Helaba

Focus on: SSAs & Financials

4 July 2024

Weekly Market Update

Primary market environment: The ECB's Stournaras believes that two more rate cuts are justified this year. In the US, rate cut fantasies have been on the rise recently as the latest data give little cause for economic optimism. However, central bankers are sounding more cautious. The second round of the French election will be in focus over the weekend.

Primary market barometer

SSAs



Turnover in the SSA segment remains low. Rentenbank was the only benchmark issuer this week. In the coming week, EU primary market activity may provide a bit more impetus.

Covered Bonds



After a very constructive start to the year, issuance has recently slowed. However, the primary market has become more receptive. Investors' focus has shifted from 7 to 10 years back to medium maturities as interest rate hike fantasies have faded.

Senior Unsecured



While the summer break is approaching, the primary market in this segment is once again very active. Four non-preferred transactions with a total volume of EUR 3.25 billion were successfully completed this week. However, the next few weeks are likely to be quieter due to the holiday period.

Risk trend indicator (heat map): Mood improvement only short-term?

Relative* ASW spread change

IBOXX EURO	1 Tag	1 Woche	4 Wochen	13 Wochen	52 Wochen	104 Wochen
Germany	0,07	0,43	-0,08	0,24	2,24	4,23
European Union	0,04	0,23	0,39	0,35	1,40	2,76
Germany Covered	0,08	0,05	0,11	-0,03	1,67	2,45
EU Covered	0,09	0,07	0,30	0,07	1,10	2,52
Banks senior preferred	-0,01	-0,09	0,09	0,03	-0,45	-0,94
Banks senior bail-in (SNP)	-0,02	-0,11	0,05	0,00	-0,78	-1,54
Banks subordinated	-0,04	-0,16	0,16	-0,03	-1,27	-2,34
Supranational	0,06	0,19	0,32	0,31	1,37	2,71
Agencies	0,08	0,12	0,52	0,48	2,31	3,95
Sub-Sovereigns Germany	0,06	0,01	0,00	0,00	0,77	1,41
Sub-Sovereigns	0,07	0,11	0,29	0,28	1,42	2,24

stark | mittel | schwach | unverändert | schwach | mittel | stark

Spreadausweitung* | Spreadeinengung*

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

Sentiment has brightened briefly, but the positive trend has already started to fade. This is highlighted by the higher proportion of red in our heat map.



SSAs

Trading in the SSA market continues to be very quiet, especially as the summer break slowly but surely approaches. The recent rally in OATs vs. Bunds has not contributed to a general recovery in E-names, which are still trading close to their highs for the year vs. swaps.

The primary market took a break at the beginning of the week before **Rentenbank** (EUR 1.25bn, 7 years) came to market on Tuesday. With an order book of EUR 1.55 bn, the final spread tightened by 1 bp to MS +12 bp. The issuer clearly prioritised volume over price in this transaction. Overall, the deal was seen as a good test for the current environment.

Outlook: On the primary side, another large EU issue is expected early next week. Expectations are for a new 7-year issue and a rise at the long end in the 2044 area. In addition, some states are still likely to have issuance needs. The second part of the French legislative elections, which will take place next weekend, is also likely to be a determining factor.

€ SSAs issues week of 1 July 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,875%	Landwirtschaftliche Rentenbank	Aaa /AAA	1,250bn		09.07.2031	ms +12 bps		02.07.2024	1,580bn	ms + 13 area

Sources: Bloomberg, Helaba DCM



Covered Bonds

Fears of a right-wing majority in the French parliamentary elections did not materialise. As a result, volatility declined somewhat. On Tuesday, Austria's largest building society, **Raiffeisen Bausparkasse**, used the available issuance window with a sub-benchmark bond (EUR 300m, 5 years, WNG) and **DZ Hyp** (EUR 500m, WNG, 4.2 years, green). Both issues were significantly oversubscribed (3.7x and 4.9x respectively) and spreads narrowed by 10bp and 6bp to MS +55bp and MS +20bp respectively. It is worth noting that the order book for the Raiffeisen issue remained relatively stable after the spread was fixed. **Münchener Hyp** (EUR 500m, 7 years, WNG) successfully complemented the primary market offering today. With a book of over EUR 1.7bn, the funding target was easily met. The final spread tightened by 6bp to MS + 24 compared to the marketing.

