4 November 2020

Scope Insights – Primary debt capital markets reached their anticipated tumbleweed moment in the first half of the week. Activity had already slowed last week anyway, not just because of the US election but also as a reaction to some sharp market volatility.

- **Primary market already losing momentum on second Covid wave, stimulus delay**
- **Bond issuers turn political spectators**

We noted in the previous edition of Primary Market Talk on 23 October that second-wave Covid-19 impacts and government measures to counteract them had imbued the market with an underlying tone of caution that could lead to a sudden shift to risk-off.

That proved to be spot on. The active new-issue market lost some of its mojo on the back of equity and credit market price corrections at the start of last week on concerns related to the second Covid wave and lack of progress towards a US fiscal stimulus package. Primary debt faded as the week drew to a close ahead of the election.

Some of the bond issues that went into marketing last week suffered pushback – nothing overly serious – as investors re-appraised their risk-return or just stood back, while pricing on some of the deals that had started at or through fair value widened. That said, some chunky investment-grade corporate supply did cross the line, including Michelin in euros; Boeing, Philip Morris, Procter & Gamble, Berkshire Hathaway Energy, Galaxy Pipeline and Lenovo in US dollars; and Verizon in sterling.

Aston Martin, a deeply sub-investment-grade credit, drove straight into a difficult market on 30 October. The company was forced to alter its call structure and ditch a sterling tranche but the fact that the company was able to price a USD 1.0855bn senior secured offering – albeit with a 10.50% coupon, equivalent to T+1,010bp – proved that there is a price for everything.

The bond had come alongside a USD 335m private placement of 13.5% second-lien notes and the company had additionally raised GBP 125m of equity raised via an accelerated bookbuild.

Only seven or so new issues crossed the line Monday and Tuesday across the US, Europe and Asia, and a lone Asian name was on the docket

Wednesday morning with a short-dated domestic-currency senior outing as market participants became election-result spectators.

The lack of a clear Biden victory that had been written into the market playbook led to some monumental metaphorical head-scratching and some confused re-appraising as US markets went into their close Tuesday, which carried over into European morning trading.

The fact that the result is so close – there were calls of a Trump victory on Tuesday (and not just from Donald Trump) – seems to have stumped market participants. And given that the result may not be known for days and America is in danger of being caught up in a barrage of legal challenges, the markets will be stuck with the thing they like the least: uncertainty.

Market moves into the election evening lacked high drama, even if US Treasuries were pushed around in a wide range. As much as it's critical to the market who gets to occupy the White House and who ends up controlling Congress, investors tend to be are pragmatic.

Much of the immediate uncertainty is focused on the progress of the stimulus package and how that feeds into the economic outlook. That's a theme that will be closely watched at the conclusion of the two-day FOMC meeting on Thursday for any signs of the Fed's potential monetary response to delayed fiscal support.

The future of ECB stimulus is also occupying minds, as speculation mounts about the exact details of the new measures. In an interview with Handelsblatt, Isabel Schnabel, member of the ECB's executive board, said the effects on the euro area economy of a renewed Covid surge would be less pronounced than the first wave as lockdowns are more targeted, though fiscal policy still has an important role to play.

On asset-purchasing, Schnabel pushed back on the notion that the emergency PEPP scheme would have to be extended for years, saying that after the crisis the ECB would need to fall back on its regular toolbox to meet inflation targets.

She said the governing council hadn't discussed transferring PEPP flexibility to other programmes and that the calibration of ECB instruments would be consistent with what is required. Current financing conditions are very favourable, Schnabel noted, but bank NPLs will start to rise amid tightening credit standards.

On the new-issue horizon, the EU is prepping its second bond under the SURE programme, expected to be bar-belled via intermediate and long-dated tranches. Pricing on the inaugural SURE bond was cheap, leading to massive, immediate, and rather unseemly tightening (some 10bp on the 20s to MS+4bp and an even more stark MS+3bp to MS-8.5bp on the 10s).

FIG issuance has been thin on the ground. Bank of New York Mellon caused some heads to turn with its deeply subordinated hybrid pricing at a yield of 3.70% on 26 October, pushing well below the standard 4% rule-of-thumb.

Most notable activity from the FIG sector was in the ESG arena. Barclays Bank UK priced a well-covered senior unsecured green bond; and Citigroup followed Bank of America and Morgan Stanley into the affordable housing segment with a USD 2.5bn offering. Meanwhile, China's Industrial Bank priced a USD 450m blue tranche and an HKD 3bn Covid-19 response tranche. South Korea's Kookmin Bank added to the capital securities sub-sector with a sustainability Tier 2.

Away from FIG, ESG debt issuance continued across the corporate and SSA segments. Perhaps most worthy of note was Etihad Airways' USD 600m Transition Sukuk, the company claiming bragging rights for the first Transition Sukuk and the first Sustainability-Linked financing from the aviation sector under a Transition Finance Framework. Etihad said the transaction will support its drive for sustainable aviation by linking terms to its carbon-reduction targets.

ESG debt issuance 22 Oct to 4 Nov 15:00 CET:

Barclays Bank UK PLC priced a no-grow GBP 400m 6NC5 senior unsecured green bond on 27 October at G+175bp, with demand above GBP 2.5bn. Proceeds will fund eligible mortgages.

BTS Group Holdings, operator of Bangkok's Mass Transit System, priced THB 8.6bn in green bonds on 3 November via a THB 500m two-year that pays a 2.10% coupon, a THB 4bn three-year paying 2.44%, a THB 1.5bn five-year paying 2.86%, a THB 2bn at 3.11% and a THB 600m 10-year paying 3.41%.

