Print while the going is good; risk-off drama overdone

SCOPE Scope Insights

So, the market is supposedly in risk-off mode at the moment. That didn't stop the European banks that threw their hats into the ring in senior preferred, senior non-preferred and covereds in the past week achieving solid execution. Even higher beta peripheral issuers caught a bid. As far as the primary market is concerned, the drama look a bit overdone.

For sure, spreads in the European banks complex are wider up and down the funding and capital spectrum and especially in AT1s (reportedly more so in dollar lines than euros). And there were fund outflows reported in the past week. But moves were not really that dramatic.

As much as deal the underwriting community talks about issuers holding off from printing trades because sentiment has turned a little queasy, they at the same time also attribute potential issuer reticence to a wait-and-see driven as much by pending full terms and conditions of TLTRO III, or for idiosyncratic reasons.

Benchmark bond yields are still super-low and credit spreads have been tightening all year. As a treasurer, waiting for better issuing conditions tomorrow that may never materialise for the sake of a couple of basis points can make for poor planning if it means passing up opportunities to get good funding today.

Neither **HSBC France**'s EUR 1bn senior preferred – the final euro FIG deal of the previous week – nor **National Australia Bank**'s EUR 1.25bn dual-tranche senior euro outing on May 13 – the first euro FIG offering of this past week – showed signs of undue stress.

HSBC France garnered demand of EUR 2bn on its five-year senior preferred on 10 May at MS+32bp; 18bp through IPTs. Bonds were allocated to a well-diversified group geographically and by investor type. Demand for NAB paper may not exactly have overwhelmed on 13 May, even with a reported 7bp-8bp new-issue premium.

Though whether that was down to a softer market tone or because of more prosaic reasons – like the lack of any Australian senior unsecured paper in euros in recent months causing a more cautious approach to price discovery – was a moot point. The trade was reported a little heavy in the aftermarket.

NAB's leads did shave 15bp off the EUR 750m five-year piece from +50bp IPTs, though, pushing through +40bp guidance to print at MS+35bp with EUR 1bn of demand. The EUR 500m 12-year piece didn't break through MS+60bp guidance but pricing came 10bp through +70bp IPTs with demand of EUR 725m. Peak demand for both lines had been bigger.

On the news front, **UniCredit**'s putative bid for **Commerzbank** continues to consume the media: UniCredit was forced to issue a denial of a 14 May news story that said it had hired Lazard – with the focus on Jörg Asmussen, former German deputy finance minister and now an MD in financial advisory at Lazard – and JP Morgan to advise on a bid. "No banking mandate has been signed related to any potential rumoured market operation," the statement read.

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Metro Bank raised approximately GBP 375m after the close on 16 May through an accelerated book-build. The placing was upsized from the initial GBP 350m target and shares were placed with new and existing shareholders at 500p, a 5.2% discount to the preceding five day average close. As at 31 March, the bank's CET1 ratio was 12.1% of RWA. Adding the proceeds of the placing at the original size, the ratio would have been 15.6% on a pro forma basis.

The beleaguered UK challenger bank had been forced into a statement on 13 May saying its plans to raise the new equity were well advanced. At the time, that had perked up the bank's bond and in particular its shares, which had hit an all-time low on 13 May following inflammatory social media chat about the bank's stability. In Friday morning trading, the shares were up 19% from the 16 May close and almost a third higher than the 13 May low.

Summary of key bank issuance May 10 through May 16

Abanca Corporación Bancaria priced its EUR 750m 10-year mortgage covered bond at MS+38bp, through MS+40bp guidance; books closing above EUR 850m. The tenor came at the long end of the seven to 10-year indications. The deal was the second-line Spanish bank's first stand-alone outing; its previous appearances have been in multi-cédulas. In the absence of a flow of Spanish bank benchmark covereds this year, plus the debut nature of the Abanca trade and the softer market, analysts put the print at a low single-digit premium to fair value.

Alpha Bank Romania sold the first covered bond from a Romanian bank. The EUR 200m due 16 May 2024s, backed by prime Romanian residential mortgages, priced at 150bp over six-month Euribor. The offering from the country's eighth largest bank was supported by a EUR 40m investment from the EBRD and EUR 50m from the IFC.

Bank of New Zealand roadshows kick off on 3 June 2019, ahead of a potential benchmark euro-denominated intermediate-tenor senior unsecured or covered bond.

Credit Mutuel Arkea priced its EUR 500m 10-year senior preferred at MS+75bp on a 4x covered book. Pricing came at the tight end of MS+75bp-80bp guidance; IPTs had been MS+95bp area.

