Investors open for business as FIG primary market gets back into gear

The FIG primary market came back to life this week. A flurry of deals priced ahead of Jackson Hole, while others go on the road over the next couple of weeks. Investor reception to deals that printed was robust; buyers clearly not letting rates volatility, yield implosion/inversion, rock-bottom spreads, geopolitics or cries of recession get in the way.

Underwriters on some of the trades started, reasonably, a little cautious on pricing but ratcheted in quickly as strong momentum emerged. Berlin Hyp printed the lowest yield ever on a new covered bond, while the week also saw Danske Bank and Swedbank tick the boxes despite money-laundering concerns.

Swedbank's USD 500m AT1 was 14x covered, and the yield tightened from 6.25% at IPT to a 5.125% print. Danske Bank arguably paid up to get its EUR 1bn senior non-preferred trade done but book coverage was 2.5x. The deal's reception gave the bank reason to expect a tightening trajectory on forthcoming funding. Also worth mentioning was Belfius Bank's EUR 750m senior preferred, which came with a 0% coupon but priced to yield just 0.066%.

In these somewhat weird markets, zero yields have long since stopped being a deal breaker. Sellers are still finding solid demand below the line with spread players (if not absolute yield players), who can still book relative-value pick-ups to governments and/or the ECB depo.

Case in point was Berlin Hyp. With pretty much the entire stock of euro covered bonds trading with negative yields, the issuer got its EUR 1bn three-year mortgage covered bond away at a negative yield of -0.588%. That was a record low for a new issue. Speaking to relative-value, the bonds offered a small concession to the issuer's curve, an uplift over the ECB deposit rate, and a 37.5bp pick-up over governments. Final demand was above EUR 1.15bn, with 38 names in the book.

Banks took 61% of the bonds, which is not surprising. As Mathias Pleissner, director in the covered bonds team at Scope Ratings noted in a comment on 16 August, "negative rates on covered bonds are not appealing to real-money investors and are only economic and sustainable for banks' treasuries. [Banks] need to invest in LCR-eligible instruments, and negative-yielding covered bonds simply hurt less than even more negative yielding sovereign debt."

Buyers were also presumably attracted to the bonds because they offered a premium to cash rates and potentially as an arbitrage against a lower ECB deposit rate. Expect more negative-yielding covered bonds in September, particularly as the coming month will see heavy redemption-driven demand.

Pointing to a significant decrease in the euro zone interest-rate environment over the summer that pushed most of the euro swap curve into negative territory, Gero Bergmann, member of Berlin Hyp's board of management, noted in a press release that "despite the obvious negative yield, the bond offered investors added value due to the low supply of short maturities and relative-value aspects".

This report is published by Scope Insights, a Scope Group subsidiary which is separate from Scope Ratings. The content is an independent view not related to Scope's credit ratings.

Author:

Keith Mullin
+44 7826 517225
k.mullin@scopegroup.com

Investor Relations:

Debbie Hartley
+44 20 3871 2872
d.hartley@scopegroup.com

Media:

André Fischer
+49 30 27891 147
a.fischer@scopegroup.com

Scope Insights

Suite 204
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Scope Group

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

www.scopegroup.com

Bloomberg: SCOP

The focus shifts back to macro factors as the Kansas City Fed's Jackson Hole Economic Policy Symposium gets going, with its focal point perhaps the biggest current theme out there for market participants: 'Challenges for Monetary Policy'. That's a big topic. The blurb on the event neatly outlines what the challenges are:

- Diverging interest rates across countries that have contributed to different trajectories of monetary policy paths across countries in recent years, with implications for exchange rates, trade, and economic activity in the global economy.
- The implications for capital markets and financial flows for advanced and EM economies from monetary policy actions and the build-up and eventual unwinding of central banks' balance sheets from QE. Particularly as shifts in monetary policy in one country can create spill-overs through financial markets affecting others.
- The path to policy normalisation against a backdrop of a lower natural rate of interest than in the past where many central banks are also faced with unwinding unconventional policy actions taken during the financial crisis.
- And, making it crystal clear how concerned policymakers are about the power of financial and commodity markets to create headwinds or tailwinds to economy activity and inflation dynamics: the extent to which policymakers should consider market influences when they chart their monetary policy courses.

