Primary in abeyance as lateral risk factors roil market conviction

The new-issue bond market is quiet. Less than USD 43bn priced in the US, EMEA and Asia-Pacific last week across all issuer segments. Action in the US picked up a little on 27 July but Europe looks to have a closed sign on the door. More broadly, the market does seem to be lacking firm conviction.

It’s not just that we’re in full-on earnings season; the market also has an eye on second-wave, Covid-19 event-risk and the impact of localised lockdowns as well as rising US-China tensions (escalating war of words; Houston-Chengdu mission closures). A busy week for government debt auctions and data releases will likely keep issuance in abeyance. In fact, some believe we could be in for a market quiet period until the end of August.

The broad risk factors out there have left the market feeling a little lacklustre. Not to the point where issuers venturing into the market are suffering from undue investor indifference; over-subscription levels are OK if not spectacular. But gold hitting a record high and US Treasuries plumbing or moving back to new yield lows (depending on the point in the curve) tell a pretty clear story.

It’s a baseline that also sees the US and global economy running out of steam after positive signals in the second quarter. Market watchers say bond markets are providing much more realistic signals than equity markets, which continue to confound as to what they are telling us.

EU Recovery Fund news provided a rallying point for European credit last week and explained the positive fund inflows. The market liked the political breakthrough for all sorts of reasons, including the reassuring impact it is likely to have on euro area periphery countries (where sovereign bond spread convergence is on the cards and market participants are already talking about positive ratings migration over time) and on sub-investment-grade credit.

Just going on the bald numbers being bandied about (EUR 750bn-EUR 850bn) the plan will transform Europe’s bond market as the EU gets to work across the maturity spectrum in the next three to four years. If, as is being talked out, anything like a quarter of that comes in green format, the plan will also transform the ESG bond market.

How EU funding will impact pricing in the European public-finance segment is under scrutiny. The sheer size of EU funding requirements will shake up the bond market status quo. Of that there is little doubt. To get its funding programme done, the EU will have to be omnipresent. On the down side, that could create all sorts of crowding-out effects.

How EU funding interacts with – or gets in the way of – the funding programmes of core euro area sovereigns and agencies will be fascinating to watch. Particularly seeing if the EU challenges the pre-eminence of the Bund market as Europe’s de facto benchmark bond market.

Also fascinating will be seeing how EU funding plays into ECB asset-purchase programmes i.e. how much this becomes a public-finance round-tripping exercise and how much gets to outside investors.

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

111 Buckingham Palace Road
London SW1W 0SR

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

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

In terms of the primary bond market flow of recent days, **UBS** and its multiple forays into the market was the only real game in town among European financials. Wasting no time after publication of its first-half results, the Swiss bank has been in the market pretty much every day since. The morning after its results saw it print a no-grow USD 750m PNC6 AT1. It was back the following day (23 July) with a three-tranche AUD 2.75bn senior unsecured offering, and again on 27 July with a dual-tranche US dollar senior unsecured.

The US dollar trade was split into a USD 1.3bn 4NC3 that priced at T+83bp (IPTs T+112.5bp area) and a USD 1.3bn 6.5NC5.5 that priced at T+108bp (IPTs T+137.5bp area). The Australian dollar trade was divided into a AUD 1bn three-year FRN (priced at 3mBBSW+67bp); an AUD 1.25bn five-year FRN (3mBBSW+87bp); and a AUD 500m five-year fixed-rate tranche (priced at S/Q ASW+87bp). All tranches priced 8bp below the tight end of initial guidance.

The AT1 certainly captured attention, achieving 7.7x book coverage and slicing 62.5bp off initial indications to print at a yield of 5.125%. As mentioned in a previous edition of Primary Market Talk, issuers are taking advantage of the strong market for deeply subordinated debt to pre-finance upcoming AT1 calls. The new issue is expected to be a partial pre-financing of the USD 1.5bn 6.875% Tier 1 Capital Notes that hit their first call on 22 March 2021. The call will also reportedly be refinanced with proceeds of previous visits to the AT1 market. In the last third of 2019, UBS sold a CHF 290m 3%, a SGD 750m 4.85% and an AUD 700m 4.375%.

