US, global easing bias drives up yield-seeking in capital markets

All eyes this past week were on Jerome Powell's semi-annual monetary policy report to Congress and, for very different reasons, on Deutsche Bank CEO Christian Sewing. The former giving global market watchers a prime opportunity to divine future monetary policy actions. The latter engendering deep fascination as the market weighed in on the merits of DB's restructuring.

Enthralling as both affairs were, neither they nor the firing of Turkey's central bank governor nor elections in Greece halted primary FIG DCM activity. Issuance wasn't huge, but it was all pretty well covered and once again thrust to the fore the reality that the hunt for yield is only growing stronger.

Beyond the will-they-or-won't-they cut rates dialogue in the US, debate around the potential politicisation of the Fed in light of ongoing withering criticism of the US central bank's rates stance by President Donald Trump has had tongues wagging around the extent to which an independent Fed may be being sucked inexorably into the sphere of influence of the White House. And what that might mean in terms of policy maneuverability – not to mention good governance.

It's certainly a darker dimension to the parallel debate that's also being taking place about the extent to which the Fed may be in thrall to the power of financial markets and acting with an eye on how its actions might impact financial asset prices in a perverse 'backwardated' relationship. In other words, the Fed strong-armed into doing what's good for financial markets rather than using its policy tools to keep the US economy in the good place referenced by Powell.

In the lead-up to his testimony, there had been some talk that the strong jobs print in the previous week might have dissuaded the Fed from its easing bias. In the event, Powell said that while the US economy is indeed in a good place, a number of uncertainties were weighing on the outlook, including negative business confidence indicators.

He referenced the accommodative stance of central banks around the world and signalled that the Fed would be open to following suit. Net-net, he exuded such dovishness that it strengthened the market's certainty not just about a pending 25bp cut but a growing proportion of participants holding out for a 50bp ease.

Talking of central bank politicisation, while perhaps not in the same league as the US, the firing of Turkish central bank governor turned market heads. In a commentary, Scope Ratings said this "underscores Turkey's institutional degradation and the curtailed independence of the central bank, raising risks of significant policy mistakes in the future".

The past weekend also saw a centre-right government elected in Greece, leaving the window open, according to another Scope comment, to market-friendly reforms, even if stringent fiscal targets remain a constraint. Greek government bond yields had been on a tear in the run-up to the elections and saw continued price action into the early part of this past week that pushed 10-year yields to new lows (2.014%) before retracing in sell-the-fact fashion.

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Nonetheless, better sentiment towards Greece arguably helped National Bank of Greece's EUR 400m 10NC5 Tier 2. Leads went out with IPTs of 9% area on the morning of 11 July, tightened to 8.50% guidance and fixed the yield at 8.25% – way tighter than Piraeus's 9.75% Tier 2 in mid-June. NBG saw more than EUR 1.6bn in orders flood into the book at the highs, again a much better showing than its rival.

Just as the Piraeus Bank trade had probably been a lot more about booking yield than buying Greek banks as a recovery theme, the same went for NBG. It's true that the NPL situation in Greece is improving but from a low base and the numbers are not pretty.

Elsewhere, the past week's FIG primary trades came from a motley crew of eurozone core and periphery issues, national champions and second-line names, European names in dollars, North American names in euros, green issuance, sub-benchmark trades and debuts.

Worthy of mention are OTP Bank's debut international bond (a EUR 500m 10NC5 Tier 2) going at a spread of MS+320bp and generating demand of over EUR 1bn and creating an interesting price discovery conundrum for underwriters; a 9x over-subscribed AT1 from Italy's Fineco Bank, Société Générale extending its Positive Impact label to covered bonds for the first time, and Berlin Hyp pricing its latest green covered bond at zero yield, a boon to investors who were expecting a negative-yielding trade but who were helped out by a widening in swap spreads.

Summary of key FIG debt issuance July 5 to July 12 (11:30 CET)

Banco de Sabadell kept the flow of eurozone periphery paper going, picking up on sound sentiment towards Spain with a EUR 1bn in six-year senior preferred notes at MS+105bp, the bottom end of MS+105bp-110bp guidance and offering a reported low to single-digit concession. Books reached EUR 1.9bn. IPTs had been MS+125bp area.

Bank of Montreal priced its AUD 750m five-year inaugural bail-in-able Kangaroo. The deal was split into a AUD 450m five-year FRN at 3-month BBSW+100bp and a AUD 300m five-year fixed-rate tranche that went at 100bp over S/Q ASW. Initial price guidance for both tranches was +105bp.

Berlin Hyp's EUR 500m eight-year green mortgage covered bonds sold at MS-3bp, equivalent to a zero yield or 42.5bp over Bunds, a small single-digit concession. Initial guidance had been MS+1bp area, revised to MS-2bp +/-1bp WPIR. Investors had been braced for a negative yield, but they were assisted by a rise in swap spreads. Demand reached EUR 1.6bn.

