New-issue concessions edge up for better execution certainty

A bit of a mixed week on the macro/political front had investors cheering some developments while fearing others. But just like the previous week, the primary capital markets just got on with it, broadly to good effect.

The resumption of US-China trade talks in October, the decision by the Hong Kong government to withdraw the extradition bill potentially leading to the diffusion of recent violent demonstrations, and the vote by Five Star members to back the formation of a coalition government in Italy were cheered. The appointment of Roberto Gualtieri, chair of the European Parliament’s Committee on Economic and Monetary Affairs, as Italy’s finance minister along with other key ministerial appointments seemed to go down well.

On the down side: a sense of barely concealed chaos in the UK - as Prime Minister Boris Johnson engages in a political form of hand-to-hand combat with Parliament over Brexit - and, perhaps of greater note, a 2.7% reduction in German factory orders MoM in July, ostensibly pushing Europe’s largest economy closer to recession. Also casting a shadow over the market are differences of opinion over the need for more stimulus from the ECB and how that might affect the outcome of its forthcoming meeting.

As was the case in the previous week, however, the capital markets kept their cool and got through a heavy week of primary activity across FIG and corporate segments. The vibe of the previous week was maintained; decent-ish levels of over-subscription in aggregate but some trades standing out.

Dealers report that some issuers are being required to offer a carrot of higher NIPs on some trades (albeit still modest) as pricing dynamics shift back towards investors and in order to stand a better chance of achieving good execution against the uncertain backdrop.

Bank of Ireland was the only casualty of the week, pulling its EUR300m Tier 2 on 3 September, having gone into marketing and fixed the spread at MS+270bp. The decision to pull looked odd. It was broadly attributed to Brexit concerns, yet demand reached EUR 340m so the book was covered, and other issuers have gone ahead with similarly modest levels of over-subscription.

Does the postponement suggest poor deal tactics, including less than must-have pricing? The deal’s small size meant to some extent that it was just getting lost in a busy market where a range of benchmark-sized trades were giving investors the luxury of choice without associated Brexit risk.

To avoid the ignominy of having a deal trade poorly in the event that developments in the UK parliament spiralled, the issuer opted to pull. But latent Brexit risk was hardly a secret at the time the deal went into marketing, so one has to wonder what the issuer and its leads were thinking on timing.

Otherwise, the market playbook didn’t really alter: euro covered bonds from core euro area jurisdictions priced with negative yields (CoFF, Credit Agricole, DekaBank, Deutsche Hyp, Erste Bank, UniCredit AG); at the other end of the scale, there were some well received AT1s.

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

Erste Bank was a stand-out in covereds, pricing the first negative-yielding 10-year covered and still garnering demand that covered the book four times. In the subordinated space, ING Groep's USD 1.5bn PNC7.2 reportedly priced with a negative concession but Rabobank was the stand-out, pricing its EUR 1.25bn PNC7.25 at a record low yield of 3.25% and still attracting a 3x covered book.

Also worthy of mention: RBI's EUR 500m Tier 2, which was 5.5x covered during marketing. While the book slimmed as pricing was fixed, pricing tightened by 40bp between IPT and print while still offering a 48.1bp pick-up to Bunds and a mid-single-digit concession to its own curve.

Summary of FIG debt issuance 30 August to 6 September (11:00 CET)

EUROPEAN BANKING GROUPS

Bank of Ireland pulled its no-grow EUR300m 10NC5 Tier 2 on 3 September, having had the spread fixed at MS+270bp. "Bank of Ireland has decided to postpone its proposed EUR T2 transaction announced today in order to ensure successful execution for both the issuer and investors. Bank of Ireland would like to thank investors for their interest in today's announcement," the bank said in a statement.

BBVA Bancomer pushed out IPTs of very low 6% for its USD 750m 15NC10 Tier 2, following roadshows. Pricing was tightened to guidance of 5.875%-6% in the afternoon of 5 September and the yield was fixed at the bottom end.

BPCE priced AUD 400m in five-year senior preferreds split into an AUD 150m fixed-rate tranche and an AUD250m FRN. The fixed piece priced at 105bp over semi-quarterly coupon-matched ASW, the FRN at 3mBBSW+105bp.

Compagnie de Financement Foncier sold EUR 1bn in long eight-year covered bonds at MS+5bp, equivalent to a yield of -0.326%. Demand reached above EUR 1.75bn as books closed. Guidance had emerged at MS+8bp area.