> *„After the first round of the French election, general risk aversion has fallen back noticeably! In addition to the countermovement in OAT/Bund spreads, the main indication of this is the significant rollback in Bund/Swap spreads (especially from 10Y)! Traders who were offered covered cash last week and hedged against contracts were able to make substantial profits. This is also in light of the fact that the cash side of the broker market was dominated at the start of the week".*
>
> *Einschätzungen aus dem Handelsraum der Helaba*

The key trend for all markets in 2024, bund/swap tightening, is likely to continue, albeit in a non-linear fashion. This trend is likely to have a significant valuation impact on covered bonds as an asset class. When isolated from other specific valuation factors (cover pools, supply outlook, post-QE liquidity distortions, etc.), they become structurally less attractive than EGBs. This is particularly true for eurozone ultra-core. In times of quantitative liquidity shortages, national and international investors are likely to be more selective, especially as the growing financing needs of not only governments but also their segregated funds and the "e-family" will have to compete for investors.

Outlook: The results underline the receptiveness of the market and may encourage other issuers to get active before the summer break. Also in the pipeline are Australia's Bendigo & Adelaide Bank and Italy's Banca Popolare

dell' Alto Adige with a sub-benchmark, which were mandated two weeks ago. With the summer holidays starting in many countries, issuance is likely to remain manageable into August.

€ Covered Bond issues week of 1 July 2024

Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,000%	Münchener Hypothekenbank	Aaa /-	0,500bn		11.07.2031	ms+24		04.07.2024	1,300bn	ms+ 30

Sources: Bloomberg, Helaba DCM



Senior Unsecured

Sentiment has brightened considerably and the primary market for senior unsecured bank bonds came back to life just before the summer break. A total of EUR 3.25bn was raised in four non-preferred transactions. Oversubscription was substantial in some cases and spreads tightened significantly both during the bookbuilding process and in the subsequent secondary market..

> *„Despite the end of the first half, investor flows remained below average. It was not until the general sense of relief following the first round of the French elections that market participants ventured to take cover again. Understandably, French securities and peripheral bonds in particular played a leading role. ETF funds continued to move on both sides of the money. Asset managers, meanwhile, ventured back into longer maturities, which were traded in both directions. Elsewhere, new issues and FRNs were back in focus for investors. "*
>
> *Comment from Helaba's trading floor*

On Tuesday, Canadian Imperial Bank opened the round with a EUR 500m 5-year non-preferred bond. On Wednesday, Deutsche Bank issued a non-preferred dual tranche (4NC3 and 11NC10) with a total volume of EUR 1.75bn. On the same day, Bank of Montreal issued a EUR 1bn non-preferred bond (6NC5). Deutsche Bank's issue in particular was heavily oversubscribed, with spreads narrowing from initial indications. With maturities ranging from 4 to 11 years, the issues have been predominantly in the longer-term range.

Outlook: This week's activity shows once again that opportunities can be well exploited. Given the high level of maturities, there is still some refinancing to be done this year, even if issuers are not under too much pressure to move forward with transactions given the high level of activity since the beginning of the year. 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 1 July 2024

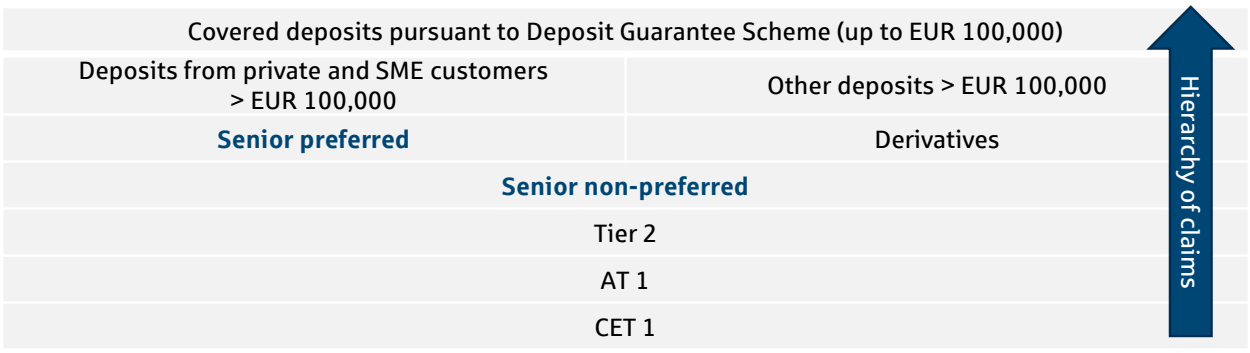
Coupon	Issuer	Rating (M/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,807%	Canadian Imperial Bank of Commerce	A2 /AA-	0,500bn		09.07.2029	ms +90 bps		02.07.2024	0,725bn	ms + 110-115
4,000%	Deutsche Bank	Baa1 /A-	0,500bn		12.07.2028	ms +95 bps	✓	03.07.2024	6,400bn	ms +130 area
4,500%	Deutsche Bank	Baa1 /A-	1,250bn		12.07.2028	ms +170 bps		03.07.2024	6,400bn	ms +200 area
3,750%	Bank of Montreal	A2 /A-	1,000bn		10.07.2030	ms +100 bps		03.07.2024	2,000bn	ms +120/125

