Are we heading for a credit market top?

The FIG sector garnered solid investor and market attention in recent days; Deutsche Bank, UniCredit, and Piraeus Bank capital trades generating between 7x and 8x book coverage. Are we starting once again to get close to a credit market top?

The credit market has been buoyant since the start of the year. New issues across the borrower spectrum have almost without exception been well subscribed. Issuers offering a vestige of yield have had their proverbial hands bitten off. The factors behind this credit-market positivity, even in the face of black swan events like the coronavirus outbreak, are by-now well-rehearsed: central bank liquidity injections sitting alongside a *faute de mieux* mentality of a buy-side flush with cash. It’s a combination that is pushing the envelope on credit pricing.

While issuers are locking in phenomenal funding, investors have tossed aside credit fundamentals at the hairier end of the credit spectrum today – potentially at their peril once the cycle turns tomorrow. For now, that eventuality seems a long way off and in the trenches of capital markets Realpolitik, the battle to get allocated trumps all. Should we start to be concerned?

In the FIG space, with general market speculation around DB’s upcoming April dollar AT1, and comments by the group treasurer on the recent fixed-income call about the call and about 2020 capital issuance continuing to resound, Deutsche Bank went into the dollar market on 11 February and pulled in what were reported to have been USD 10bn of orders (some reports said USD 14bn) for a USD 1.25bn AT1 that printed 75bp through IPTs at a yield of 6%.

DB continues to be seen as an outlier among European banks, given its as-yet unfinished restructuring. A much better reflection of today’s market conditions were UniCredit’s EUR1.25bn AT1 and Piraeus Bank’s EUR 500m Tier 2. UCG achieved a 3.875% yield against demand of more than EUR 9bn (also 75bp through 4.625%-area IPTs) while Piraeus (chasing Alpha Bank’s blockbuster the prior week) got its 10NC5 T2 done at 5.50%, against low-6% IPTs as EUR 4bn in orders came in. These are names that not long ago were locked out of capital trades. Piraeus’s previous T2 (EUR 400m last June) was a 9.75% print that only pulled in EUR 850m of demand.

The rationale for speculating about an approaching top to the market lies in the fact that market participants are starting to react with shock, awe and occasionally bewilderment to the performance of new issues such as those referenced above and others. Italy saw orders of more than EUR 50bn for its EUR 9bn 16-year so was able to shave 4bp off guidance to price at 5bp over the due March 35 BTP. That’s a big move. In the corporate world, investors are accepting without question short-end negative yields from corporates (LVMH’s acquisition financing a good example).

In covered bonds, there was some chat about Berlin Hyp failing to hit the tight end of the range (MS-2bp) on its seven-year on 10 February; and about Deutsche Hyp finding it a slog to get its same-maturity trade away at the tight end of its range (MS+3bp). Reactions to both were a little lacklustre; market participants casting aspersions on whether real-money was at its limits.

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Summary of FIG debt issuance 10 February to 17 February

EUROPEAN BANKING GROUPS

Arion Bank mandated leads on 13 February to arrange roadshows ahead of a sub-benchmark USD PNC5.5 AT1.

Banca IFIS mandated leads on 12 Feb to arrange roadshows ahead of a potential euro five-year senior preferred.

Banco BPM priced a EUR 750m five-year senior non-preferred on 11 February at MS+193bp; books closing at around EUR 2.4bn at the MS+200bp area guidance level. IPTs emerged at MS+220bp area.

Banco Santander priced a GBP 500m seven-year senior non-preferred on 11 February at G+135bp guidance. Books were above GBP 640m. IPTs were G+140bp area.

Berlin Hyp priced a no-grow EUR 500m seven-year mortgage covered bond on 10 February. Leads started with IPTs of MS+1bp and priced at MS-1bp, the middle of MS-1bp +/-1bp WPIR revised guidance; books of around EUR 700m.

BNP Paribas priced a EUR 1.2bn 8NC7 senior non-preferred on 12 February at MS+73bp to demand of EUR 2.4bn. IPTs had been MS+90bp-95bp.

Deutsche Bank priced its USD 1.25bn PNC5.75 AT1 on 11 Feb at 6%, vs. 6.125%-area guidance (IPTs 6.75% area).

Deutsche Hypo priced a WNG EUR 500m seven-year mortgage covered on 11 February at MS+3bp, the tight end of MS+4bp +/-1bp WPIR revised guidance (initial guidance MS+5bp area). Books were EUR 750m from 45 accounts.

NPL buyer **Hoist Finance** mandated leads on 12 Feb to arrange roadshows for a EUR 40m PNC5 AT1.

ING Belgium priced a EUR 1.25bn 10-year mortgage covered on 13 February at MS+5bp vs. guidance of MS+9bp.

Landesbank Baden-Württemberg priced a EUR 1bn seven-year senior non-preferred social bond on 11 February at MS+58bp, the tight end of MS+60bp +/-2bp WPIR guidance (IPTs MS+70bp-75bp). Books closed above EUR 1.8bn.

Landsbankinn priced a WNG EUR 300m 4.25-year senior unsecured on 12 Feb at MS+83bp; books closing at EUR1.2bn. IPTs were MS+110bp area; guidance MS+90bp-95bp.

Sweden's **Länsförsäkringar Bank** (priced a no-grow EUR 500m five-year senior preferred note on 12 February at MS+45bp, the tight end of MS+47bp +/-2bp WPIR guidance; books closing at EUR900m. IPTs were MS+60bp-65bp.