Credit Agricole Public Sector SCF sold a no-grow EUR 750m nine-year public sector covered bond at MS+10bp, equivalent to a yield of -0.187%; books closing above EUR 1bn. Guidance of MS+13bp area tightened into MS+11bp area +/-1bp; notes pricing at the tight end for a reported small single-digit premium.

Credit Suisse launched and priced USD 2bn in 6NC5 fixed-to-floating notes on 4 September at T+128bp. IPTs had been T+145bp-150bp, guidance tightening to T+130bp area. On 3 September, CS priced EUR 1bn in 10-year senior holdco notes at MS+97bp. Guidance was MS+100bp area and IPTs, MS+115bp area. Demand reached EUR 2bn.

Dekabank Deutsche Girozentrale priced its EUR 250m 10-year public sector covered bond at MS+4bp, equivalent to a yield of -0.149%; books reaching above EUR 300m. Guidance had been MS+5bp area.

Deutsche Hyp priced a no-grow EUR 500m three-year mortgage covered bond at a spread of MS+2bp, the tight end of MS+3bp +/1bp revised guidance, equivalent to a yield of -0.531%. Demand reached EUR 870m. Initial guidance had been MS+4bp area. At pricing, the bonds were reported to have offered a mid-single-digit premium.

Erste Bank Group priced a no-grow EUR 500m 10-year mortgage covered bond at MS+6bp, equivalent to a yield of -0.16%. The negative yield clearly didn't deter investors as orders were above EUR 2bn at reoffer, with 83 names in the book. Pricing came at the tight end of MS+7bp +/-1bp revised guidance, itself well through initial guidance of MS+10bp area and offering a mid-single-digit concession. The deal was the first 10-year covered in euros pricing with a negative yield but offered a small single-digit premium to its own curve and a premium to German covereds.

FCA Bank put out IPTs of MS+125bp area for its capped maximum EUR 850m five-year senior unsecured bond, tightened to guidance of MS+105bp area, by which time books were above EUR 2.6bn. By the time the deal had its spread fixed and priced at MS+98bp, final demand was EUR 2.1bn pre-rec.

HSBC Canada's three-year USD 1bn Canadian covered priced at MS+35bp, the tight end of MS+37bp +/-2bp WPIR guidance to demand of USD 1.2bn.

ING Bank priced a EUR 1bn 6NC5 fixed-to-floating trade at MS+60bp, with demand reaching EUR 2.4bn at pricing (EUR 2.7bn pre-rec). Guidance had been MS+65bp-70bp and IPTs MS+85bp area.

ING Groep priced USD 1.5bn in PNC7.2 7%-trigger AT1 with a 5.75% yield, the middle of 5.75% +/-12.5bp guidance. The first call date is 16 November 2026 and each five-year anniversary thereafter. The coupon is fixed to the first call date then resets to the prevailing UST rate plus the initial margin (no step). IPTs had been 6.125% area and the deal reportedly priced with a negative concession.

Rabobank priced EUR 1.25bn in PNC7.25 temporary write-down AT1s at a yield of 3.25% to strong demand of EUR3.75bn pre-rec. The CET1 trigger is 7% for the group; 5.125% for the issuer. The coupon is fixed to the call and resets thereafter every five years to the five-year mid-swap rate plus the initial margin (no step-up). Pricing was at the tight end of 3.25%-3.375% guidance and size at the top of the EUR 1bn-EUR 1.25bn range. IPTs were 3.625% area.

Raiffseisen Bank International priced a no-grow EUR 500m 10.5NC5.5 Tier 2 on 4 September at MS+210bp, amassing demand of EUR 2bn at reoffer (EUR 2.75bn at the highs). IPTs were +250bp, revised to +220bp-225bp guidance. The spread was initially set at MS+220bp but tightened again into print. On 3 September, RBI launched a tender offer for its EUR 500m Tier 2 (callable 21 February 2020) at a repurchase yield of -0.15% (price of 102.054).

Santander Consumer Bank priced EUR 500m in five-year senior preferreds at MS+68bp, to demand above EUR 2.2bn pre-rec. Guidance was MS+70bp-75bp and IPTs, MS+85bp-90bp.

Societe Generale went out on 4 September with IPTs of 5.375% on its AUD 500m PNC5 AT1, revised to 4.875% to 5% WPIR as books moved above AUD 2bn. The size was at the bottom of the AUD 500m-AUD 700m range.

SpareBank 1 SMN priced a curve-extending no-grow EUR 500m seven-year green senior preferred on 4 September at MS+65bp. Even though demand was over EUR 700m, pricing came at the wides of MS+60bp-65bp WPIR guidance. IPTs were MS+70bp area.