Sources: Bloomberg, Helaba DCM

Chart of the Week

Revision to insolvency ranking of preferred bonds

New hierarchy of claims in Germany according to the proposal by the EU Council



Source: Helaba Research & Advisory

An amendment to the legal framework governing banks' crisis management introduced in the wake of the financial crisis is on the horizon, a key aspect of which will be the establishment of a general depositor preference throughout Europe. This will have an impact on the ranking of senior preferred bank bonds. However, financial institutions enjoy substantial risk buffers and will be able to mitigate any negative effects by issuing additional preferred notes. As a result, we expect the implications for the ratings of preferred bonds issued by large European banks to be limited. For details see our report "**Large European Banks: Revision to insolvency ranking of preferred bonds**" dated 2 July 2024.

Short news

7/2VDP updates minimum standards for Green Pfandbriefe: Together with the issuers of green Pfandbriefe, the Association of **German Pfandbrief Banks** (VDP) has updated the minimum standards for green mortgage Pfandbriefe and green public sector Pfandbriefe. The changes to the minimum standards will apply from 1 January 2025, but member institutions are free to apply them before this date on a voluntary basis. Accordingly, the minimum standards in force at the time of issue will apply to Pfandbrief issues already outstanding. The main changes to the Minimum Standards for Green Mortgage Pfandbriefe relate to the criteria for eligible assets.

7/2 EBA: Call for caution amid rising geopolitical risks for the EU/EEA banking sector: The European Banking Authority (EBA) today published the spring edition of its **risk assessment report** (RAR). The report covers the EBA's common risk assessment as well as the analysis of banks' asset encumbrance and funding plan data, which had previously been published in two separate reports. It also includes specific chapters dedicated to EU/EEA banks' Commercial Real Estate (CRE) exposures and EU/EEA banks' interconnections with non-bank financial intermediaries (NBFIs).

7/1 Sparkassen Mortgage Pfandbriefe Well-Protected Against Property Price Correction: The relied-upon overcollateralisation (OC) levels are well above the respective break-even OC levels for the Mortgage Pfandbrief ratings of the seven **Fitch-rated** Sparkassen Pfandbriefe programmes, creating significant buffers against potential asset performance deterioration and property price correction, Fitch Ratings says.

6/27 ECB A roadmap for strategic investment in Europe: Europe needs trillions of euros to manage climate change, become digital and defend itself. How can we support these projects? The **ECB Blog** discusses the options in times of low growth and high public debt levels.

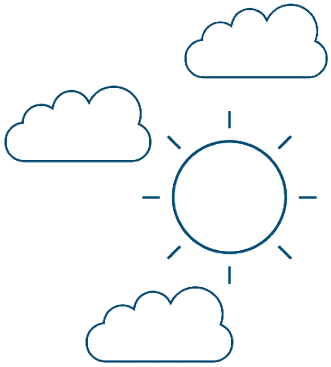
Market Data (current*, vs. 1 week, vs. 4 weeks)

E-STOXX 600 Banks	199	2,14%	0,12%	iBoxx € Cov. Germany	27,2	1,3	1,4	iTraxx Senior Financial	62,3	-10,5	3,8
10Yr-Yield	2,56	0,11	0,06	iBoxx € Cov. Bonds	34,1	1,5	3,1	iBoxx € Supranational	36,5	3,6	4,8
Swap 10J	2,82	0,03	0,07	iBoxx € Banks PS	67,6	-2,2	1,0	iBoxx € Agencies	22,2	1,8	5,0
iBoxx € Germany	-13,25	6,82	-0,72	iBoxx Banks NPS	86,0	-3,2	-0,2	iBoxx € Sub-Sov. Germany	24,6	1,4	0,4
iBoxx € EU	45,06	4,81	6,98	iBoxx Banks Subordinated	140,2	-7,4	4,2	iBoxx € Sub-Sovereign	43,9	2,6	4,2

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

With this report, the Weekly Market Update bids you farewell for the summer.
We wish our readers a pleasant and hopefully sunny holiday.