Piraeus Bank priced a EUR 500m 10NC5 Tier 2 on 12 February at a 5.50% yield, books closing above EUR 4bn. Pricing came at the tight end of final guidance of 5.50%-5.75%; IPTs had been low 6% area.

Santander Consumer Bank AS priced EUR 1bn of five-year senior unsecured notes on 17 February at final guidance of MS+50bp; orders of EUR 1.1bn just covering deal size. IPTs had been MS+65bp-70bp.

Societe Generale priced a EUR 1.25bn six-year senior preferred on 17 February, setting final terms and pricing at MS+43bp, having pushed out IPTs of MS+60bp-65bp. Demand was above EUR 2.5bn.

SR-Boligkreditt priced its EUR 500m 10-year mortgage covered bond at MS+8bp on 17 February. Pricing came at the tight end of MS+9bp +/-1bp WPIR revised guidance, with demand of over EUR 900m. Initial guidance of MS+13bp area had drawn demand of over EUR 1bn.

Svenska Handelsbanken sold a EUR 1bn 10-year senior non-preferred on 11 February at MS+58bp; books reaching above EUR 1.8bn. Pricing was at the tight end of MS+60bp +/-2bp WPIR guidance; IPTs were MS+75bp area.

UniCredit priced a EUR1.25bn PNC7.3 temporary write-down AT1 on 12 February at a yield of 3.875%, building demand of over EUR 9bn. Guidance was 4.125% area; IPTs were 4.625% area.

Virgin Money UK mandated leads on 12 February to arrange roadshows commencing 18 February ahead of its potential debut euro-denominated benchmark 5NC4 fixed-rate reset senior unsecured holdco transaction.

NON-EUROPEAN GROUPS

Banco Mercantil del Norte priced a CHF 225m 4.75-year senior unsecured offering at MS+108bp, below guidance of MS+110bp-120bp guidance. The deal had gone into the market at a minimum CHF 150m.

Bank of America took USD 5bn from the bond market on 10 February in a dual-tranche fixed-to-floating trade. A USD 1.5bn 6NC5 tranche priced at T+65bp guidance (T+80bp area IPTs); a USD 3.5bn 11NC10 priced at T+95bp, the tight end of T+95bp +/-2bp guidance (T+110bp area IPTs).

Bank of New Zealand priced a USD 750m five-year senior unsecured offering on 13 February at T+68bp, the tight end of T+70bp +/-2bp guidance. IPTs were T+low 80s.

Kuwait's **Boubyan Bank** priced its USD 750m five-year senior unsecured Sukuk on 11 February with a profit rate of 2.593%. Books peaked at USD 4.9bn from around 190 accounts. Guidance was MS+125bp-130bp, after IPTs had emerged at MS+150bp area.

China Huarong Financial Leasing, via Avenue International Holding, priced its USD 200m US dollar 363-day senior unsecured deal at a yield of 3.10% on 17 February, having pushed out initial guidance of 3.55% area

China International Capital Corporation priced a USD 1bn three-year FRN on 10 February at final guidance of 3mL+90bp, building demand of USD 4.2bn at final close. Initial guidance had been 3mL+120bp area.

CITIC mandated leads on 17 February to arrange roadshows ahead of a potential Reg S US dollar-denominated senior unsecured offering.

Emirates NBD Bank priced a no-grow USD 500m five-year senior unsecured on 10 February at MS+125bp; books seen above USD 2.5bn. Pricing was at the tight end of MS+125bp-130bp final guidance; IPTs were MS+155bp area.

First Abu Dhabi Bank priced AUD and GBP senior unsecured trades on 12 February. The AUD 350m five-year FRN priced at BBSW+110bp; the GBP 450m three-year fixed-rate priced at G+98bp, the tight end of G+100bp +/-2bp guidance to demand of roughly GBP 1.25bn. IPTs were G+115bp-120bp.

ICBC was in the market on 17 February with a potential AUD three-year FRN at 3mBBSW+85bp area.

India Infoline Finance priced a USD 400m three-year senior on 13 February at a yield of 5.95% (final guidance). The final book was above USD 1.25bn from 124 accounts (USD 1.5bn during marketing). Initial guidance was 6.20% area.

JP Morgan priced a EUR 1.25bn 8NC7 senior unsecured fixed-to-floating reverse Yankee on 14 February at MS+60bp. Demand reached above EUR 2bn. IPTs were MS+75bp area.

KKR priced a USD 475m five-year senior unsecured offering (upsized from USD 300m) on 11 February at a yield of 4.25% (T+284.2bp), the same level as IPTs.

Members Banking Group, trading as RACQ Bank (Royal Automobile Club of Queensland), mandated leads on 17 February for a potential AUD three-year senior unsecured note. Initial price thoughts were 3mBBSW+93bp area.

Oaktree Capital priced a no-grow USD 300m five-year senior unsecured offering on 13 February at T+225bp, the tight end of T+230bp +/5bp guidance. IPTs were T+250bp area.

Riyad Bank mandated leads on 11 February to arrange roadshows in Dubai and London ahead of a potential 10NC5 or 10.5NC5.5 benchmark Tier 2.

Sumitomo Mitsui Banking Corporation priced an AUD 800m 2.5 year senior unsecured FRN on 11 February at 3mBBSW+66bp.

(Source for raw bond data: Bond Radar (www.bondradar.com); bank and media sources

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