FIG issuers make better showing across the capital structure

The FIG primary bond market has looked lively in the past week or so. Around 30 European and US financials – banks and insurers – jumped through the supply window, targeting in more or less equal measure the whole capital structure, from covered bonds and senior preferred through senior non-preferred and Tier 2 to deeply subordinated hybrids, across multiple currencies.

Issuers took advantage of solid investor demand to lock in relatively keen levels offering scant concessions. European banks are expected to get through the Covid-19 crisis without any existential problems, given robust capital and liquidity, though asset quality and profit deterioration will occur over time. No known unknowns are expected to roil the sector in the immediate term. That helped settle sentiment.

In the previous week, the general market had taken on a somewhat fatigued tone, as investors were a little over-run with (mainly corporate) supply. They needed a breather, which duly came in the form of the Ascension Day holiday in parts of Europe on 21 May and the Memorial Day and late May bank holidays in the US and UK on 25 May, which curtailed supply. The new-issue market looked well supplied in Europe on 26 May.

Market participants seized on the emergence of an Italian FIG name as a sign of good risk appetite, even if it was in senior unsecured format from a national champion. Intesa Sanpaolo's EUR 1.2bn five-year senior unsecured on May 18 priced at MS+245bp and pulled in demand of EUR 2.15bn, enabling leads to tighten from initial price thoughts of MS+270bp area.

The senior non-preferred bank market perked up this past week as ABN Amro went for euros, BNP Paribas tapped yen and Australian dollar markets and Santander opted for US dollars. BFCM, meanwhile, was marketing a euro SNP on 26 May. They all seemed to pull in decent demand and priced nicely through initial price thoughts.

Demand is well and truly back for subordinated debt. The episodic trades of the past few weeks are now building into something more akin to a flow. If Barclays' GBP 500m 10NC5 Tier 2 trade on 15 May was OK but had failed to sparkle, T2s this past from ING (in euros) and Bank of East Asia (US dollars) attracted much better levels of over-subscription. The US preferred stock market saw supply from regional banks Comerica Bank and Trust Financial, while US insurer American Financial and regional Western Alliance Bank kept the dated subordinated channel open.

AT1 non-calls are becoming a more common occurrence and adverse reactions are waning. Lloyds Banking Group's decision not to call its EUR 750m 6.375% AT1 at the 27 June call date didn't really have much of a market impact. Lloyds said on 22 May that it continues to be strongly capitalised (14.2% CET1 and 16.9% Tier 1 ratios at Q1 2020) and that because of the extraordinary market challenges presented by Covid-19, it had decided it is "prudent to not reduce Tier 1 resources at this time" as it is uneconomic to call. The reset coupon equates to MS+529bp.

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Bond investors suffer supply indigestion as flow continues amid poor macro signals

The overall AT1 market has continued to rally off the March lows, when index yields hit mid-teens. The market has all but recovered fairly eye-watering losses as investors have jumped on the lows to capture pretty heady capital gains.

Summary of FIG debt issuance 15 May to 26 May (14:00 CET)

EUROPEAN ISSUERS

ABN AMRO priced a EUR 1.25bn five-year senior non-preferred note on 20 May at MS+155bp, building demand of over EUR 3.3bn. Pricing came at the tight end of MS+155bp-160bp WPIR guidance. IPTs were MS+185bp area.

Achmea priced a EUR 750m seven-year senior offering on 19 May at MS+185bp. Books were EUR 1.5bn at re-offer. Pricing came at the tight end of MS+185bp-190bp WPIR guidance. IPTs were MS+210bp area.

Allianz SE priced a EUR 1bn long 30NC10 senior trade on 18 May at MS+228bp, the tight end of MS+230bp +/-2bp guidance. The final order book was above EUR 1.8bn, having reached EUR 2.25n in marketing. IPTs were MS+250bp area.

Axa Bank Europe SCF priced a EUR 250m tap of its EUR 500m Belgian mortgage covered bond on 18 May at MS+23bp (reoffer price 115.544). Books were above EUR 1bn.

Barclays plc priced a GBP 500m 10NC5 Tier 2 on 15 May at G+375bp, the tight end of G+375bp-380bp WPIR guidance. Books closed above GBP 1bn. IPTs were G+400bp area.

Banque Fédérative du Crédit Mutuel (BFCM) pushed out IPTs of MS+175bp area on 26 May for its benchmark euro-denominated 10-year senior non-preferred note. Books had passed EUR 2bn by mid-morning.

BNP Paribas mandated a five-year fixed or floating Australian dollar senior non-preferred deal on 26 May. On 21 May, the bank priced a JPY 50bn six-year SNP at YOS+130bp final guidance. IPTs were YOS+125bp-130bp.

BPCE priced an AUD 650m five-year senior preferred transaction on 26 May split into a AUD 375m fixed-rate tranche priced to yield 160bp over SW ASW (IPTs +165bp-170bp) and a AUD 275m FRN priced at 3mBBSW+160bp (IPTs also +165bp-170bp).