Three other banks priced deeply subordinated capital issues. **Raiffeisen Bank International** was the only other European name, pricing a no-grow EUR 500m PNC6 AT1 on 22 July at a 6% yield. The deal priced a few days before the bank went into its quiet period; first-half results are out on 11 August. Demand was above EUR 1.6bn, enabling pricing at the low end of 6.125% +/- 12.5bp WPIR guidance. IPTs had been 6.50% area. With proceeds of the AT1 and the EUR 500m Tier 2 from June, the bank said the buffer to its MDA improved to 2.38% based on Q1 data.

Fifth Third Bancorp, a top 25 US bank based in Cincinnati, priced a USD 350m preferred issue (with a five-year call) on 27 July at the guidance yield of 4.50%, having gone out with initial price thoughts of high 4.00s.

Chong Hing Bank, the Hong Kong bank owned by China's Yuexiu Group, priced a USD 250m PNC5 AT1 on 27 July, The bank had appointed leads on 24 July to arrange investor calls ahead of what was expected to be a benchmark-sized issue. The issue went into the market with initial guidance of 6%, tightening to 5.50% at final guidance and pricing at final guidance as orders went above USD 1.5bn.

Meanwhile, the European Banking Authority has been busy. It put out several public consultations in recent days across a variety of topics. On 27 July, it launched one on its draft Regulatory Technical Standards on daisy chains of internal MREL. That is, it has specified methods to avoid having instruments indirectly subscribed by a resolution entity for the purpose of meeting MREL (applicable to entities that are not themselves resolution entities) hamper the smooth implementation of the resolution strategy. The consultation runs until 27 October 2020.

On 24 July, it launched a three public consultations that run until 24 October:

1. on its draft Implementing Technical Standards specifying uniform reporting templates, instructions and methodology for the identification and transmission by resolution authorities of information on MREL.
2. on its draft Regulatory Technical Standards specifying the methodology to be used by resolution authorities to estimate Pillar 2 (P2R) and combined buffer requirements (CBR) at resolution group level for the purpose of setting MREL requirements under the BRRD.
3. on draft RTS and ITS on the impracticability of contractual recognition of write-down and conversion powers and related notifications in the BRRD.

On 23 July, the EBA launched a consultation on draft RTS specifying how institutions should determine exposures arising from derivative and credit derivative contracts not entered directly into with a client but whose underlying debt or equity instrument was issued by a client. The consultation runs until 23 October 2020. It also issued guidelines for competent authorities outlining a special procedure for the 2020 SREP. The guidelines identify how authorities can exercise flexibility and pragmatism in relation to the SREP framework in the context of Covid-19. Publication of the guidelines following publication in April of its statement on additional supervisory measures in relation to Covid-19 (which had espoused the principles of effectiveness, flexibility and pragmatism).

Summary of FIG debt issuance 16 July to 27 July

Brazil's **Banco BV** (the former Banco Votorantim now 50% owned by federal government bank Banco do Brasil) priced a USD 500m five-year senior unsecured bond on 22 July at a 4.375% yield. IPTs were high 4s.

Bank of America priced a USD 4.75bn senior unsecured trade on 20 July split into a USD2.75bn 11NC10 tranche that priced at T+128bp (the tight end of T+130bp +/-2bp guidance; IPTs were T+145bp area) and a USD 2bn tap of its existing 21NC20 at T+135bp, at guidance (IPTs were T+145bp area). Both tranches at SOFR-linked at the back end.

China Construction Bank appointed leads on 24 July to arrange investor calls ahead of an offering of three to five-year US dollar-denominated green bonds. Initial guidance emerged on 28 July at T+135bp and T+150bp respectively.

