Helaba

Focus on: Credit

4 July 2024

Primary market update EUR benchmark bank bonds: Q2 2024

sk/ The primary market for senior unsecured bank bonds was very solid in the second quarter of 2024, despite the recent slowdown due to the stressed market environment. Total issuance reached around EUR 40bn, down 33% from the very strong second quarter of 2023 but in line with the long-term average. In the first half of 2024, issuance totalled around EUR 109bn, 22% below the record level of the previous year but 13% above the average of the last eight years.

Issuance in the preferred segment was particularly strong, with a 40% year-on-year decline. Issuance in the non-preferred rank was relatively stable, with the share of total new issuance rising from just under 50% in the first half of 2023 to just over 60% in the first half of 2024. We see this as evidence that the transactions required by the regulators are still easy to execute. At the same time, TLTRO refinancing no longer plays a significant role for preferred issuance now that the programme at the ECB has been largely repaid.

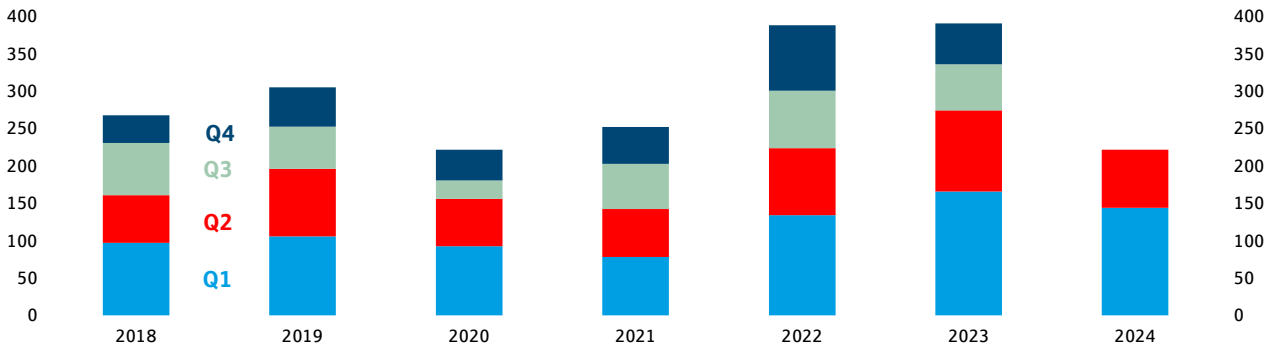
French banks, which are very active on the capital markets and have high capital requirements due to their size, dominated as usual, closely followed by Spanish institutions. In addition, US and UK issuers took advantage of the relatively favourable euro funding conditions. We also noticed an increase in the proportion of floating-rate issues (23% most recently) and a lengthening of maturities, both of which we believe reflect the changed interest rate environment.

Due to the somewhat weaker first half of 2024, we are reducing our forecast for issuance in 2024 as a whole by EUR 20 bn to EUR 180 bn. This is still a relatively high level. Extensive maturities remain the main driver. In addition, customer deposits are declining as higher interest rates make investment alternatives more attractive. Regulatory requirements continue to drive senior non-preferred issues. In the case of fixed-to-floating bonds, maturities in 2025 are also likely to be relevant, as the securities can be called before they lose their eligibility for the regulatory minimum capital ratio MREL one year before maturity (see our publication "**Regulatory call option for non-preferred bonds becomes standard**"). Timing remains a challenge in the volatile and crisis-ridden market environment, and open market windows will be actively used, even at wider spread levels.

cs/ After a benchmark covered bond issuance volume of EUR 75 billion in the first quarter, primary market activity in the second quarter was, as expected, lower at EUR 38.2 billion, partly due to lower repayments under the ECB's

EUR benchmark issuance* Q2 2024: Solid activity levels

EUR billions (fixed and variable rate, covered and senior unsecured issuance volume)



* issuance volume of at least EUR 500 million

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

liquidity programmes and lower maturities. In addition, new issues were generally very well received by the market, as reflected in the mostly high oversubscription rates and overall low new issue premiums (NIPs). However,

