Bond market holds up against push-and-pull of conflicting news flow

The bond market remains in good shape, despite being buffeted by the push-and-pull of positive and negative news. On the plus side, several countries are starting gradually to lift Covid-19 restrictions and get people back to work amid a slew of supportive monetary and fiscal stimulus measures.

Against the positive, investors had to consider China's 6.8% Q1 GDP contraction, predictions of a spike in corporate defaults, prodigious increases in unemployment around the world, still-high occurrences of Covid-19 in certain countries, and the first signs of immediate impacts on the banking sector from exceptional hikes in loan-loss provisions. The major US banks, reporting first-quarter earnings, dramatically upped provisions against macroeconomic consequences of Covid-19 and the oil price decline.

As in recent weeks, debt issuance remains healthy – USD 112bn last week and in excess of USD 120bn this week into the end of Friday's morning session in Europe. Bearing in mind both weeks were shortened by holidays, that's robust. Also positive were healthy levels of deal over-subscription, as pricing stabilises and investment-grade credit and high-yield benefit see decent inflows.

The high new-issue premiums that bond investors demanded at the back end of March have continued to come down. Heavy primary flow has helped stabilise the secondary market, which had been struggling to find workable levels. There's nothing like formal new-issue pricing to fix levels.

In terms of deal stratification, this past week was notable for the USD 10.5bn of corporate high-yield and crossover supply that emerged (the vast majority from the US) as some 16 issuers tapped a market buoyed by the Fed's decision to include high-yield bond ETFs – with some conditions – in its Secondary Market Corporate Credit Facility. For the primary market as a whole, the geographical spread was skewed towards the US (60%), with EMEA accounting for around a third. Corporates took half; the rest split between SSA (30%) and FIG (20%).

The bank market saw the return of senior non-preferred issuance as French national champions tapped the market in callable format. BNP Paribas took EUR 1.25bn out of the market at the 9NC8 maturity point, while Credit Agricole and Societe Generale both plumped for 6NC5 trades (EUR 1.5bn and EUR 750m, respectively). The deals were 3.3x covered in aggregate, although BNPP and Credit-Ag built the biggest books. Pricing for the three trades tightened well through initial thoughts – by between 25bp and 40bp.

UBS was also active, executing a heavily over-subscribed EUR 2bn three-year senior offering and a USD 2.5bn two-year senior, similarly pulling pricing well in from IPTs. The World Bank was the stand-out issuer this past week, raising US 14.3bn in total via Sustainable Development bonds in US dollars (USD 8bn five-year) and Swedish krona (SEK 11.5bn or USD 1.15bn two-year), plus benchmark bonds in euros (EUR 3bn eight-year) and sterling (GBP 1.5bn three-year) to raise awareness about its health programme.

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As European banks get ready to post Q1 numbers, there was a heavy focus on the big US corporate and investment banks' loan-loss provisioning when they reported Q1 numbers in the past week, as they provided investors with a preview as to what they might expect from European banks. The numbers that will emerge in Europe will weigh on sentiment. In summary:

- Bank of America's provision for credit losses increased to USD 4.76bn from just over USD 1bn in 1Q19, driven by a USD 3.6bn reserve build. Provisions were broadly split equally between the consumer banking and global banking.
- Citigroup said its 46% decline in Q1 net income was driven by higher loan-loss reserves. The group's cost of credit rose to USD 7bn, from USD 2bn in 1Q19. The allowance for loan losses was USD 20.8bn at the end of Q1, (2.91% of total loans), compared to USD 12.3bn (1.82%) at the end of the prior-year period.
- JP Morgan Chase reported a USD 6.8bn increase in its provision for credit losses to USD 8.3bn, driven by reserve builds, reflecting deterioration in the macroeconomic environment as a result of Covid-19 and pressure on oil prices. The reserve build in the consumer and community banking division was USD 4.4bn (predominantly in cards); the wholesale reserve build was USD 2.4bn across sectors; the largest impacts in Oil & Gas, Real Estate, and Consumer & Retail.
- Wells Fargo's provision expense for loans and debt securities rose from USD 800m to USD 4bn. The reserve build was USD 3.1bn. Eloquently reflecting corporates' quest to build liquidity cushions during the quarter, the bank said commercial loans rose USD 52bn from year end, due almost entirely to growth in commercial and industrial loans driven by draws of revolving lines and origination of new lending facilities due to the impact of Covid-19 on economic and market conditions.
- Goldman Sachs increased its provision for credit losses from USD 336m in 1Q19 to USD 937m, reflecting impacts on both the bank's energy portfolio and Covid-19.
- Morgan Stanley took a USD 388m provision for credit losses on loans and unfunded lending commitments held for investment.

