Pandemic fears spook markets but will they reverse credit-tightening bias?

Coronavirus pandemic fears may have seen equities world-wide and risk assets hammered, and the 10-year US Treasury spar with its 2016 all-time yield low. But attention now turns to the Fed and ECB for any signs of preparedness to engage in more monetary easing to jolt the market out of any tendency to switch to risk-off mode and reverse direction as the guessing game about economic impacts starts in earnest.

If it turns out the coronavirus fears are exaggerated and/or short-lived and central bank language at least turns more dovish, the caution turned to panic injected into what had been a one-way credit market this year is likely to melt away and won’t force a stark change of direction. There were already signs on Tuesday morning that the stock rout was easing as market participants took advantage of the big pullback to seek out bargains and as news of a vaccine did the rounds.

The primary bond market understandably went off the boil on Monday as participants stood back to assess the landscape. The only European names out were Spain, which put a 30-year sovereign trade into marketing and which remains on today’s docket (EUR 20bn of demand at guidance of MS+89bp area); and ING, which priced its PNC2029 AT1 that was pulled last week: at smaller size (EUR 750m vs EUR 1bn), wider yield (4.875% vs 4.625%) and lower demand (USD 3bn vs USD 11bn). What a difference a day makes.

Elsewhere, investors had been digesting name-specific news in recent days alongside existing market issues. Intesa’s bid for UBI thrust bank M&A in Europe back into the spotlight and unleashed furious speculation about what it might mean for Italy’s fragmented banking sector..

Event-wise, there’s nothing quite like a hostile bank bid for get investors’, advisers’ and the media’s hearts racing. At this stage, it is not certain that Intesa’s EUR 4.9bn bid will succeed, but a veritable smorgasbord of potential follow-on tie-up options nonetheless emerged in the days following Intesa’s bid. BPER, meanwhile, wasted no time setting in train its EUR 1bn rights issue to fund its acquisition of branches (contingent on the deal closing).

HSBC’s restructuring had been broadly telegraphed to the market so its contents – a RWA-neutral shift of activity from US/Europe (mainly from Global Banking & Markets) to Asia/Middle East; 35,000 of job cuts to be met mainly through natural attrition; a cut-back in areas of rates (derivatives) and equities (cash sales and research) – didn’t cause any sharp intakes of breath. The biggest unknown remains who is going to be HSBC’s next CEO.

Talking of executive succession, ING boss Ralph Hamers’ appointment as the next CEO of UBS clearly took the Dutch bank by surprise as it was that news that derailed the AT1 it was about to price on 19 February.

Last week’s Primary Market Talk questioned whether the credit market was nearing a top. That was a good call in light of events this week. Then again, markets in panic rarely exude any real sense. So developments week-to-date may not have proved a point one way or another. Price levels have continued to grind tighter YTD and with US investment-grade and European high-yield credit

---

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 (0)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

spreads recently plumbing new record lows and European IG credit at record lows, the top-of-the-market thesis remains strategically intact.

The 30-year US Treasury hitting a new record yield low and the 10-year in territory not seen since 2016 had already thrown up a strange juxtaposition of sentiment between rates and credit markets before this week: on the one hand credit markets driven by over-exuberance and rampant yield-chasing with IG credit melding into the rates complex; on the other hand safe-haven flows into US Treasuries (with some convexity hedging to assist) offering an altogether more uncertain view of the world. The next few sessions could offer up evidence of which side will hold sway.

Prior to this week's market fears, FIG issuers had not been wasting any time and had been avidly tapping the market at the lower end of the capital spectrum. In fact, nine AT1 issuers were in the market last week and seven printed trades, many claiming bragging rights for hitting yield lows. Year-to-date, a dozen European banks have issued roughly EUR 9.65bn of AT1s and have received some EUR 81bn of demand.

Arion's trade was Iceland's debut; BNP Paribas pulled USD 1.75bn out of the dollar market with a 10-year call at 4.50%, Intesa Sanpaolo priced equally-sized EUR 750m NC5 and NC10 tranches (interest boosted by UBI merger talk); JP Morgan bettered BofA's 4.30% PNC5 preferred yield getting its trade done at 4%; DBS set an all-time AT1 yield low at 3.3% for its USD 1bn PNC5.

As of today, only Bank of Communications and Bank of China are in visible supply; Bocom putting out initial guidance of 4.10% Tuesday morning on its benchmark US dollar PNC5 AT1.

Summary of FIG debt issuance 18 February to 13:00 CET 24 February

EUROPEAN BANKING GROUPS

Arion Bank priced a USD 100m PNC5 AT1 on 19 February at a yield of 6.25%; books closing 5x covered. Pricing came at the tight end of 6.375% +/- 0.125%. IPTs3 were 6.50%-6.75%.

