-	1,000bn		02.07.2028	ms +60 bps	✓	25.06.2024	1,570bn	3m€ + 80 area

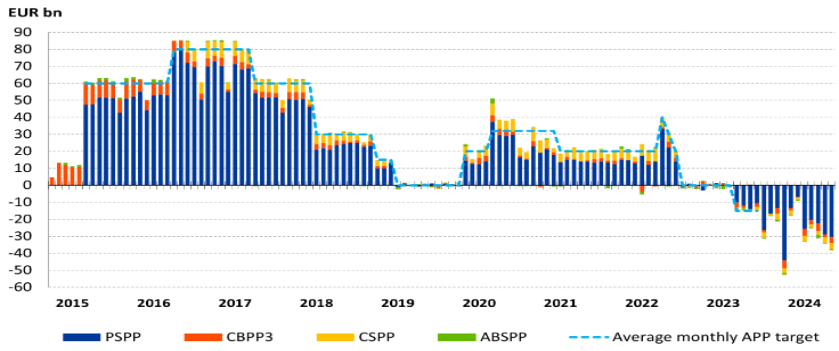
Sources: Bloomberg, Helaba DCM

Chart of the Week

On 15 June, the Governing Council confirmed that the reinvestment of assets in the APP will cease from July 2023. Since then, the holdings have been continuously reduced. For example, covered bonds held under the CBPP3 were reduced by EUR 32.3 billion to EUR 267.2 billion by mid-June 2024.
The expected reduction in covered bonds in the second half of the year is around EUR 11.75 bn.

ECB net asset purchases under the APP programme

EUR bn



Sources: ECB, Helaba Research & Advisory

The loss of the ECB as a major buyer has had a significant, though not exclusive, impact on the spread environment. This is because quantitative easing (QE) was a key driver of spread tightening during its existence. The ECB's activities have contributed both directly and indirectly to an elementary supply shortage and thus ultimately to sometimes deeply negative spreads. Although this was not the purpose of QE, it was an important "side effect". After the successive withdrawals by the central bank, a demand gap was created virtually overnight, which had to be filled by the private sector. And these "private parties", mainly international asset managers, demanded a price for their involvement in the form of higher spreads, to put it bluntly. By withdrawing, the ECB has therefore indirectly influenced the current spread landscape. At present, however, the central bank no longer has any measurable influence on spread movements. However, the aftereffects on market liquidity are still clearly noticeable, particularly due to the large number of bonds held to maturity on the ECB's books.

Short news

6/26 SRB document on bail-in approach in the Banking Union: The Single Resolution Board (SRB) has published a **document** for banks, investors and other stakeholders on executing its bail-in decision, as well as links to national resolution authorities' mechanics for bail-in.

6/25 Fitch Ratings: Nominal OC Still Well Above Legal Minimum for Spanish Mortgage Covered Bonds: The nominal over-collateralisation (OC) levels maintained by Spanish mortgage covered bonds ('cédulas hipotecarias', CH) issuers have continued to average about 50% since June 2023 despite the flexibility introduced last summer by Decree Law 5/2023 permitting the removal of excess cover pool assets over the 5% legal minimum, **Fitch Ratings** says. The range of nominal OC levels maintained has been between 17% and 121% across the 10 CH issuers that Fitch monitors.

6/25: European banking's biggest takeover battle enters new territory: BBVA, the Spanish bank facing obstacles in its €10bn hostile bid for Banco Sabadell, is arguing the deal would still be worthwhile even if it only gets half of what it wants — owning Sabadell without being able to merge with it. According to the **Financial Times**, Spain's Socialist-led government is firmly opposed to the proposed acquisition of the TSB owner, which would be the biggest transaction in European banking this year.

6/21 Less complexity in regulation brings more growth: "But when the forest of signs on the road becomes increasingly dense and confusing, people lose their orientation." BaFin President Mark Branson recently used these words, reported by the **Association of German Banks** (BdB), to describe the state of the current regulatory framework and at the same time call for changes.

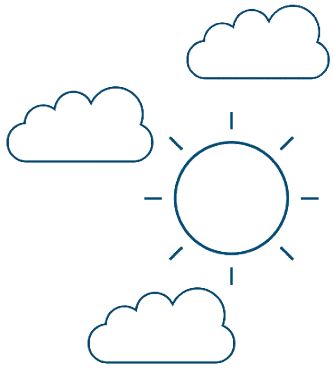
6/21 Foreign banks face stricter EU requirements with Basel III: According to **The Banker**, foreign banks operating in the EU face stricter requirements by the end of next year under finalised Basel III rules, as the bloc looks to harmonise capital requirement rules across member countries.