Standard Chartered Bank went into the US market on 5 September with a dual-tranche US dollar senior unsecured trade. The USD 1.25bn 3NC2 1fixed tranche came with IPTs of 140bp-145bp and launched and priced at guidance of T+120bp; the USD 750m 3NC2 FRN came with identical spread developments relative to three-month Libor. Aggregate demand reached above USD 5bn.

UniCredit Bank AG sold EUR 750m in five-year mortgage covered bonds at MS+3bp, the middle of MS+2bp-4bp WPIR guidance, equivalent to a -0.511% yield and a reported mid-single-digit premium. Books closed at EUR 940m.

NON-EUROPEAN BANKING GROUPS

ANZ New Zealand mandated leads for a euro-denominated intermediate to long senior unsecured transaction.

Bangkok Bank mandated leads on 6 September to arrange roadshows across Asia, Europe and the US from 9 September ahead of a potential Reg S/144a US dollar-denominated Tier 2 offering.

Bank of Sharjah mandated leads to arrange a roadshow in the Middle East, Asia and the UK ahead of a potential five-year benchmark US dollar senior unsecured offering.

Bank of the Philippine Islands priced a heavily-over-subscribed USD 300m green five-year senior unsecured note at T+120bp to demand above USD 2.1bn. Proceeds will be aligned with BPI's Green Finance Framework, which is consistent with the ASEAN Green Bond Standards. Pricing came at the tight end of final guidance of T+120bp-125bp. IPTs were T+145bp area.

Capital One Bank radically changed the size of its PNC5 non-cumulative preferred stock offering, going out with a USD 250m offering on 4 September and upsizing to USD 1.5bn and pricing at a 5% yield, the level of final price guidance. Initial guidance has been 5.25% area. The bank also sold USD 1.5bn in senior unsecured notes at a spread of T+78bp on 3 September, the tight end of T+80bp +/-2bp guidance. IPTs had been T+100bp area.

Citigroup pushed out IPTs and guided to 5% area for a USD 1.5bn perpetual pref on 5 Sept and priced at that level.

Commonwealth Bank of Australia went into the US dollar market with a dual-tranche Tier 2 offering split into a 15NC10 with IPTs of T+230bp area, and a bullet 20-year with IPTs of T+190bp area. IPTs were revised to T+220bp and T+180bp respectively. Guidance emerged at T+205bp and T+170bp heading into pricing in the US afternoon on 5 September.

DBS Bank priced an AUD 700 million three-year senior unsecured FRN on 5 September at 3MBBSW+63bp, the same level as initial guidance.

ICBC Macau put out T+190bp guidance on a benchmark Reg S US dollar-denominated 10NC5 T2 and priced at T+165bp towards the close of US trading on 5 September.

JP Morgan was out on 5 September with a jumbo dual-tranche senior note split into a USD 2bn 6NC5 at T+100bp area, and a US3 2bn 11NC10 at T+130bp area. Guidance emerged at T+90bp +/-2.5bp for the shorter piece and T+120bp +/-2bp for the longer tranche. Pricing came at the tight ends for both tranches.

Key Bank sold USD 750m in 10-year senior unsecured notes on 4 September at T+110bp guidance. The deal was twice oversubscribed. IPT had been T+125bp.

Mizuho tapped the euro senior market with EUR 1bn, split into a EUR 500m five-year and a EUR 500m 10-year. The fives priced at MS+65bp (IPTs of MS+high 70s); the 10s came with a slim 2bp uplift, at +67bp (IPTs MS+90bp area). Final demand was above EUR 600m for the five-year but more than double that – EUR 1.3bn – for the longer piece.

Rizal Commercial Banking Corp sold a capped USD 300m 10-year senior unsecured sustainable note at a spread of T+170bp, the tight end of T+170bp-175bp final guidance. Net proceeds will support and finance and/or refinance the bank's loans to customers or its own operating activities in eligible green and social categories as defined in its Sustainable Finance Framework. Initial guidance had been T+195bp area.

Wells Fargo priced a USD 3bn two-tranche senior trade on 4 September split into a USD 2bn 3NC2 fixed-rate piece priced at T+65bp (vs IPTs of T+80bp and guidance of T+65bp), and a USD 1bn FRN priced at 3mL+66bp (IPTs of 3mL+80bp; guidance of 3mL+65bp).

South Korea’s **Woori Bank** has mandated leads to arrange roadshows ahead of a potential USD-denominated 144a/Reg S PNC5 AT1s.

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

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