Banks pile into bond market to solid demand ahead of more turbulence

European banks piled into the bond market between Monday and Thursday just before the market turned a little tricky. Including non-European banks printing in euros, supply was around EUR 17.5bn and book coverage solid at 2.3x.

‘Print while the going is good; risk-off drama overdone’, the title of this report read last week. And FIG issuers did exactly that; Tuesday was a particularly busy session. Beyond the issues that came to market, there’s decent visible supply, with issuers booking roadshows for late May and early June prints.

Demand for the supply that priced this past week was decent. Book coverage was 2.3x on average – some issuers did much better – as investors continued putting their cash balances to work and pushed through the macro and political white noise for most of the week.

While pretty solid, what that level of demand infers is that investors are open for business but are not over-doing it. The market did turn somewhat into Thursday afternoon, so the coming week, with the UK on holiday on 27 May, will be a question of wait-and-see.

Even if demand hasn’t been off the scale, most issuers have generally been able to print at or around fair value. But there has been a modicum of prudence around certain names, and underwriters have been prepared to add new-issue concessions if their read of the feedback warrants it in order to get deals over the line in good shape. Or if issuers are prepared to give up spread for size.

Investors aren’t being pushovers: as certain deals go through the cycle of initial price thoughts, guidance towards final price, book sizes can reduce quickly. Investors are putting up resistance if underwriters push too hard on price.

All of that said, the market had been in coming back into balance and spreads had generally been tightening modestly. By Thursday’s afternoon session, though, some of the week’s supply was underwater on a resumption of US-China trade-inspired volatility and a resumption of Brexit noise. US stocks sold off and the 3-month T-Bill to 10-year T-Note curve inverted once again.

Issuers have been getting good deals, though, as have investors, particularly those who benchmark against government bonds where FIG issuance – even at low or negative swap spreads – has offered decent pick-up to sovereign bonds.

Because of the queasy sentiment unleashed by the simmering US-China trade row, the return of the better market tone for most of the week and the solid reception of most of the issues that priced had reportedly surprised some underwriters. That needn’t have been the case.

It wasn’t so much that recent news or event flow had reversed any tendency to risk aversion. It was perhaps the realisation that it shouldn’t really have gotten in the way in the first place with such negative force. Collective sentiment can switch very quickly. Given that there is still a lot of headline risk out there, issuers seem to have taken the view that it’s better not to wait; things can always get worse and the window of opportunity can close so better to strike while the iron is hot.

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Issuers in the past week were a mixture of national champions, frequent issuers and some second-tier names. Issuance came across the maturity spectrum in euros, US dollars and sterling and in covered, senior preferred, non-preferred and in green formats. On timing, issuers like to have a relatively clear market. The variety of the most recent batch of supply was such that similar-rated or otherwise similar issuers weren't all chasing the same point in the curve or in the funding/capital structure at the same time.

Summary of key bank issuance May 20 through May 23

AIB Group's EUR 750m five-year senior unsecured holdco bond on 21 May was the first Irish trade of the year. The issue ended up three times over-subscribed at MS+140bp, a mid-single-digit NIP. Guidance had been MS+145bp area and IPTs at MS+160bp.

Bank of Queensland, the regional Australian financial services group (which owns Virgin Money Australia), ended its roadshow on 22 May and went out the next day with a no-grow EUR 500m five-year conditional pass-through covered bond. IPTs of MS+30bp area were tightened to MS+26bp area guidance. The book was twice covered within a couple of hours and pricing was fixed at MS+25bp. Books closed at EUR 1.2bn.

Barclays PLC mandated banks for a five-year AUD fixed or floating-rate 10-year senior unsecured offering, market conditions permitting.

Berlin Hyp priced a punchy no-grow EUR 500m 10-year mortgage covered bond at 2bp through mid-swaps on 22 May, around fair value. Books reached EUR 1.2bn. Initial guidance had been MS+2bp, revised to MS flat +/- 2bp. The trade, which extended the issuer's covered bond curve by more than three years, was another example showing that the Pfandbrief market is reverting to its sub-swaps context even for long-dated issuance. Even so, the deal still offered a decent pick-up of something like 50bp over Bunds.

BNP Paribas tapped the senior non-preferred market on 21 May, raising EUR 1.2bn at the 10-year maturity; books closing at EUR 1.75bn although they reached EUR 2bn as the deal was wending its way towards close. Pricing came at MS+105bp, through MS+110bp guidance and IPTs of MS+125bp area, offering a mid single-digit concession.

BPCE SFH offered a pick-up of 12bp over mid-swaps, a low single-digit concession, to get its longest covered bond away, a EUR 1bn 12-year, to EUR 1.55bn of final demand. The deal extended the issuer's curve by three years. Underwriters had gone out with guidance of MS+15bp area, revised to MS+13bp +/- 1bp WPIR.

Commerzbank ventured out for the first time since it broke off merger talks with Deutsche Bank to raise EUR 1bn in 5.25-year senior preferred notes, paying MS+68bp, a mid single-digit basis point concession. The final book was above EUR 2.8bn. IPTs had been MS+85bp area, tightening into guidance of MS+70bp +/-2bp WPIR.

Credit Agricole took EUR 1bn from the senior preferred market on 20 May, retaining more than EUR 2.1bn of demand for its 10-year offering, which priced at fair value at the tight end of MS+60bp +/-2bp WPIR guidance. IPTs had been MS+80bp area, sufficient to draw gross demand of EUR 2.8bn. The bank also tapped the Australian dollar market down the capital structure, selling a 4.20% AUD 600m 15NC10 Tier 2, equivalent to MS+238.3bp. Guidance had come in the 4.35% area.

