Is FIG bond pricing power starting to shift from sellers to buyers?

In another holiday-shortened trading week, the European market was flat and primary FIG issuance lacklustre. It certainly wasn't a week to draw durable conclusions about investor intentions, pricing or short-term market direction.

The European election results came and went without any dramatic market impacts, while the race to become next UK Prime Minister and the fate of Brexit haven't in truth had a major impact on the broader market one way or the other. But these topics do play into the ever-present theme of uncertainty. This theme remains very much intact, with US-China trade and global growth at its core but with a number of other event-risk factors revolving around it.

The market is jittery and just one Tweet away from euphoria or depression. The financials indices drifted wider over the course of May and some of the new issues that priced in the past 10 days traded down in the aftermarket. This is causing sellers and buyers to engage in something of a re-appraisal of where new issues can price and comfortably perform.

Pricing bias does seem to be shifting towards buyers. Demand as measured by book coverage is down. But where the balance of power lies is too early to call definitively as issuers are still pricing at or around fair value. But the signs are there.

Depending on your point of view, demand for the issues that printed in the past few days was uninspiring and a sign of growing malaise. Alternatively, demand was nothing more than reasonably suited to the prevailing uncertain market and will pick up as sentiment improves. Or the UK Spring bank holiday, Memorial Day in the US, and the Ascension Day holiday that took some of Europe out just meant that everyone took a breather.

One question worth pondering, though, is whether less extravagantly over-subscribed books are a better gauge of true end-demand and clean pricing than the rampant yield chasing that had pushed demand into the stratosphere for some issues and spreads into potentially over-bought territory.

Capital markets participants do get accustomed to the market being in a certain way. When conditions change on the back of specific fundamental uncertainties or because of the technical spread environment, it's only reasonable that investors will re-assess their engagement with the primary market. That may call for more extensive price discovery via a more involved feedback loop between the sell-side and buy side. One thing market shifts shouldn't cause is surprise.

Some of the chatter in the past week around covered bonds – which had been largely immune to the weaker broad market sentiment – has pondered if the primary market has priced itself into a corner, based on so-so demand for issues from UniCredit Bank Austria and Swedish Covered Bond Corporation.

That's a tough call. Demand was so-so based on previously inflated book levels, but the real question is understanding the depth of real demand and its price elasticity. More broadly, investors may be resisting pricing they see as overly aggressive, but at the same time they need to be pragmatic.

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On a relative basis, the sovereign complex remains wholly uninspiring. Factoring into the mix 10-year Treasuries at 2%, a multiple US rate-cut scenario, negative yield lows in Bunds, and lower inflation expectations, credit as a whole should benefit as an asset class. TLTRO III terms are imminent; the small print will be a good gauge of the ECB's perspective on the overall landscape.

Summary of key bank issuance May 24 through May 30

Credit Suisse ventured into the Singapore dollar market, pricing a no-grow SGD 750m (roughly EUR 488m) 5.625% perpetual non-call five AT1 – its debut in the currency. The yield was equivalent to a spread of 376.7bp over the Swap Offer Rate. At that level, the final order book was 3.6x covered; demand reaching SGD 2.7bn from 118 accounts. Excess demand enabled leads to tighten from initial guidance of 5.875% while still offering solid arbitrage funding.

Luminor Bank, the third largest bank in the Baltics, is on the road from 3 June ahead of a potential long three-year euro-denominated senior preferred deal. Luminor was created from the pooling of Nordea and DNB's Baltic operations. Blackstone's acquisition of 60% of the bank was approved by the European Commission in January 2019.

Münchener Hypothekenbank was a solo FIG print on 29 May, selling a rather anonymous no-grow EUR 250m seven-year senior non-preferred bond at MS+43bp. Leads opted not to disseminate any pricing guidance or updates on book demand.

PRS Finance, a subsidiary of investment manager Venn Partners and part of the Private Rented Sector Housing Guarantee Scheme that Venn manages for the British Government, priced a GBP 110m tap (GBP 50m retained) of its GBP250m 2.00% due 23 January 2029s at 69bp over Gilts, with books twice covered for the portion offered to the market. Initial guidance had been +72bp, revised to +70bp. PRS's bond issuance match-funds its loan book. Bonds are unconditionally and irrevocably guaranteed by the UK government.

Sumitomo Mitsui Banking Corporation and **Mitsubishi UFJ Financial Group** have both mandated banks to arrange roadshows from 3 June. SMBC could emerge with an intermediate to long-dated Reg S euro-denominated or a short to intermediate tenor US dollar-denominated Japanese covered bond benchmark. MUFG could price a single or dual-tranche benchmark Reg-S euro-denominated senior unsecured fixed-rate 10-year green bond and/or a five-year green or non-green bond.

Swedish Covered Bond Corporation, a subsidiary of State-owned SBAB Bank, priced a EUR 500m 10-year Swedish covered bond on 28 May at MS+7bp on a final book of EUR 600m, reflecting the cautious market. Demand had reached EUR 850m while the deal was in marketing. Leads had gone out with guidance of MS+10bp.

UniCredit Bank Austria tapped the covered bond market on 29 May, the day after SCBC, pricing a EUR 500m eight-year mortgage bond at an identical spread as SCBC of MS+7bp but to a larger final order book of EUR 835m (gross demand of EUR 900m). Initial guidance had been MS+10bp and the bonds priced at the tight end of revised guidance of MS+8bp area +/-1bp WPIR.

● Away from European banks and the lacklustre European market tone, it's worth pointing out that FIG supply elsewhere did pretty well.

Pan-African lender **Ecobank Transnational** tapped the USD 450m 9.5% five-year senior unsecured offering it sold in April by USD 50m. The tap was 4.7x covered and priced at an 8.25% yield, having garnered USD 235m of demand. IPTs had been 8.50% area, tightened to 8.35%-area guidance

South Korea's **KEB Hana Bank** priced a 4x covered USD 400m senior unsecured floating-rate Formosa bond at 75bp over three-month Libor, picking up UDS 1.6bn of demand.

Kuwait International Bank priced a USD 300m AT1 Sukuk with a 5.625% profit rate on 29 May to rampant demand that covered the deal more than 15x. More than USD 4.6bn of demand from 150+ geographically diverse accounts flooded into the book. IPTs had been 6.25% area with final guidance coming at 5.875% to 6%.

Source for basic deals data: Bond Radar (www.bondradar.com)

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