Primary bond market stays focused despite fractious political backdrop

Boris Johnson suspending UK parliament, high-level agreement for a 5-Star/PD coalition in Italy and an inconclusive G7 meeting formed a potentially fractious macro backdrop to the week. But it didn't halt primary bond market activity. On the contrary.

As far as the market is concerned, the formation of a pro-Europe coalition in Italy is a good outcome in principal and it led to some active buying of Italian government bonds in the belly of the week that pushed 10-year BTP yields through 1%. Assuming all goes to plan, there should be a constructive outcome for Italy's banks. Scope re-iterated its positive view on the sector.

Johnson's move was seen as either an affront to British democracy and akin to a coup or protecting the people's democracy around Brexit, depending on your point of view, See Scope comment. GBP/EUR initially fell on the news but recovered some of the losses amid a vicious backlash by those opposed to the move; conclusion unknown.

The debt capital markets carried on regardless, ignoring the political noise and getting down to business. The new-issue market was pretty packed across the FIG and corporate segments. Orange and Siemens priced multi-billion euro deals and there was a decent flow of other corporate names in the euro market.

The FIG sector saw a flurry of activity with something approaching two-dozen names either pricing deals or announcing roadshows. Issuers included a suite of core European banks pricing across the spectrum of covered bonds, senior preferred and non-preferred, Tier 2 and AT1. As a general comment, while investors were open to offers they were not pushovers and underwriters had to work a bit harder to get deals over the line. Not all were slam-dunk trades.

In busy markets, it's always the case that buyers have the luxury of choice so can draw harder lines on pricing. Book demand across the issues that priced was solid in aggregate, but some deals clearly wobbled, and the market seemed to lack the kind of momentum seen before the summer break.

Bank of Nova Scotia's EUR 750m seven-year bail-in senior unsecured priced at MS+65bp guidance; Singapore's United Overseas Bank's three-year US dollar covered similarly printed at MS+32bp guidance. Austria's BAWAG, meanwhile, wasn't able to hit the lows of its guidance range, printing its eight-year senior preferred at the wides of MS+90bp +/-2bp, while Deutsche Pfandbriefbank priced its EUR 500m five-year senior preferred at its IPTs of MS+75bp..

Core must-have names in good size did better, even if it could be argued that some of the issuers that seemed to struggle got the pricing they wanted – like pbb getting away with a 12.5bp coupon and 0.226% yield.

Worthy of note, Svenska Handelsbanken priced Sweden's debut euro senior non-preferred, an important trade as it was not just about Handelsbanken hitting its target levels but about setting a benchmark. KBC priced its EUR 750m callable Tier 2 with a punchy yield of 0.616%, while Credit Suisse's CHF 525m Perpetual Tier 1 Contingent Write-down Capital Note claimed to be the first to use a SARON back end.

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Summary of FIG debt issuance August 23 to August 30 (14:00 CET)

Japan's **Aozora Bank** pushed out initial guidance of T+135bp area on its planned three-year dollar benchmark, capping the size at USD 300m, tightening into guidance of MS+115bp-120bp WPIR and pricing at the tight end.

Bank of Nova Scotia priced a EUR 750m seven-year senior unsecured offering at MS+65bp, the same level as guidance, with books in excess of EUR 1bn. IPTs MS+75bp area.

BAWAG priced a no-grow EUR 500m eight-year senior preferred offering at MS+90bp, with books at EUR 750m. The bank wasn't able to hit the tights of MS+90bp +/-2bp WPIR guidance but notes came through MS+100bp area IPTs, offering a mid-single-digit premium.

BBVA priced a USD 1bn PNC6 5.125%-trigger equity-conversion AT1 at a yield of 6.50%. Pricing came through 6.625% guidance and IPTs of 7%. Proceeds will be earmarked to finance a EUR 1.5bn AT1 call in February 2020; the bank March AT1 of this year will also be utilised to fund that call.

BBVA Bancomer, the group's Mexican unit, mandated leads to arrange roadshows in London and the US ahead of a potential 144a/Reg S US dollar-denominated Tier 2 offering.