China Everbright Bank priced a USD 700m three-year senior unsecured FRN on 27 July at 3mL+85bp final guidance. Book closed above USD 2.2bn. Initial guidance was 3mL+125bp.

China Securities International mandated leads on 27 July to arrange investor calls ahead of a potential issue of US dollar-denominated senior unsecured bonds.

Chong Hing Bank mandated leads on 24 July arrange investor calls ahead of a potential benchmark-size PNC5 US dollar AT1. The issue went into the market with initial guidance of 6%, tightening to 5.50% at final guidance and pricing there as orders went above USD 1.5bn. The deal size was set at a sub-benchmark USD 250m.

Fifth Third Bancorp pushed out IPTs of high 4.00s on 27 July on its USD 350m PNC5 preferred issue, tightening to 4.50% by guidance and launch.

ICBC (via Horse Gallop Finance) priced a USD 700m five-year senior unsecured offering on 22 July at T+150bp, the tight end of T+150bp-155bp WPIR final guidance. Books closed above USD 3bn, having hit USD 3.9bn in marketing. Initial price guidance was T+200bp area.

Swedish credit management services company **Intrum** (47.4% owned by private equity firm Nordic Capital) priced a EUR 600m 5NC2 senior unsecured bond on 24 July at 554bp over the Bund curve to yield 4.875%, which is where price talk emerged. The deal was upsized from EUR 500m.

South Korea's **Mirae Asset Daewoo** priced a dual-tranche senior unsecured offering on 23 July split into a USD 300m three-year tranche priced at T+205bp (the tight end of T+205bp-210bp final guidance; initial guidance was T+250bp area) and a five-year at T+245bp (the tight end of T+245bp-250bp final guidance; initial guidance T+290bp area). Demand for both tranches reached USD 1.65bn from 112 accounts.

Shanghai Pudong Development Bank priced a USD 500m three-year FRN on 20 July at 3mL+85bp final guidance. Final books were USD 2.3bn. Initial guidance was 3mL+125bp area.

United Overseas Bank (Malaysia) mandated leads in connection with a potential RM750m (max) 10NC5 Tier 2 bond.

US Bancorp priced a USD 1.25bn 10-year senior unsecured bond on 16 July at T+83bp, the tight end of T+85bp +/-2bp guidance.

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

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

Scope Insights GmbH

Lennéstraße 5
D-10785 Berlin

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

DISCLAIMER

© Scope Insights GmbH (''Scope Insights'') produces independent and objective non-credit-rating-related research and opinions (''research and opinions''). Forward-looking statements are based on estimates, so the research and opinions do not constitute a factual claim; they merely express an opinion, which may subsequently change and may then be reflected in an altered research or opinion. Consequently, Scope Insights does not assume any liability for damage resulting from decisions taken based on any research and opinion it produces. The information contained in the research and opinions is derived from sources that Scope Insights deems to be reliable; it has been compiled in good faith. Nevertheless, Scope Insights cannot give any guarantee that the information used is correct, nor can assume any liability for the correctness, completeness, timeliness or accuracy of the research and opinions. The parties involved should only, if at all, regard such research and opinions as one out of many other factors in a possible investment decision; the research and opinions cannot replace the parties' own analyses and assessments. The research and opinions therefore only comprise the expression of an opinion with respect to quality and do not constitute any statement as to whether the parties to an investment could generate any income, recover any capital invested, or assume any specific liability risks. Scope Insights does not provide any financial, legal, tax, advisory or consultancy services and does not give advice on structuring transactions, drafting or negotiating transaction documentation. Scope Insights does not consent to being named an "expert" or any similar designation under any applicable securities laws or other regulatory guidance, rules or recommendations. Scope Insight's research and opinions are not a part of the credit analysis of Scope Ratings GmbH and do not represent the rating methodology of Scope Ratings GmbH. The research and opinions do not represent or constitute a credit rating, rating driver, or rating action and do not affect any of Scope's credit ratings.

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