Summary of FIG debt issuance 07 April to 17 April (13:00 CET)

Banco Santander Mexico priced a USD 1.75bn five-year senior bond on 14 April at a 5.375% yield, equivalent to T+495.5bp. Pricing came at the tight end of 5.50% +/-12.5bp guidance; IPTs were 6% area.

Bank of Nova Scotia priced a USD 1.25bn three-year bail-in-able bond at guidance of T+140bp on 14 April. IPTs were T+155bp area.
BNS also priced a EUR 1.25bn tap of its outstanding EUR 750m 0.375% due 10 March 2023 covered bond on 9 April at MS+55bp. Demand reached above EUR 1.75bn. Guidance was MS+60bp area.

BNP Paribas priced a EUR 1.25bn 9NC8 senior non-preferred bond on 14 April at MS+135bp; books close above EUR 5.3bn. IPTs emerged at MS+175bp area, tightening to MS+140bp area guidance.

Brookfield Asset Management priced a USD 600m (upsized from USD 500m) 10-year senior bond on 7 April at T+362.5bp. IPTs were T+375/387.5bp. The issuer tapped the bond for a further USD 150m on 9 April.

Credit Agricole priced a EUR 1.5bn 6NC5 senior non-preferred bond on 14 April at MS+125bp, building a book of more than EUR 5bn. Pricing came at the tight end of MS+130bp +/-5bp WPIR guidance. IPTs were MS+155bp area.

JP Morgan Chase priced a USD 10bn SOFR-linked fixed-to-floating senior bond on 15 April. The USD 3.5bn 6NC5 priced at T+175bp (IPTs T+185bp area); the USD 2.75bn 11NC10 priced at T+190bp (IPTs T+200bp area); the 21NC20 and 31NC20 both priced at T+185bp (IPTs T+195bp area and T+200bp area respectively). All tranches priced at the same level as pricing guidance.

Jupiter Fund Management is planning a potential sub-benchmark 10NC5 sterling Tier 2.

Massachusetts Mutual Life priced a USD 700m 30-year surplus note on 13 April at T+200bp guidance. The deal was upsized from USD l500m. IPTs were T+237.5bp.

DTCC subsidiary **National Securities Clearing Corp** priced a USD 2bn dual-tranche senior unsecured offering split into a USD 1bn three-year at T+100bp and USD 1bn five-year at T+120bp. Both tranches priced at guidance. IPTs for the three-year were T+135bp area; for the five-year T+150bp area.

New York Life priced a USD 1.25bn 30-year surplus note on 8 April at T+240bp guidance. IPTs were T+287.5bp.

Prudential plc priced a USD 1bn 10-year senior unsecured note on 8 April at T+250bp. IPTs were T+312.5bp area.

Royal Bank of Canada priced a USD 1.25bn three-year senior unsecured offering on 15 April at T+138bp guidance. IPTs were T+155bp area.

Shinhan Bank priced a USD 500m five-year FRN at 3mL+170bp on 9 April. Books closed above USD 2.1bn from 104 accounts. Pricing was at the tight end of 3mL+170bp-175bp WPIR revised guidance; initial guidance was 3mL+210bp.

Societe Generale priced a EUR 750m 6NC5 senior non-preferred bond on 15 April at MS+150bp; books closed around EUR 1.45bn. IPTs were MS+175bp area.

UBS priced a EUR 2bn three-year senior offering on 15 April at MS+110bp. Books closed around EUR17bn from over 250 accounts. Pricing came at the tight end of MS+115bp +/-5bp WPIR guidance. IPTs were MS+145bp area.
The bank also priced a USD 2.5bn two-year senior bond on 14 April at T+160bp, having opened with IPTs of T+200bp area.

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

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