BNP Paribas priced a EUR 1bn 6NC5 fixed-to-floating senior non-preferred at MS+75bp, a reported mid-single-digit concession. Demand reached EUR 1.7bn. Guidance had been MS+75bp-80bp.

Chong Hing Bank, owned by Yuexiu Group, sold a heavily-oversubscribed USD 400m PNC5 AT1 at a yield of 5.70% (final guidance). Order were in excess of USD 3.3bn, enabling leads to pull in from initial guidance of 6.10% area.

CNP Assurances postponed its no-grow EUR 500m green 10-year Tier 2 to later in the year.

DZ Hyp priced a EUR 750m 10-year mortgage covered bond at MS-1bp, garnering demand of EUR 1.8bn and pricing close to fair value. Solid demand enabled leads to tighten from MS+3bp area guidance.

Italy's **Fineco Bank** was over-run with demand for its EUR 300m PNC long-five non-cumulative non-step-up temporary write-down AT1. Orders came in quickly and in size, so leads tightened from IPTs of 6.50% area to 6%+/-0.125% and priced at the tight end (5.875%). Demand at the highs were EUR 2.75bn and most (EUR 2.5bn) of that stayed in at final terms. UniCredit sold its residual stake in the online bank and broker on 9 July via a EUR 1.1bn accelerated bookbuild.

Jefferies Group put out IPTs of MS+150bp for its expected EUR 500m five-year senior unsecured trade on 12 July. Books were above EUR 1bn by mid-morning.

Mediobanca sold a no-grow EUR 500m six year senior preferred at MS+137p, the tight end of MS+140bp +/-3bp WPIR guidance, generating demand of EUR 1.35bn. IPTs had been MS+160bp area. Pricing reportedly came with a mid-single-digit negative concession.

MUFG Bank went to market on 11 July with a blockbuster USD 6.5bn four-piece trade consisting of a USD 2.25bn three-year launched at T+78bp guidance (IPTs of T+95bp area), a USD 1bn five-year at T+90bp guidance (IPTs 105bp-110bp), a USD 1.75bn 10-year launched at T+105bp guidance (IPTs T+120bp area), and USD 1.5bn 20-year launched at T+108bp guidance (IPTs T+125bp area).

Nationwide Building Society launched and priced a USD 1bn 11NC10 senior offering on 11 July at a spread of T+185bp.

Hungary's **OTP Bank** priced its debut international bond, a CRR-compliant EUR 500m 10NC5 Tier 2, at a spread of MS+320bp, attracting demand of over EUR 1bn. Guidance was MS+325bp-337.5bp and IPTs were MS+350bp-375bp. The bank had taken the deal on a roadshow that took in its home town of Budapest as well as London, Paris, Amsterdam, Milan, Frankfurt and Vienna.

Royal Bank of Canada sold USD 1.25bn in bail-in-able five-year senior notes at T+72bp, the bottom end of T+75bp +/-3bp guidance, a small concession. IPTs had been low to mid-80s.

Société Générale SFH sold EUR 1bn in 10-year Positive Impact soft-bullet OFH covered bonds at MS+4bp, broadly at fair value and the bottom of revised guidance of MS+5bp +/-1bp against final books of EUR 2.5bn at re-offer. Initial guidance had been MS+8bp area. The bank, which went on a roadshow to market its Positive Impact Covered Bond Framework, said the funds raised will be used to refinance home loans granted for carbon-efficient buildings. The eligible home loans were selected in partnership with Wild Trees, an independent consultancy firm.

Sumitomo Mitsui Financial Group sold USD 4.5bn in TLAC-eligible senior notes split into a USD 2bn five-year tranche and a USD 2.5bn 10-year tranche. The 5s priced at T+85bp (IPTs T+105bp area, guidance T+90bp +/-5bp), the 10s at T+100bp (IPTs T+120bp area, guidance T+105bp+/-5bp).

Tesco Personal Finance Group mandated underwriters to arrange a roadshow following publication of its EMTN programme and ahead of a potential sterling 6NC5 senior transaction.

Toronto-Dominion Bank tapped the covered bond market twice. The bank sold a USD 1.75bn three-year at MS+28bp. Demand while not overwhelming, enabled leads were able to tighten from IPTs of MS+30bp area. TD also followed CIBC's lead from the previous week, bringing a EUR 1.25bn eight-year at the same spread of MS+9bp, the tight end of revised guidance of MS+10bp +/-1bp; demand reaching EUR 2bn. Initial guidance was MS+13bp area.

United Overseas Bank priced a SGD 750m (roughly EUR 483m) PNC7 non-cumulative AT1 at a yield of 3.58%. Guidance had been 3.875% area. The notes reset at seven years to a rate equal to the seven-year SGD Swap Offer Rate plus the initial spread of 1.795%.

For some EM exotica, **Vietnam Prosperity Bank** sold USD300m in three-year senior unsecured notes at a 6.50% yield, through initial guidance of 7%. Use of proceeds will go to improve financial capacity, enhance operational safety and supplement operating capital to meet demand for medium and long-term loans.

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

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