Market gloom lifts as Fed steps in to counter trade impacts

Market gloom over growing trade tensions lifted somewhat in the past week after Fed officials in particular gave every impression of a planned sequence of comments – James Bullard on 3 June, Jerome Powell on 4 June and Lael Brainard on 5 June – confirming they were prepared to cut rates if conditions warranted. The market is pricing in at least two US rate cuts this year.

While chair Powell's comments were a little oblique, St Louis Fed president Bullard said a downward adjustment in the Fed funds rate target range may be warranted soon, based on protracted global trade disputes that may be more difficult to resolve than previously envisioned, a slowing US economy, inflation expectations that appear to be too low to be consistent with the FOMC's inflation target and a yield curve that has moved more decisively toward inversion.

Fed governor Brainard said in a media interview that "trade policy is definitely a downside risk to the economy; our job is to sustain the expansion and we'll need to see going forward what that means for policy".

The market took the comments as something akin to Mario Draghi's 'we will do whatever it takes' line, and they led to a much-improved market tone to the anxious one that had prevailed over the previous couple of weeks. As for the 6 June ECB meeting, basic TLTRO 3 terms were broadly as expected (-30bp to +10bp), but markets were a little torn between deciding whether the outcomes of the meeting were less dovish or as dovish as expected.

A sense that the ECB was adopting a less dovish stance than expected had led to some selling in European government bonds. But Mario Draghi's preparedness to be as accommodative as conditions demand ("if adverse contingencies were to materialise, the governing council stands ready to act and use all the instruments that are in the toolbox") was clear.

The better market bid induced by Fed comments perked up the primary debt markets and there was decent supply across the SSA, EM and corporate segments. European FIG issuance was a little more subdued, but the prints that emerged did well enough. Market participants are expecting a better showing in the coming week. Which goes to show that market windows rarely stay shut for long and that seizing the moment can pay.

Banque Fédérative du Crédit Mutuel did exactly that. Its EUR 1bn 10-year bullet Tier 2 on 5 June generated more than EUR 4.3bn of demand at re-offer from over 240 investors. The deal demonstrated that in a world of perennial uncertainty, deals for the right name at the right time can work well, particularly if they can offer a soupçon of scarcity value and come at an attractive point in the capital structure. And perhaps more to the point with optically attractive initial pricing to get buying momentum going.

Timing-wise, BFCM slotted in nicely in the midst of Fed comments and before pre-ECB meeting caution set in. Final pricing of MS+162bp was at the bottom of MS+165bp +/-3bp WPIR guidance and the deal was sized at the top of the EUR 750m-EUR1bn range. IPTs had been cheap – an attention-grabbing MS+185bp area – but the final spread was broadly at fair value.

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The mutual group also priced a GBP 500m 5.5-year senior preferred offering on 6 June at 115bp over Gilts, the tight end of +115bp-120bp area guidance; IPTs had been +120bp area. Demand was above GBP 650m. What was noteworthy about the trade was that orders reportedly stayed in the book as the deal went through its pricing stages; in the past week or two there had been a trend towards evaporating demand as pricing tightened and investors turned a little selective.

Summary of key issuance May 31 through June 6

Barclays went out with 7.625% area IPTs for its quarterly-pay GBP 1bn AT1, callable from 15 June 2025 with reset dates every five years after that. Guidance came at 7.25% area +/- 0.125% WPIR and the coupon was fixed at the tight end: 7.125%.

Bank of New Zealand, acting through the London Branch, started marketing on June 6 a benchmark euro 5.25-year senior bond. The trade follows roadshows that kicked off at the beginning of the week.

BPER Banca is proceeding with a EUR 171.7m rights issue and an AT1 of up to EUR 150m – subject to EGM approval – reserved exclusively for Fondazione di Sardegna, as part of BPER's full acquisition of its Banco di Sardegna subsidiary. Separately, BPER had been linked with a negotiated takeover of Banca Carige with financial support from the Italian government. But media reports said the Modena-based bank had backed away from a deal.

Cabot Financial (Luxembourg) sold a EUR 400m 5NC1 senior secured floating-rate 144a private placement at 3mE+637.5bp, against IPTs of 3mE+650bp-675bp. The deal was upsized from EUR 310m. Bonds are guaranteed by parent Cabot Credit Management Ltd and various group entities. Proceeds funded the redemption of an outstanding € 310m senior secured due 2021 FRN.

Capital One Financial Corp reportedly paid up to guarantee a successful euro debut and capture the attendant benefits of broadening its investor base. The US bank holding company sold a EUR 1.25bn senior unsecured reverse Yankee, split into a EUR 750m five-year tranche and a EUR 500m 10-year. The spread on the fives was MS+95bp (vs MS+100bp area guidance and MS+120bp area IPTs) and on the 10s, at MS+140bp (MS+145bp area guidance, MS+160bp IPTs). But its approach paid off as the deal was reported to have been well over-subscribed.

ICBC Luxembourg branch sold a USD 1.5bn FRN split into equal three and five-year tranches. The threes went at 3mL+72bp, the fives at 3mL+83bp; both printing at final guidance. Europe took 16% of the shorter piece, which saw demand of over USD 1.4bn. Both tranches priced well through initial guidance –3mL+95bp area/3mL+105bp area.

Mizuho Financial Group priced a EUR 750m five-year senior unsecured holdco bond on 4 June at MS+63bp, the tight end of MS+65bp +/-2bp guidance, with books reaching over EUR 1.6bn, thanks to the momentum created by MS+80bp area IPTs.

PKO Bank Hipoteczny sold a PLN 250m (roughly EUR 58.5m) five-year floating-rate green mortgage covered bond on 5 June at guidance of 60bp above three-month Wibor (currently 1.72%). Demand was above PLN 340m.

Santander Holdings USA priced a USD 1bn SEC-registered five-year fixed-rate senior unsecured offering at T+163bp, having kicked off with IPTs of T+175bp area. The borrower had also marketed a five-year floating-rate tranche too but opted to drop it. The deal was twice covered and reportedly offered a low double-digit premium.

Slovenska Sporitelna, a subsidiary of Austria's Erste Bank group, followed up on roadshows with its debut a no-grow EUR 500m seven-year mortgage covered bond. Guidance came out at MS+25bp guidance, revised to +20bp as books quickly built to EUR 1.6bn-plus and pricing was fixed at MS+19bp.

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

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