New-issue activity crowded out by Q2 earnings, ECB and Council meetings

There had been clear indications in the run-up to this week that the onset of Q2 earnings, the national day holiday in France on 14 July , the ECB's monetary policy meeting on 16 July and the Special European Council meeting on 17 and 18 July would keep debt capital markets activity pretty subdued. And so it proved.

The European FIG market had its focus this week on emerging macro events but also on the second-quarter results of the large US banks for signs of how much damage Covid-19 had wreaked on the sector in the first full Covid quarter. And, perhaps more pointedly, how that might translate into the performance of and actions taken by European banks. In that respect, it's a re-run of Q1.

The size of provisioning by the big US corporate and investment banks shows the depth of the drag effect of the pandemic. The numbers were chunky: a US 10.47bn provision for credit losses at JP Morgan Chase and USD 8.9bn of reserve builds; a provision expense of USD 9.5bn at Wells Fargo (USD 8.4bn increase in the allowance for credit losses; net charge-offs of USD 1.1bn) leading to a USD 2.4bn net loss; USD 7.9bn cost of credit at Citigroup (including a USD 5.6bn reserve build), driving a 72% decline in net income.

Trading was rampant, however: Citi's FICC earnings rose 68% year-on-year, Goldman Sachs saw FICC earnings rise 149% and equities 46% for a 93% increase in global markets; global markets at JP Morgan Chase were up 79%.

Market observers are once again discounting the US provisioning experience as a reliable guide to expectations for the large European banks. This is put down both to European regulatory guidance to a more guarded approach to recognising NPLs and provisioning, and the tendency of US banks to act more urgently in an 'expect the best but prepare for the worst' sort of way.

The ECB's Q2 Bank Lending Survey, out on 14 July, revealed few surprises. Loan demand was very strong as companies amassed liquidity as a precaution. But because government loan guarantees were in place, credit standards across the euro area were broadly unchanged for loans to enterprises. Standards tightened for loans to households for house purchases, consumer credit and other household lending.

In the third quarter, banks expect a considerable net tightening of credit standards on loans to enterprises as some government guarantee schemes end. Tightening on household lending is expected to continue.

In terms of FIG new-issue bond activity, last week and the first half of this week saw a continuation of keenly priced subordinated debt issuance – both AT1 and Tier 2 – by European and non-European financials. In fact, the mantra seems to be if you have upcoming calls, pre-finance them now while the market is strong.

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Many of the sub-debt issuers in the past few days have calls coming up in the next year so are banking the money now. Bankinter's EUR 350m AT1 is expected to pre-finance the Spanish mid-tier lender's EUR 200m AT1 (whose first reset date is 10 May 2021). In similar vein, Rabobank has a 29 June 2021 call for its EUR1.25bn 6.625% AT1; BBVA has an AT1 call on 14 April 2021 while the call date of De Volksbank's outstanding Tier 2 is 5 November 2020. Generali's Tier 2 on 6 July is financing the buyback of three outstanding Tier 2 lines that have calls in 2022.

The ESG issuance trend is also strong. In fact, FIG deals that were either subordinated, green/social – or both – almost matched senior/non-green issuance. That's unusual. Since the beginning of last week, we've had AT1s from BBVA, Bankinter, Rabobank, National Australia Bank and Mexico's Banorte. And Tier 2s from BBVA, CCR Re, Credit Agricole Assurances, de Volksbank and Generali.

Beyond BBVA's green AT1 and de Volksbank and Generali's green Tier 2s; Banco de Sabadell hosted investor calls to introduce its new SDG bond framework; while three Korean banks priced ESG paper: a sustainability covered bond from Kookmin Bank, a social bond from NongHyup Bank and a Covid-19 bond from Shinhan Financial Group.

The notion of green capital continued into this market after De Volksbank went into marketing with well-covered EUR 500m Tier 2 on 15 July. Market participants made much of the fact that all recent green Tier 2s had come from the insurance sector and that the shift into the banking sector could presage a flow of green bank T2s.

The notion of green capital is not new but had been under the spotlight following BBVA's self-styled green AT1 on 7 July that convinced few people that it was anything other than a marketing exercise that to some did little for the integrity of the green capital markets. Especially since the deal's proceeds may be used to refinance the call of the bank's outstanding – and distinctly non-green – 8.875% AT1 from 2016.

Even BBVA's claim that its deal was the first-ever green AT1 by a bank was misleading, since South Korea's Kookmin Bank sold a USD 500m PNC5 sustainability AT1 last year. The more puzzling question is why a bank would finance green assets with deeply subordinated debt. As a piece of financing, BBVA's AT1 was very smooth. The Spanish bank was back in the sub-debt at the end of last week with a drive-by GBP 300m 11NC6 Tier 2 that didn't seem have much going for it in terms of investor interest but it gave the issuer T2 at 315bp over Gilts, a good result.

Summary of FIG debt issuance 6 July to 15 July

EUROPEAN ISSUERS

Assicurazioni Generali priced its no-grow EUR 600m 11-year green Tier 2 on 6 July at MS+255bp, the tight end of MS+260bp +/-5bp WPIR guidance. The final order book was above EUR 4.4bn at reoffer. IPTs were MS+300bp area. The new issue is financing the buyback of three subordinated debt series: the EUR 1.25bn 7.75% Tier 2 with a call date on 12 December 2022 at a price of 116.25; the GBP 495m 6.416% Tier with a call date of 8 February 2022 at a price of 106.625; and the EUR 750m 10.125% Tier 2 callable from 10 July 2022 at a purchase price of 118.50.

Banco de Sabadell mandated leads to arrange investor calls to introduce its new SDG bond framework.