Demand for **Deutsche Pfandbriefbank**'s three-year no-grow USD 600m mortgage covered bond was a little tentative, reaching USD 800m. The bonds printed at MS+32bp, the middle of revised guidance of MS+32bp +/- 2bp, although that was solid enough to pull pricing in from initial guidance of MS+35bp area.

Dexia Credit Local, the 99.6% State-owned Belgian-French bank under ECB prudential supervision generated orders of EUR 4.6bn for its EUR 2bn five-year senior unsecured notes offering, which priced at or around fair value of MS+5bp – through MS+7bp area guidance and MS+8bp area IPTs.

HSBC Holdings priced GBP 750m in 11NC10 senior holdco notes at guidance of 200bp over Gilts, 10bp through Gilts plus 210bp IPTs.

LBBW tapped the dollar Reg S market to raise USD 750m in green mortgage covered bonds in what was potentially the biggest surprise of the week in terms of its reception. Solid demand of USD 2.3bn, padded out by substantial orders from ESG accounts, allowed for a MS+24bp print, tighter than it could have achieved for a non-green bond. Guidance had been MS+26bp +/- 2bp. Initial guidance had been MS+30bp area.

Nationale-Nederlanden Bank went out with IPTs of MS+70bp area on the morning of 23 May for its no-grow EUR 500m four-year senior preferred bond. The deal was covered within the hour and had reached EUR 1.3bn by the end of the morning. Guidance came at MS+60bp +/- 3bp and the deal priced at the tight end, at +57bp. The issue had taken the deal on a roadshow from 17-22 May.

Nationwide Building Society sold EUR 1.2bn of five-year covered bonds backed by prime UK residential mortgages at MS+9bp, the tightest spread YTD of any UK issuer and offering a single basis point concession. Books were above EUR 2.9bn at re-offer. Leads had gone out with MS+13bp area guidance, revised to MS+10bp area +/- 1bp WPIR.

Brexit fatigue didn't dent demand for **NatWest Markets Plc**'s offering of EUR 1bn of five-year senior unsecured OpCo notes. The deal, which priced on 20 May, was more than 4.5x covered as investors scrambled to get into the deal – the first senior euro trade from a UK lender for months – which went at a spread of MS+110bp. Compared with the returns to be had in euro covered bonds from UK names, IPTs of MS+130bp, tightened to guidance of MS+115bp area, were enough to turn heads. The reported 10bp-area concession made sure of a solid print.

Nordax Bank issued SEK 350m, roughly EUR 32.5m, of 10NC5 floating-rate Tier 2 bonds on 22 May paying 415bp over three-month Stibor. The bank said the offering attracted strong demand from Nordic institutional investors. The subordinated bonds were issued under the issuer's new SEK 3bn MTN programme. Nordax Bank is owned by private equity Nordic Capital Fund VIII and Sampo.

Nordea might have expected a bigger book of demand for its EUR 750m seven-year senior preferred green bond, given the additionality of the green bid. The bonds priced at MS+32bp to demand of EUR 1.1bn of demand. Pricing came at the tight end of MS+35bp +/-3bp WPIR guidance; IPTs had been MS+45bp area.

Societe Generale priced a EUR 1.5bn three-year senior preferred offering on 21 May at MS+27bp, garnering demand of EUR 2.4bn. Guidance had gone out at MS+27bp-30bp WPIR, while IPTs had been MS+40bp area.

Sumitomo Mitsui Financial Group returned to the green bond market with a EUR 500m five-year holdco offering. The notes printed flat to fair value at MS+50bp and the book was twice covered. IPTs has been MS+65bp area.

Swedbank Mortgage AB was able to push through its money-laundering travails, albeit opting for the safety of the covered bond market and avoiding any potential turbulence it might have faced in less forgiving unsecured markets. The lender priced a EUR 1.25bn six-year Swedish mortgage covered bond with a 2bp NIP at MS+2bp, the tight end of revised guidance of MS+3bp +/- 1bp WPIR, to EUR 1.8bn of demand. Initial guidance had been MS+6bp area.

TP ICAP sold GBP250m in seven-year senior unsecured notes at a yield of 5.25%, generating demand of GBP 600m. Leads initially marketed the notes with 5.50% area price thoughts. The interdealer broker, which had gone on a roadshow in the previous week, sold the new issue as part of an exercise to managing its debt profile. The new line was concurrent with a tender offer at 104 for its GBP 500m 5.25% due 2024 notes.

On the road:

- **Capital One Financial** Corp has mandated banks to arrange a roadshow ahead of a potential fixed-rate holdco senior unsecured euro benchmark.
- **Korea Housing Finance Corporation** mandated underwriters to arrange a European roadshow from 27 May ahead of a potential five-year euro-denominated Reg S/144a/3c7 social covered bond backed by Korean residential mortgages.
- Austrian lender **Oberbank AG** mandated banks to arrange a roadshow from 3 June ahead of a potential euro-denominated seven to nine-year sub-benchmark senior preferred transaction.
- **PKO Bank Hipoteczny** mandated for a potential five-year Polish zloty green covered FRN.
- Russian consumer finance firm **Renaissance Credit** is on a roadshow from 3 June ahead of a potential 5.5-year euro-denominated subordinated deal.

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

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