Banca IFIS priced a EUR 400m long four-year senior preferred bond on 18 February at MS+215bp; books closing above EUR 1.2bn. IPTs had emerged at MS+240bp, tightening to MS+220bp area.

Banco Santander priced a dual-tranche mortgage covered bond 20 February split into a EUR 1.25bn five-year that priced at MS+5bp (IPTs MS+10bp area) and a EUR 1.25bn 12-year that priced at MS+12bp (IPTs MS+18bp area). Overall books reached EUR 5.2bn, evenly split between the two tranches.

BNP Paribas priced a USD 1.75bn PNC10 AT1 on 18 February at the revised guidance yield of 4.50%, as books moved above USD 15bn. Initial guidance was 4.75% area and IPTs were 5.125% area.

BPCE priced a GBP 400m short seven-year senior unsecured bond on 20 February at G+100bp. Books closed at GBP 540m at reoffer. IPTs were G+105bp-110bp.

Crédit Agricole Home Loan SFH sold a EUR 1bn short 12-year mortgage covered bond on 20 February at MS+7bp; demand reaching above EUR 1.25bn. IPTs emerged at MS+10bp area.

Crédit Suisse priced a EUR 1.5bn 18-month senior unsecured FRN on 20 February at 3mE+15bp (+60bp coupon sold at 100.685), to demand of over EUR 2.7bn. Notes priced at the tight end of 3mE+15bp-20bp WPIR guidance and had come with guidance of 3mE+25bp-30bp.

Hamburg Commercial Bank mandated leads on 21 February to arrange a series of roadshows throughout Europe ahead of a potential benchmark euro 10NC5 Tier 2.

Hoist Finance priced a EUR 40m PNC5 AT1 on 19 February at a yield of 7.75% (equivalent to MS+805.3bp). Pricing came at the tight end of 7.75%-8% revised guidance; initial guidance had emerged at 8%-8.25%.

ING Groep pulled its USD 1bn PNC2029 AT1 on 19 February, having pulled in USD 11bn of demand at 4.625% guidance from IPTs of low 5% area. The trade came back on 24 February; the bank fixing at 4.875% on a USD750m trade to much smaller demand.

Intesa Sanpaolo priced a EUR 1.5bn AT1 split into a EUR 750m PNC5 that priced at a yield of 3.75% (IPTs 4.25% area) and a EUR 750m PNC10 that priced with a yield of 4.125% (IPTs 4.625% area). Books were EUR 4.5bn for the NC5s and EUR 3.5bn for the NC10. Total deal size was above the initial EUR 1.25bn.

Luminor Bank mandated leads on 20 February to arrange roadshows across Europe ahead of a potential EUR 500m intermediate tenor covered bond.

Santander UK set final terms of MS+73bp for its EUR 750m 5NC4 senior unsecured holdco bond on 21 February. Books closed at over EUR 1.85bn. IPTs were MS+90bp area and the notes priced at the tight end of MS+75bp +/-2bp WPIR guidance.

Societe Generale reportedly sold a JPY 50bn five-year Euroyen senior non-preferred at YOS+48bp.

Virgin Money UK is focusing on a benchmark euro 5NC4 holdco issue.

NON-EUROPEAN GROUPS

Banco de Crédito e Inversiones priced a CHF 125bm 6.5-year senior unsecured on 20 Feb at MS+70bp guidance.

Bank of China appointed underwriters on 24 February to arrange investor calls ahead of a US dollar PNC5 or a euro-denominated PNC7 AT1 sized at up to RMB 20bn (roughly USD 2.8bn).

Bank of Communications mandated leads on 20 February to arrange investor calls on 21 February ahead of a potential offering of US dollar-denominated Reg S PNC5 AT1. Leads put out initial guidance of 4.10% on 25 February.

Bank of Communications Financial Leasing went into marketing on 24 February with a dual-tranche senior unsecured offering split into a USD 300m three-year FRN launched at 3mL+83bp final guidance (initial guidance 3mL+115bp) and a USD 500m five-year FRN launched at 3mL+95bp final guidance (initial guidance 3mL+125bp.

Brookfield Asset Management priced a USD 600m 30-year senior unsecured offering on 18 February at T+150bp, the middle of the guidance range (T+150bp +/-3bp). IPTs were T+165bp area.