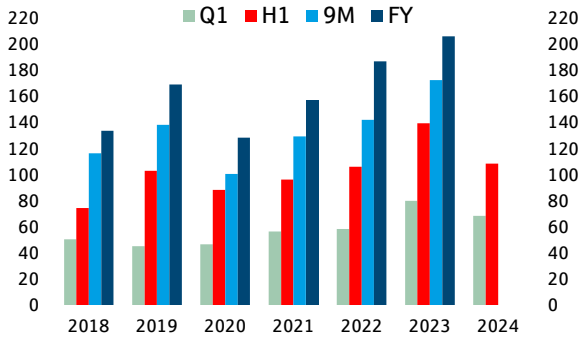
this was at the expense of the secondary market, where overall demand lost momentum.

With the summer break approaching, the decline in primary market activity should lead to lower bid/ask ratios and hence tighter spreads. The annual performance of covered bonds may have peaked and will at best move sideways for the rest of the year. In the second quarter Germany was the undisputed leader with a 22% share of issuance. France followed at a distance with 17%. At 10%, the share of covered bonds with a sustainability component in the first half of 2024 is still above the figure for 2023 (8%). We maintain our forecast of EUR 160bn in issuance for the year.

1. Senior unsecured bonds

Q2 2024: Slight decline at high level

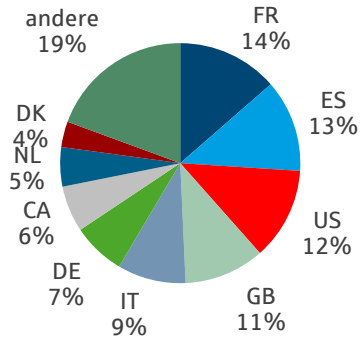
EUR billions (cumulative benchmark issuance volume)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

French banks remain in the lead

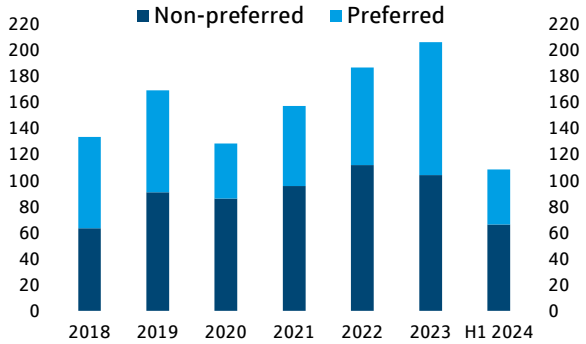
EUR billions (benchmark issuance volume by country, H1 2024)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Non-preferred share rising to 61 %

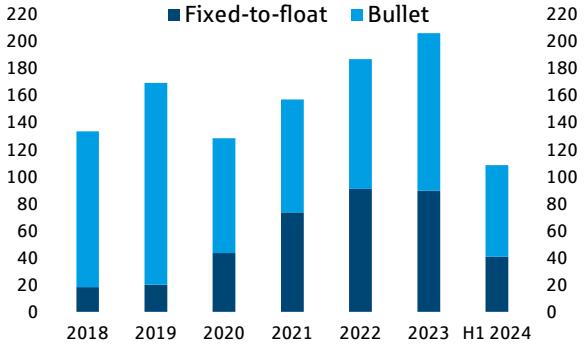
EUR billions (benchmark issuance volume by payment rank)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Regulatory call option on the decline

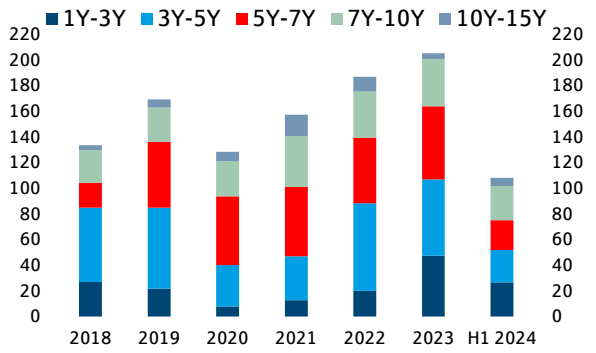
EUR billions (benchmark issuance volume by maturity type)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Longer maturities gain in importance