Easy to say, but the challenges are presumably less easy to overcome. Particularly as there's a growing consensus among market-watchers that the monetary toolkit is exhausted. A growing question is whether the onus is starting to shift to the potential for fiscal policy to do more of the heavy lifting, perhaps in a co-ordinated monetary-fiscal approach.

Summary of FIG debt issuance August 16 to August 22 (14:00 CET)

ANZ priced a AUD 3bn (roughly EUR 1.83bn) senior unsecured trade on 22 August split into a AUD1.2bn three-year floating-rate note (priced at 3mBBSW+58bp, 2bp through guidance), an AUD 1.35bn five-year FRN (priced at 3mBBSW+77bp area, 3bp through guidance) and an AUD 450m five-year fixed-rate tranche (priced at S/Q ASW+77bp, also 3bp through guidance).

ANZ New Zealand goes on the road on 2 September ahead of a potential benchmark euro-denominated intermediate to long tenor senior unsecured transaction

New Zealand's **ASB Finance** has mandated underwriters to arrange roadshows across Europe ahead of a potential benchmark euro intermediate to long tenor senior unsecured or covered bond.

Mexico's **Banco Mercantil del Norte** sold CHF 160m in 4.25-year notes at MS+135bp, the bottom end of MS+135bp-140bp guidance. The minimum stated size had been CHF 100m.

Bank of New York Mellon priced a USD 1bn three-year senior unsecured trade at T+52bp, the tight end of T+55bp area +/-3bp guidance. IPTs had been T+70bp area.

BBVA priced a USD 600m five-year senior bond at T+108bp, against guidance of T+110bp area.

Belfius Bank built a EUR 2bn book for its capped EUR 750m seven-year senior preferred offering, launching the deal at MS+48bp, the tight end of MS+50bp area +/- 2bp WPIR guidance. The deal, the issuer's first benchmark trade of the year, had started out with IPTs of MS+65bp-70bp.

Berlin Hyp broke new ground with its EUR 1bn three-year mortgage covered bond, pricing 2bp through mid-swaps on 20 August for a negative yield of -0.588%, a record yield low for a new issue but technically offering a potential concession. Books were just covered. Pricing came at the tight end of MS flat/-2bp WPIR guidance.

Danske Bank's EUR 1bn 6NC5 senior non-preferred got away at a good level for the bank of MS+115bp. And a good level for investors, as the deal came with a reported 10bp premium. The deal picked up a good head of steam and demand went above EUR 2.5bn at the highs. Demand enabled leads to price at the bottom of MS+115bp-120bp guidance and 20bp-plus through IPTs of MS+135bp area.

HSBC Bank Canada will be back on the road in Europe from 27 August ahead of a potential benchmark three-year fixed-date US dollar covered bond backed by prime Canadian residential mortgages.

JP Morgan Chase announced an USD 11.15bn any-and-all cash tender offer for five lines of non-callable dollar-denominated senior notes maturing between January and July of 2020 (hence have lost their capital eligibility).

NatWest Markets sold a CHF 350m four-year senior at a spread of MS+103bp, through guidance of MS+105bp area.

Swedbank saw a deluge of demand for its no-grow USD 500m PNC5 AT1 on 22 August, with books closing above USD 7bn. Leads had pushed out 6.25% area IPTs, tightened to guidance of 5.875% and set the yield at 5.625%. The trigger is set at 5.125% for the bank and 8% at group level.

UBS Group priced a well over-subscribed AUD 700m (approx. EUR 428m) 7% CET1-trigger permanent write-down PNC5 AT1 with a yield of 4.375%, the tight end of 4.375%-4.50% final guidance and arguably through fair value, pushing through 4.875%-area initial guidance and IPTs of 5.125% area.

Virgin Money goes on the road across Europe in the coming week to market its potential benchmark euro covered bond debut in what is likely to be an interesting test for a UK bank in the European single currency as the UK looks like it may be heading towards a no-deal EU exit.

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

Scope Insights GmbH

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

Managing Director: Florian Schoeller
Commercial Register: District Court Berlin-Charlottenburg HRB 202433 B