BPCE SHF priced a EUR 1.25bn 10-year green mortgage covered bond 18 May at MS+17bp to heady demand of EUR 6.5bn from over 190 investors. Pricing came at the tight end of MS+18bp +/-1bp WPIR revised guidance; initial guidance was MS+23bp. Proceeds will finance or refinance eligible green mortgage loans for the construction and acquisition of energy-efficient dwellings.

Final terms on **Credit Mutuel Arkea**'s EUR 1bn long 10-year covered bond backed by French prime residential homes loans were MS+15bp on 26 May. By mid-morning, books were above EUR 3.9bn.

Credit Suisse priced an AUD 1.75bn three-year FRN at 3mBBSW+115bp on 19 May. IPTs were +130bp.

Deutsche Bank mandated a second-opinion provider to review its Green Bond Framework. Its alignment with best market practices (incl. ICMA Green Bond Principles), the EU Taxonomy and contribution to SDGs was confirmed. An investor call is scheduled for 27 May ahead of a potential EUR 500m short to intermediate senior preferred bond.

HSH portfoliomanagement (guaranteed via an explicit unconditional, non-subordinated guarantee at first request by the Federal States of Hamburg and Schleswig-Holstein) mandated leads on 18 May to arrange a series of one-on-one investor calls ahead of a potential US dollar sub-benchmark Reg S transaction.

ING Groep priced a EUR 1.5bn 11NC6 Tier 2 on 20 May at MS+240bp. Books closed above EUR 4bn. Pricing was at the tight end of MS+240bp-245bp guidance; IPTs were MS+270bp area.

Intesa Sanpaolo priced EUR 1.2bn of five-year senior unsecured notes on May 18 at MS+245bp, generating demand of EUR 2.15bn. Pricing came at the tight end of MS+250bp +/-5bp WPIR guidance. IPTs were MS+270bp area.

Estonia's **LHV Pank** mandated leads to arrange investor calls ahead of a potential EUR 250m intermediate tenor covered bond.

Royal Bank of Scotland Group sold a USD 1.6bn senior unsecured offering split into a no-grow USD 600m 4NC3 green tranche at T+215bp (the tight end of T+220bp +/-5bp guidance; IPTs T+245bp area) and a USD 1bn 8NC7 at T+255bp (the tight end of T+260bp +/-5bp guidance). The longer tranche was upsized from USD 750m.

Santander sold a USD 2.5bn senior non-preferred on 20 May split into a USD 1.5bn five-year that priced at T+240bp guidance (IPTs T+280bp area) and a USD 1bn 10-year that priced at T+280bp guidance (IPTs T+320bp area).

NON-US ISSUERS

US insurer **American Financial** priced a USD 150m 50NC5 subordinated note on 21 May at a yield of 5.625% guidance. The deal was upsized from USD 100m. IPTs were 5.75% area.

US insurer **Athene Global Funding** sold a USD 450m three-year Funding Agreement-backed note on 21 May at T+260bp guidance. IPTs were T+275bp area.

Bank of East Asia sold a no-grow USD 600m 10NC5 Tier 2 on 22 May at final guidance of T+375bp, equivalent to a yield of 4.091%, to demand of USD 5.1bn. Initial guidance had been T+425bp area.

Citic Securities was seeking feedback on 26 May on three and five-year US dollar fixed-rate senior notes.

Comerica Bank sold a USD 400m PNC5 fixed-rate reset non-cumulative preferred stock on 20 May at a yield of 5.625%. The deal was upsized from USD 350m. Yield guidance was 5.75% area and IPTs were 6.00%-6.125%.

Tennessee-based **First Horizon** priced an USD 800m dual-tranche senior unsecured note on 20 May split into a USD 450m three-year at T+335bp (IPTs T+mid 300s) and a USD 350m priced at T+375bp (IPTs T+high 300s). The bank also sold a USD 150m PNC5 preferred share offering at a yield of 6.50%.

JP Morgan Chase priced USD3.5bn in senior unsecured holdco notes on 19 May split into a USD 2bn 4NC3 at T+130bp guidance (IPTs T+145bp area) and a USD 1.5bn 8NC7 at T+165bp guidance (IPTs T+180bp area).

Macquarie Bank priced an AUD 750m 10NC5 Tier 2 FRN at 3mBBSW+290bp.

Prudential Financial (Five Corners Funding Trust II) priced USD 1.5bn 10-year senior note offering at T+215bp in order to purchase US Treasuries for the Trust. Pricing came at the tight end of T+220bp +/-5bp guidance. IPTs were T+240bp area.

Truist Financial Corporation sold a USD 500m PNC5 preferred stock offering on 19 May at a yield of 5.25% (revised guidance). The deal was upsized from USD 200m. Initial yield guidance was 5.25%-5.375%.

Unum Group priced a USD 500m short five-year senior trade, upsized from USD 400m, on 18 May at T+425bp. IPTs were T+475bp area.

Western Alliance Bank sold USD 225m in 10NC5 subordinated notes on 20 May at T+456bp (yield of 5.25%, which is where IPTs emerged).

Insurer **Willis North America** priced a USD 275bm tap of its due September 2029 senior unsecured note on 21 May at a 102.666 reoffer for a spread of T+195bp. IPTs were T+225bp area.

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

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