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

E-STOXX 600 Banks	195	0,00%	-2,58%	iBoxx € Cov. Germany	25,9	-0,4	0,1	iTraxx Senior Financial	72,8	0,4	13,4
10Yr-Yield	2,45	0,05	-0,23	iBoxx € Cov. Bonds	32,6	0,0	2,1	iBoxx € Supranational	32,9	-1,2	2,6
Swap 10J	2,79	0,05	-0,14	iBoxx € Banks PS	69,7	-2,3	6,5	iBoxx € Agencies	20,4	-1,6	5,0
iBoxx € Germany	-20,08	-0,54	-8,43	iBoxx Banks NPS	89,2	-3,1	7,7	iBoxx € Sub-Sov. Germany	23,2	-1,5	0,2
iBoxx € EU	40,25	-1,62	3,80	iBoxx Banks Subordinated	147,6	-5,2	16,8	iBoxx € Sub-Sovereign	41,3	-1,7	3,9

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

Leisure tip for the weekend: Sculpture tours, Viersen (NRW)



The Städtische Galerie im Park in Viersen, on the Lower Rhine, is an indoor and outdoor exhibition of art for all ages, set in a neo-classical villa and adjacent sculpture park. A thematic focus is on art in public spaces, and works by renowned contemporary sculptors such as Cragg, Heerich and Matta can be admired, as well as temporary projects. A total of 700 works by well-known and lesser-known artists can also be seen in public spaces in other parts of North Rhine-Westphalia.

Find out more: **Sculpture**

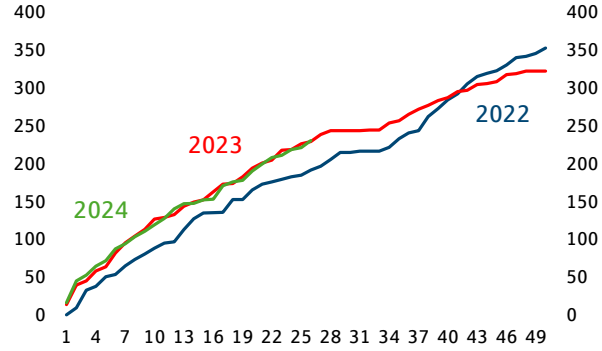
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.travellersarchive.de/ausflugsziele-hessen

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

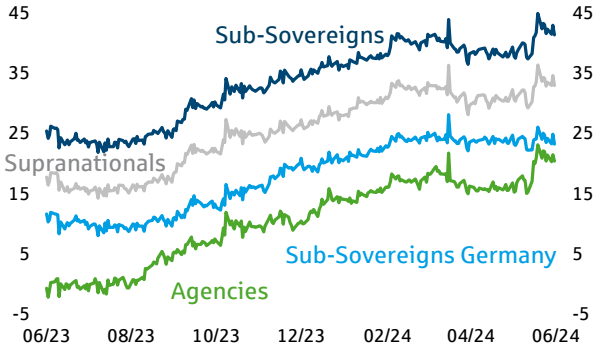
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

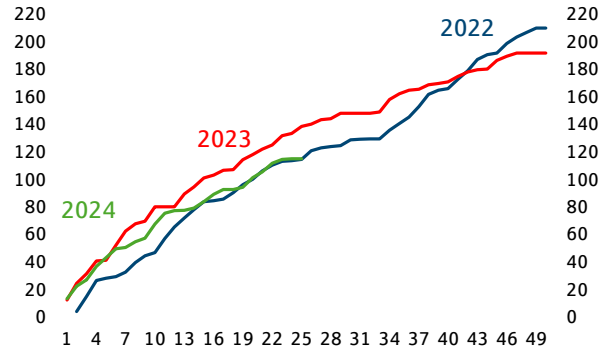
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

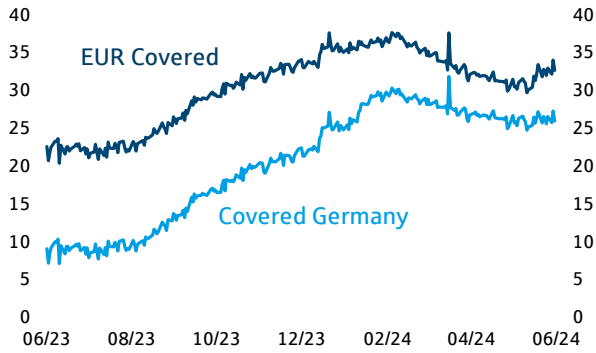
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

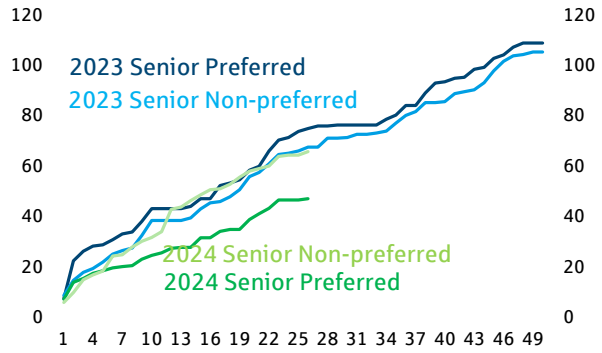
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

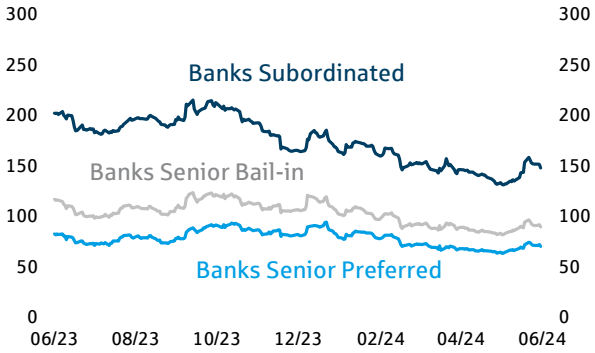
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

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