BNP Paribas priced EUR 1bn in seven-year senior non-preferred notes at MS+70bp, to final demand of EUR 1.7bn, having garnered over EUR 2.25bn in total. IPTs had been MS+95bp area, tightened to MS+75bp-80bp guidance.

Credit Suisse priced CHF 525m in Perpetual Tier 1 Contingent Write-down Capital Notes, claiming the first public issue in the Swiss market to use a SARON-derived back end. The notes, which priced at a coupon of 3%, pay a fixed coupon until the first call date in November 2025 and, if not called, the coupon resets at the five-year mid-swap rate referencing the Swiss Average Rate Overnight (SARON) plus the initial credit spread.

CYBG plc (the UK banking group that will be renamed Virgin Money UK plc) priced a GBP 400m 8NC7 senior holdco at G+375bp to GBP 700m in demand and reportedly offering a low double-digit premium. IPTs wee G+390bp area.

Deutsche Pfandbriefbank set the spread and priced its no-grow EUR 500m five-year senior preferred offering at MS+75bp, which is where it started out with IPTs as investors proved implacable on price. Demand reached EUR 625m for a deal offering a low double-digit premium.

HSBC France printed EUR 1.2bn of eight-year senior preferreds at MS+48bp, the tight end of MS+50bp area +/-2bp WPIR guidance, offering a small single-digit premium. . IPTs were MS+low 60s. Demand reached EUR 1.9bn.

ING sold EUR 1bn in 6NC5 fixed-to-floating-rate senior holdco notes at MS+60bp, having generated EUR 2.7bn in demand (EUR 2.4bn at re-offer). Guidance had been MS+65bp-70bp and IPTs MS+85p area.

KBC printed the maximum stated size of EUR 750m in 10.25NC5.25 Tier 2 notes at MS+110bp on a EUR 2bn book of demand. IPTs had been MS+130bp area, tightened to guidance of MS+110bp-115bp. Notes offered a small single-digit premium. The trade will fund a Tier 2 call on 25 November.

South Korea's **KEB Hana Bank** mandated leads to arrange roadshows from 2 September ahead of a potential US dollar-denominated 144a/Reg S short to intermediate maturity senior transaction.

France's **MMB SCF** (My Money Bank) mandated leads to arrange roadshows across Europe ahead of a potential euro-denominated long-tenor soft-bullet covered bond.

Muenchener Hypothekenbank priced its no-grow EUR 500m four-year mortgage covered bond 1bp through guidance at MS-2bp, generating orders of EUR 860m. Sell-side sources had fair value at MS-5bp. The negative swap spread was equivalent to a yield of -0.567%.

Nykredit sold a no-grow EUR 500m short five-year senior non-preferred note at MS+70bp to demand of over EUR 1.1bn. Pricing came at the bottom of MS+70bp-75bp guidance; IPTs had been MS+85bp area.

Societe Generale pulled in orders of over EUR 2.7bn on its EUR 1.75bn two-year senior preferred FRN. IPTs emerged at 3mE+30bp area, tightened to guidance of 3mE+25bp +/-2bp WPIR and priced at the tights.

Svenska Handelsbanken sold EUR 750m in seven-year senior non-preferred notes at a spread of MS+50bp, the bottom end of MS+50bp-55bp guidance. Demand reached EUR 1.4bn at re-offer but hit EUR 2bn at the highs. IPTs had been MS+70bp area.

Swiss Re priced a USD 1bn perpetual non-call five, with books closing at over USD 8bn. The yield was 4.25%, against guidance of 4.375% and IPTs of 4.75%.

UBS priced a heavily over-subscribed SGD 750m (approx. EUR 488m) PNC5 AT1 at a yield of 4.85%, against IPTs of 5% area. The deal was said to have priced well through the bank's US dollar-equivalent cost of funds.

United Overseas Bank pushed out guidance, fixed the spread and priced its USD 500m three-year covered bond at MS+32bp, clearly suggesting either a struggling deal that pushed too hard with punchy guidance or one where the issuer was comfortable enough pricing out where they started.

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

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