Citigroup priced USD 2.5bn of 4NC3 senior unsecured affordable housing bonds on 23 October at T+58bp, 12bp below IPTs. Proceeds will refinance the bank's portfolio of affordable housing assets.

Japan's state-owned **Central Nippon Expressway** mandated leads for a potential five-year US dollar fixed-rate climate resilience bond. Proceeds will be allocated to financing projects expected to contribute to climate resilience and adaptation: specified renewal work on bridges and earth work structures and porous asphalt pavement on new expressways.

Etihad Airways priced a USD 600m five-year senior unsecured Transition Sukuk on 28 October at a periodic distribution rate of 2.394%, equivalent to MS+200bp. The company said the deal was first Transition Sukuk and the first Sustainability-Linked financing from the aviation sector under a Transition Finance Framework. The company said the transaction will support its drive for sustainable aviation by linking terms to its carbon-reduction targets: a commitment to Net Zero Carbon emissions by 2050; a 50% reduction in net emissions by 2035 and a 20% cut in emissions intensity in the passenger fleet by 2025.

GetLink priced its EUR 600m 5NC2 senior unsecured green bond on 22 October at a yield of 3.501%, the tight end of 3.50%-3.625% final price talk. Initial price talk was 3.75% area.

China's **Industrial Bank** priced a dual-currency senior unsecured bond on 30 October split into a USD 450m three-year blue bond that priced at T+100bp (initial guidance T+145bp); and a HKD 3bn two-year Covid-19 response bond that priced at a yield of 1.10% (initial guidance 1.55% area). Proceeds of the blue tranche will finance and/or refinance water and/or marine related assets. The Covid tranche will finance and/or refinance SME loans or loans to support resilience against pandemics. The HKD book closed above HKD 5.85bn; the US dollar tranche saw demand of more than USD 1.9bn.

The **International Finance Facility for Immunisation** (IFFIm) priced a USD 500m three-year vaccine bond on 29 October at a 0.435% yield, equivalent to MS+16bp. IPTs had emerged at MS+19bp area; guidance was MS+18bp. As with all of IFFIm bond offerings, proceeds will fund Gavi, the Vaccine Alliance, for vaccine procurement and/or immunisation programmes to save children's lives and protect people's health in some of the poorest countries in the world, including in the context of Covid-19. Books closed above USD 1.5bn.

Kookmin Bank priced a USD 500m 10-year sustainability Tier 2 bond on 29 October with no concessions at T+175bp, 30bp through initial guidance of T+205bp area as books reached above USD 2.6bn from 135 accounts. Proceeds will finance and/or refinance new and/or existing projects from a combination of green and social eligible assets. Kookmin intends to allocate proceeds to support SMEs and SOHOs (small office/home office) affected by Covid-19.

Korea Land and Housing Corp priced a USD 300m senior unsecured social bond on 28 October at T+48bp final guidance. Books closed above USD 1.7bn from 73 accounts. Initial guidance was T+80bp area.

State-run **Land Bank of the Philippines** priced its debut offering of sustainability bonds to fund environmental and social projects: a PHP 5bn two-year paying a coupon of 2.5872%. The bank closed the subscription period early as the offering was heavily oversubscribed.

Thailand's **Ratch Group**, formerly Ratchaburi Electricity Generating Holding, sold a THB 8bn four-tranche senior unsecured green private placement to finance wind power projects in Australia, and the Pink-Line and Yellow-Line electric monorail projects. The offering was split into a THB 1bn three-year tranche paying a 1.32% coupon, a THB 1.5bn five-year paying 1.76%, a THB 1.5bn 10-year paying 2.61% and a THB 4bn 15-year paying 2.94%. The company said life insurers, asset management companies, government-related funds, co-operatives, and financial institutions covered the offering 9x, with some tenors 13x oversubscribed.

Unedic, the agency that manages the French unemployment insurance scheme, priced a EUR 1.5bn tap of its due July 2035 social bond on 28 October at a 103.047 reoffer to yield 15bp over the French government curve, equivalent to MS+16bp. Books closed above EUR 2.4bn. Pricing came at the tight end of +16bp over the French government curve +/-1bp WPIR revised guidance. Initial guidance was +18bp area. The bond now has a total size of EUR 3.5bn.

FIG debt issuance 22 Oct to 4 Nov 15:00 CET (for FIG ESG deals; see above):

Aspen Insurance priced a USD 500m offering of senior secured PIK toggle notes on 23 October at a yield of 7.625%. Price talk emerged at 7.75% area, with T+75bp PIK.

Bank of America priced a USD 1.1bn offering of PNC5 non-cumulative preferred perpetual notes on 27 October at the IPT point of 4.625%.

BNY Mellon priced a no-grow USD582.5m perpetual on 26 October with a call on 20 March 2026 at a yield of 3.70%. IPTs were 3.875% area.

Finance of America Funding priced a USD 350m 5NC2 senior unsecured offering on 29 October 2020 at T+775bp. Around USD 300m of the proceeds will be used to fund a distribution, with the balance remaining on balance sheet as an additional source of liquidity for growth.

Flagstar Bancorp priced a USD 150m 10NC5 subordinated fixed-to-floating offering on 23 October at a yield of 4.125% to repurchase up to USD150m in shares of common stock owned by MP Thrift Investments. IPTs were 4.50% area.

Münchener Hypothekenbank priced a no-grow EUR 500m 20-year covered bond on 27 October at MS+2bp. Books closed above EUR1.4bn. Guidance had gone out at MS+6bp area.

Synovus Bank priced USD 200m in 10NC5 subordinated notes on 22 October at a yield of 4%. IPTs were 4.375% area.

Source for raw deals data: Bond Radar (www.bondradar.com), company and media reports

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