Bankinter priced a no-grow EUR 350m PNC6 quarterly-pay AT1 on 10 July at a yield of 6.398% (6.25% coupon). Books closed at EUR 800m. Coupon guidance was 6.25% +/-0.125% WPIR. IPTs were 6.50% area.

BBVA priced a GBP 300m 11NC6 Tier 2 note on 10 July at G+315bp guidance, with books just covered. On 7 July, the bank priced its EUR 1bn self-styled PNC5.5 green AT1 at 6%, on final books of EUR 1.8bn. Leads had pushed out 6.50% area quarterly coupon IPTs, tightening to 6.125% +/- 0.125%WPIR guidance as books went above EUR 3bn and fixing at the bottom of the guidance range.

CCR Re priced its no-grow EUR 300m 20NC10 Tier 2 step-up on 10 July at MS+310bp; books closing at EUR 1.6bn. Guidance was MS+325bp area and IPTs were MS+365bp area.

Credit Agricole Assurances pushed out IPTs of MS+250bp area on 7 July for its benchmark 10-year Tier 2 bullet offering. By the time the size had been set at EUR 1bn, the book was nearing EUR 3bn. Pricing was tightened to MS+220bp-225bp guidance and fixed at the tight end as books went above EUR 3.2bn.

De Voksbank priced a no-grow EUR 500m 10.25NC5.25 green Tier 2 on 15 July at MS+210bp, the tight end of MS+215bp +/-5bp WPIR guidance, drawing demand of over EUR 1.9bn at pricing. IPTs went out at MS+240bp area.

Nationwide Building Society priced EUR 1bn in five-year senior preferred notes on 15 July at MS+60bp, attracting demand of EUR 1.4bn. IPTs went out at MS+80bp area.

Rabobank went into marketing on 7 July with a EUR1bn PNC7.5, setting the yield at 4.375% with books above EUR 3bn before closing with orders of above EUR 2.5bn. IPTs had gone out at 4.75% area.

Societe Generale priced a AUD 650m three-year senior preferred FRN on 9 July at 3mBBSW+93bp. IPTs were +105bp area.

UniCredit priced a EUR 1.25bn 7NC615 senior non-preferred bond on 15 July at MS+255bp, building demand of EUR 2.1bn. IPTs were MS+280bp area.

NON-EUROPEAN ISSUERS

Mexico's **Banco Mercantil del Norte** priced a USD 500m PNC10 AT1 on 9 July at the 8.375% guidance yield.

Bank of Communications priced a dual-tranche senior unsecured dual-tranche FRN on 13 July split into a USD 650m three-year that priced at 3mL+80bp (initial guidance +120bp area) and a USD 400m five-year that priced at 3mL+90bp (initial guidance +130bp area).

BDO Unibank priced a USD 600m 5.5-year senior unsecured bond on 6 July at T+190bp final guidance. Order books closed above USD 2.9bn from 164 accounts. Initial guidance was T+235bp area.

DBS Group Holdings DBS Group Holdings priced a dual-tranche senior unsecured Kangaroo bond on 8 July split into a AUD 300m three-year fixed-rate tranche (priced at 67bp over semi-quarterly coupon-matched ASW) and a AUD 450m three-year FRN priced at 3mBBSW+67bp.

ICBC priced a dual-tranche senior unsecured bond on 14 July split into an USD 800m three-year that priced at T+93bp final guidance (initial guidance T+130bp area) and a USD 800m five-year that priced at T+103bp final guidance (initial guidance T+140bp area). Final books were USD 3.4bn, split equally between the tranches.

Kookmin Bank priced a no-grow EUR 500m sustainability covered bond on 9 July at MS+40bp, drawing final demand of EUR 2bn from 80 accounts. Guidance was MS+45bp area; IPTs were MS+high 40s.

Metropolitan Bank & Trust, the second largest banking group in the Philippines, priced a USD 500m 5.5-year senior unsecured bond on 7 July at final guidance of T+200bp, against USD 2.5bn of demand. IPTs emerged at T+235bp.

Mizuho priced a USD 2.5bn senior unsecured offering on 6 July split into a USD 1.1bn 4NC3 at T+105bp guidance (IPTs T+130bp area); a USD 400m 4NC3 FRN at 3mL+99bp; and a USD 1bn 11NC10 fixed-rate at T+152bp, the tight end of T+155bp +/-3bp area guidance (IPTs T+180bp area).

MUFG priced a USD 3bn dual-tranche senior unsecured bond on 13 July split into a USD 1.75bn five-year that priced at T+113bp (IPTs T+135bp-140bp) and a USD 1.25bn 10-year that priced at T+143bp (IPTs T+170bp area).

National Australia Bank priced a AUD 600m PNC5 floating-rate AT1 at 3mBBSW+400bp Guidance was 400bp–410bp.

National Bank of Canada priced no-grow USD 500m of 3NC2 senior unsecured note offering on 6 July at T+77bp IPTs were T+100bp area.

Nomura priced a USD 2.5bn senior unsecured offering on 6 July split into a USD 1.5bn five-year priced at T+155bp and a USD 1bn 10-year at T+200bp. IPTs for the five-year were T+180bp area revised to T+175bp area; and T+230bp area for the 10-year, revised to T+225bp.

South Korea's **NongHyup Bank** priced a USD 500m five-year social bond on 14 July at T+100bp final guidance, building demand of USD 2.35bn from 132 accounts at pricing (orders of USD 2.8bn had come in during marketing). Initial guidance had been T+140bp area.

Shinhan Financial Group priced a USD 500m 5.5-year senior unsecured Covid-19 Resilience Social Bond on 6 July at final guidance of T+105bp. Proceeds will be allocated in particular to supporting SMEs and underprivileged individuals affected by Covid-19. Demand reached above USD 2.3bn from 134 investors. Initial guidance had been T+145bp area.

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

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