Erste Bank's no-grow EUR 500m seven-year senior non-preferred went at MS+80bp, the tight end of MS+80bp-85bp guidance and reportedly at fair value. IPTs had been MS+95bp-100bp area. The final book was above EUR 2.2bn at re-offer, with over 160 accounts involved. Demand had peaked at EUR2.3bn from 180 accounts.

FCA Bank priced its EUR 800m 3.5-year senior offering at MS+85bp, with books hitting EUR 3.3bn at their height. Guidance had been MS+90bp-95bp and IPTs +115bp-120bp.

Hamburg Commercial Bank's EUR 500m three-year senior preferred offering appeared to have suffered no ill effects from the lawsuit brought by a group of investors in the bank's Tier 1 securities – a combination of hedge funds and insurance companies – who are seeking damages amid some pretty serious allegations against the bank's new owners. The former HSH Nordbank pushed out IPTs of MS+90bp-95bp on 16 May. The book was covered within an hour, enabling leads to tighten to guidance of MS+80bp and price at MS+75bp. Orders reached above EUR 1.2bn.

HSBC sold USD 3bn in 11NC10 fixed-to-floating senior unsecured bond at guidance of T+160bp, 10bp through IPTs of T+170bp area.

Hypo Vorarlberg Bank went into the market on the same day as UCG (see below), selling a no-grow eight-year EUR 500m Austrian mortgage covered bond that printed at MS+6bp, reportedly through fair value. A 5x covered book enabled the print to come well through initial guidance of MS+11bp area, revised to MS+8bp area. The higher level of over-subscription relative to UCG's 15-year was put down to the broader appeal of the eight-year tenor and the fact that the longer UCG offered just 2bp of additional spread.

ING-DiBa's dual-tranche German mortgage covered bond garnered EUR 3.2bn in overall demand, reportedly offering a few basis points of concession on both tranches. Pricing on the EUR 750m eight-year piece came 2bp through mid-swaps (vs mid-swaps flat area revised guidance and MS+3bp initial guidance; demand was EUR 1.7bn); the EUR 750m 20s printed at MS+8bp (vs MS+9bp area revised guidance and MS+11bp initial guidance; demand EUR 1.35bn). The long tranche extended the issuer's covered bond curve by six years.

Final terms on **LBBW**'s five-year senior non-preferred green bond saw a EUR 750m size at a spread of MS+53bp, the tight end of revised guidance of MS+55bp +/-2bp WPIR. Initial guidance had been MS+65bp area. The final book was above EUR1.1bn at reoffer, with more than 150 accounts involved, having maxed at above EUR 1.25bn. Demand was potentially a little disappointing, especially since green trades typically benefit from stickier green bids.

Private equity firm **KKR** kept the reverse Yankee deluge going, setting the spread on its upsized EUR 650m 10-year bond at MS+125bp, a level that drew demand of over EUR 2.5bn. Guidance had been MS+130bp area for an expected EUR 500m offering, while IPTs had been MS+150bp area. The transaction was the firm's euro debut and came following investor roadshows in London, Paris and Amsterdam that kicked off on Friday 10 May.

Nationale-Nederlanden Bank has mandated leads to arrange an investor roadshow commencing 17 May, ahead of its potential debut benchmark Reg S-only euro senior preferred, with a four-year tenor.

Insurer **Sampo** had investors champing at the bit for its no-grow EUR 500m 30NC10 Tier 2. The book was 9x covered at guidance of MS+320bp, so leads set final pricing at MS+305bp. Final pricing was 45bp through +350bp IPTs. The company had been on a short roadshow a week before launch.

Slovenska Sporitena mandated underwriters to organise investor meetings across Europe commencing 22 May, ahead of a potential covered bond.

Standard Chartered priced USD 2bn in fixed-to-floating senior unsecured notes split equally between 6NC5 and 11NC10 tranches. IPTs on the 6NC5 were T+170bp area; T+200bp area on the 11NC10. Pricing came at guidance of T+160bp/T+190bp.

UniCredit Bank AG's EUR 1bn 15-year mortgage covered bond pulled in solid orders on May 14 with a couple of basis points of new-issue premium at MS+8bp, with EUR 1.8bn good at the close. Guidance had been MS+10bp area.

Westpac NZ embarks on a roadshow commencing 27 May ahead of a potential intermediate-tenor euro-denominated senior green bond.

Source for deal stats: Bond Radar (www.bondradar.com)

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