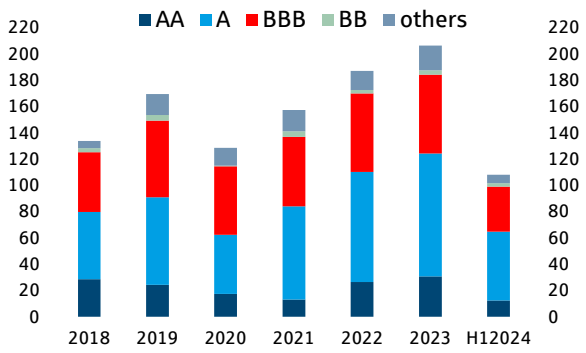
EUR billions (benchmark issuance volume by maturity)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Stable rating mix

EUR billions (benchmark issuance volume by rating*)

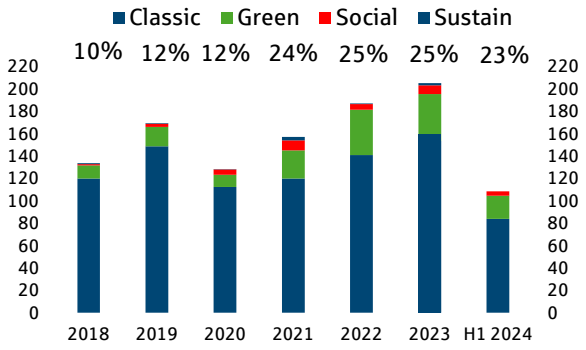


*Moody's rating at time of issuance

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Share of green emissions stable

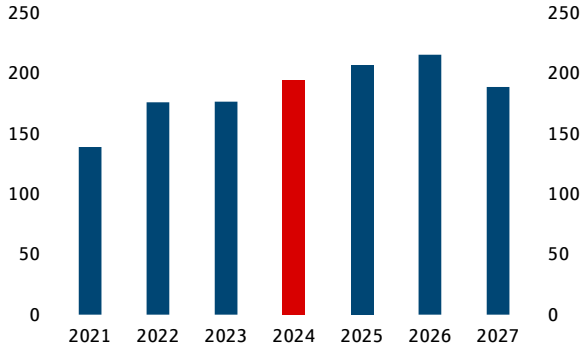
EUR billions (benchmark issuance volume by ESG instrument indicator)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

High level of maturities in 2024*

EUR billions (benchmark maturity volumes)

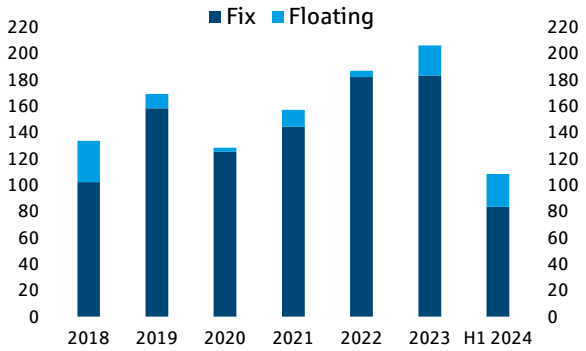


*slight deviation from new issues

Sources: Bloomberg, Helaba Research & Advisory

Floaters regain in attractiveness

EUR billions (benchmark issuance volume by coupon type)