Leisure tip for the weekend: Cascade Gorge, Rhön, Hesse



The Rhön is famous for its unique landscape, its biosphere reserve - and its many hiking trails. One of the most beautiful is the Kas-kaden Gorge, a mile and a half walk from the car park on the outskirts of Gersfeld-Sandberg (Fulda). The trail leads through dense beech forest along the Feldbach stream. The walls of the Kaskadenschlucht gorge are very rugged in places. Sturdy footwear is recommended as the path leads over many small bridges and steps.
Find out more: **Cascade Gorge**

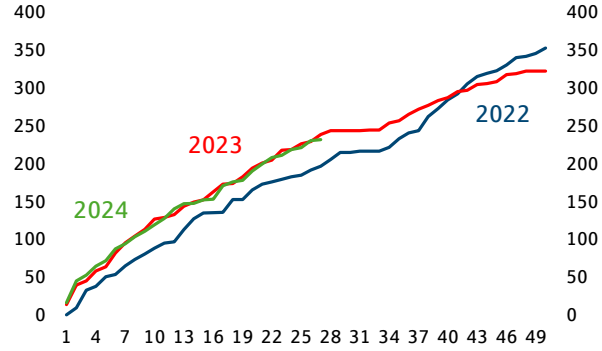
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Source: www.hessenschau.de/freizeit

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

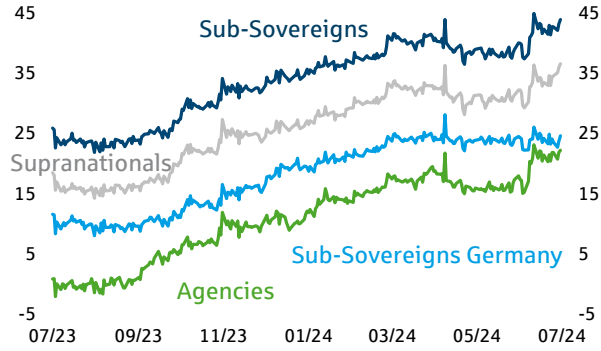
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

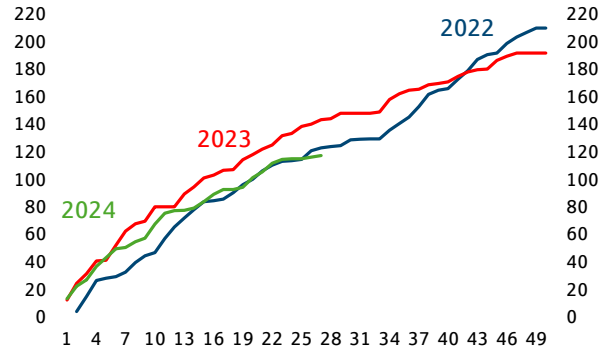
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

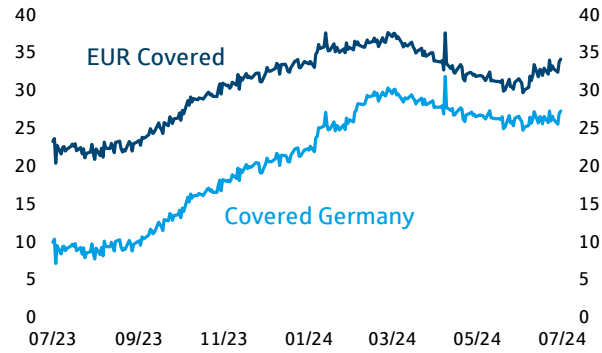
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

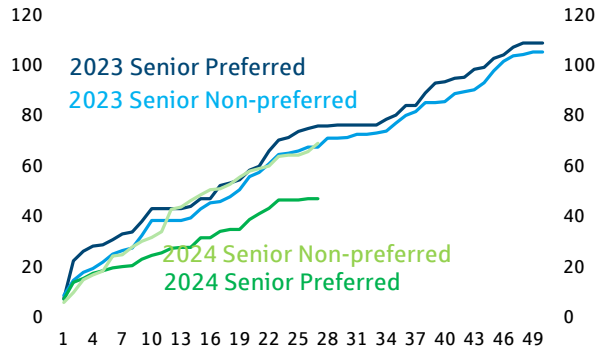
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

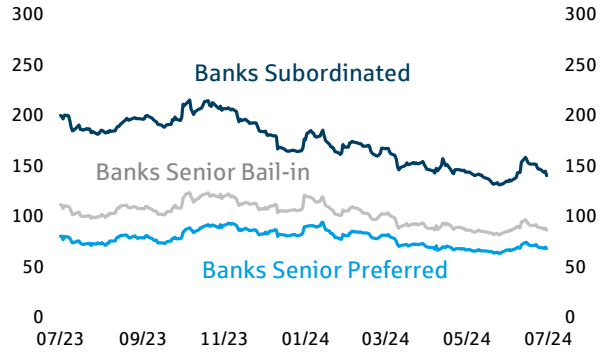
EUR benchmark issue volume cumulative by weeks, bn EUR



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 Q2 2024
- → Focus on Credit: EUR corporate bonds: Primary market Q2 2024
- → 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
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- → 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

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