China Huarong Asset Management tapped the market on two separate occasions. On 20 February, it priced a USD 1.8bn four-tranche senior unsecured dollar trade. The deal was split into a USD 400m three-year fixed-rate tranche priced at T+120bp (initial guidance T+150bp area); a USD 400m three-year FRN priced at 3mL+112.5bp (initial guidance 3mL+145bp area); a USD 300m five-year FRN at 3mL+125bp (initial guidance +160bp area) and a USD 700m 10-year fixed-rate priced at T+185bp (initial guidance +215bp area). Aggregate demand reached USD 11.4bn (USD 1.7bn; USD 3.3bn; USD 2.8bn and USD 3.6bn respectively across the tranches).
On 18 February, it sold a USD 200m 363-day senior unsecured note at a 3.10% yield, via issuer Avenue International Holding with a keepwell and asset purchase deed from China Huarong Financial Leasing. Orders of roughly USD 1bn came into the book from 27 investors. IPTs had been 3.55 area.

CITIC Bank priced its USD 1bn dual-tranche senior unsecured offering on 18 February. The deal was split into a USD 300m five-year priced at T+110bp (the tight end of T+110bp-112.5bp WPIR final guidance) and a USD 700m 10-year priced at T+132.5bp (the tight end of T+132.5bp-135bp WPIR final guidance). Demand exceeded USD 5bn. Initial guidance had been T+150bp area and T+170bp area respectively.

Mexico's **Crédito Real** mandated leads on 20 February to arrange roadshows in Switzerland ahead of a potential CHF-denominated Reg S senior unsecured transaction.

DBS Bank priced a USD 1bn PNC5 AT1 on 21 February at a yield of 3.30%. Asia took 77% of the bonds, with EMEA taking 23%. Demand reached above USD 5.5bn from 304 accounts. Initial guidance for the trade had been 3.65% area.

Dubai Islamic Bank reportedly mandated leads on 20 February to arrange roadshows ahead of a potential US dollar long five-year or seven-year benchmark Reg S senior unsecured Sukuk.

Emirates NBD priced an AUD 700m 10-year senior unsecured issue on 19 February at ASW+200bp. IPTs were +205bp-210bp.

FNB Corp (First National Bank) priced a USD 300m three-year senior unsecured bond on 19 February at T+83bp, the tight end of T+85bp +/-2bp guidance.

ICBC priced an AUD 300m three-year FRN on 18 February at 3mBBSW+77bps. Guidance had been +82bp area while IoIs were taken at the +85bp area.

Itaú Unibanco priced a no-grow USD 700m PNC5 AT1 on 19 February at a yield of 4.625%, nicely through IPTs of 5.25% area and guidance of 4.75% +/-5bp.

JP Morgan priced a USD 1.25bn fixed-to-floating PC5 preferred stock issue on 19 February at a 4% yield, through 4.25%-4.325% price talk.

KKR priced a USD 500m 30-year senior unsecured on 18 February at T+165bp, the middle of the T+165bp +/-5bp guidance range, which were unchanged from IPTs of T+165bp area.

Australia's **Members Banking Group** priced an AUD 60m three-year senior unsecured FRN at 3mBBSW+93bp, the same level at IPTs.

Mizuho Financial Group priced a USD 2.35bn three-tranche senior unsecured offering on 18 February split into a USD 1.1bn 4.25NC3.25 FRN priced a 3mL+63bp (not quite the tight end of +65bp +/-3bp guidance; IPTs low 80s); a USD 750m 6.25NC5.25 fixed-rate tranche priced at T+83bp (the tight end of +85bp +/-2bp guidance; IPTs T+100bp-105bp); and a USD 500m 11.25NC10.25 fixed-rate piece priced at T+103bp (the tight end of T+105bp +/-2bp; IPTs T+120bp-125bp).

MUFG priced a USD 3.75bn dual-tranche senior unsecured offering on 18 February split into a USD 2.6bn five-year priced at T+80bp guidance and a USD 1.15bn 10-year priced at T+100bp guidance. Guidance had been T+90bp-95bp and T+110bp-115bp respectively.

India's **Muthoot Finance** priced a USD 500m 3.5-year senior unsecured bond on 20 February at a 4.40% yield. Initial guidance was 4.75% area.

PNC Funding priced a USD 500m 3NC2 fixed-to-floating senior unsecured bond on 20 February at T+35bp and a USD 1bn 3NC2 FRN at 3mL+32.5bp. The fixed leg had emerged with IPTs of T+mid to high 40s and priced at the tight end of T+35bp-37bp guidance. IPTs and guidance spread for the floater were the same as the fixed but this tranche came through guidance.

Riyad Bank priced a USD 1.5bn 10NC5 Tier 2 Sukuk on 18 February at a profit rate of 3.174%; books closing at over USD 7.8bn. IPTs emerged at MS+225bp area ahead of MS+200bp guidance and the deal launched and priced at MS+180bp.

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

Scope Insights GmbH

Lennéstraße 5
D-10785 Berlin

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

DISCLAIMER

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