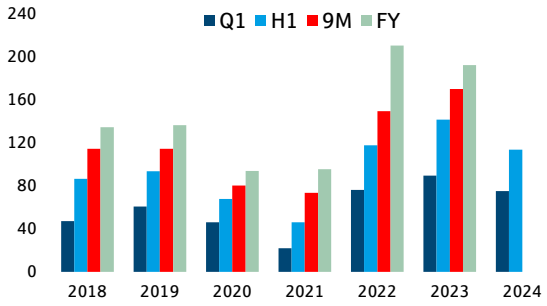


Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

2. Covered Bonds

Issue volume in H1 2024 almost at 2022 level

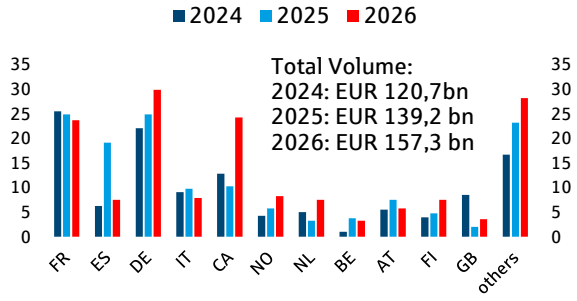
EUR billions (cumulative benchmark issuance volume)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

2024 maturities lower than last year (EUR 135.7bn)

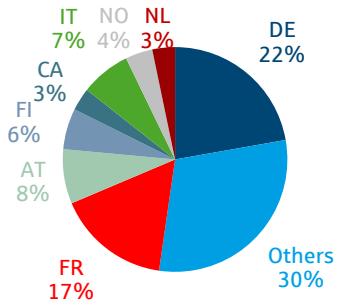
EUR billions (benchmark maturity volumes by country)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Germany continues to play a leading role

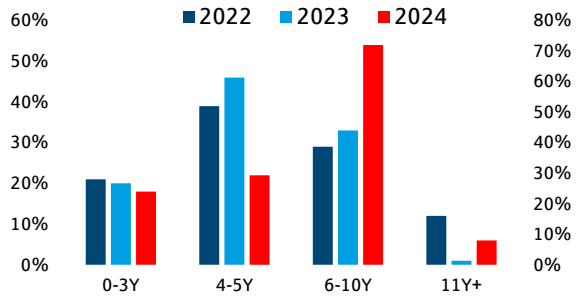
% (of benchmark issuance volume by country, H1 2024)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Maturities of 6-10 years en vogue

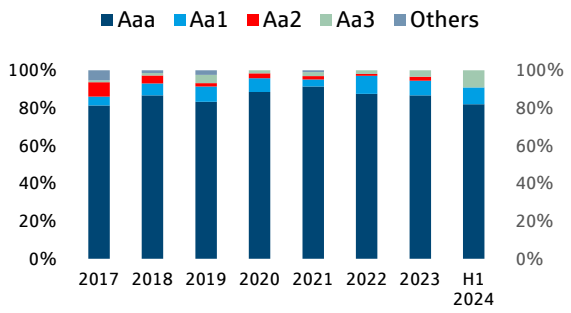
% (of benchmark issuance volume by maturity)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Aaa ratings continue to dominate

EUR billions (benchmark issuance volume by rating*)

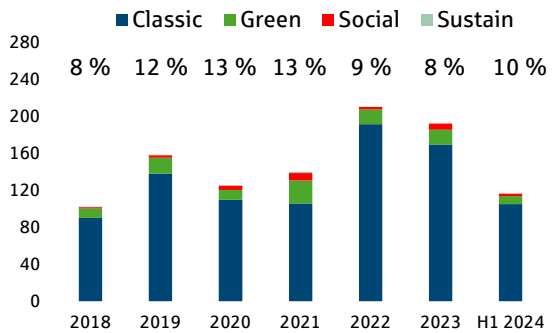


*Moody's rating at time of issuance

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Sustainable covered bonds: slight increase

EUR billions (benchmark issuance volume by ESG instrument indicator)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

3. ECB's targeted longer-term refinancing operations

TLTRO III: Holdings being run down

Overview of ECB's targeted longer-term refinancing operations

	Allocation	Settlement	Earliest voluntary repayment (settlement)	Maturity	Allocated amount (EUR bn)	Outstanding amount (EUR bn)
TLTRO-III.9	23.09.2021	29.09.2021	29.06.2022	25.09.2024	97.6	42.2
TLTRO-III.10	16.12.2021	22.12.2021	29.06.2022	18.12.2024	51.9	34.2

Sources: Deutsche Bundesbank Eurosystem, ECB Eurosystem, Bloomberg, Helaba Research & Advisory

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