USD 150bn of new deals says primary bond market is open for business

Almost USD 150bn of new hard-currency bonds priced in the US and Europe in the seven business days to 24 March. That’s around 36% higher than the same period of 2019. Take out the dramatic Tsunami of corona-related headlines and drastic monetary and fiscal measures, and the primary credit market is to all intents and purposes operating normally on a flow-of-deals basis.

That’s very impressive, especially as broad sentiment is hardly stellar, and the secondary credit market is said to be dysfunctional. Primary activity shows how resilient the capital markets can be in a crisis, especially with the right names and with the backing of decent support mechanisms. The monetary measures that have been announced – particularly additional central bank bond-buying – are having a positive technical impact. Fiscal measures are also improving the market tone, but they will take longer to take effect.

The breadth of new-issue activity also shows how ready investors are to engage with issuers prepared to jump on moments of calm to execute quickly. Spain’s EUR 10bn seven-year sovereign trade on 24 March is worthy of mention, attracting demand of over EUR36bn at 18bp over its curve. Beyond that, activity has predominantly been a US story. In fact, two thirds of all issuance has come from US borrowers and three quarters of that from US corporates.

What’s notable about the recent run of deals – beyond the sheer volume – is that it has been dominated by a relatively small number of brand-name (mainly US) corporates tapping the market in multi-billion dollar size across multiple maturity tranches, among them defensive names set to benefit from the corona-induced status quo. Over the period in question, Coca-Cola, Comcast, Diageo, Engie, Exxon Mobil, General Dynamics, Intel, Lowe’s, Kimberley-Clark, Nestlé, Northrop Grumann, Pepsico, Procter & Gamble, Sanofi, Unilever, UPS, Verizon and Walt Disney raised over USD 76bn between them.

US G-SIBs also jumped into the market, predominantly dollars, pricing senior trades worth over USD 18bn in recent days and probing different maturity points to gauge the depth of demand right across the curve: on 19 March, Morgan Stanley printed a dollar 31NC30; Citigroup went for a 21NC20 while JP Morgan Chase tapped 11NC10. Bank of America had kicked things off on 17 March at the 31NC30 point. Wells Fargo’s 11NC10/31NC30 dual-trancher on 23 March saw the long piece pricing with a smaller spread pick-up over the relevant UST benchmark. Citigroup returned on 24 March in the 11NC10 space.

European financials have steered clear of the market; only AXA Bank on 19 March and BPCE on 24 March emerging to sell covered bonds – the only game in town in Europe. Beyond that, Canadian banks have dominated residual FIG action in Europe in the past 10 days or so. CIBC, BMO, TD, RBC and Scotiabank all sold covereds in the three to five-year tenor; the latter was marketing a dollar trade on 25 March.

TD had attempted a sterling covered floater on 17 March but failed to get it over the line. No shame there in the circumstances: it’s important for issuers to gauge the preparedness of investors to play and test demand elasticity. Knowing where investors won’t go is an important test of the price discovery process and a benefit for the market at-large.

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

Suite 204
2 Angel Square
London EC1V 1NY

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

Too much too soon? Too little too late? Market not in a mood to wait and see

Financials spreads have blown out far more extravagantly in the past week than non-financial index spreads as concerns grow about the impact of the crisis on bank profitability and solvency. But in a 24 March report (Banks emerge as part of solution to Covid-19 economic crisis), Scope's Marco Troiano said that while the operating environment for European banks will be challenging, resolution and senior debt bail-in are extremely unlikely.

Troiano says he expects more profit warnings in the short term, followed by asset-quality deterioration over time as lower revenues from falling volumes across multiple business lines will initially more than offset potentially rising margins. Combined with higher provisions, this will hit profits but possibly capital too, the report says. Regulatory risk will resurface once the acute phase of the economic crisis is over.

The more junior layers in the capital structure are closer to the regulatory action frontier, though, and Scope believes losses and capital depletion will eventually increase the risk to these securities, starting with AT1. AT1 prices have cratered in the recent market rout, although whether that has been down to any scenario analysis around likely moves towards triggers or regulatory intervention is doubtful.

Aareal Bank followed Deutsche Bank in not calling its AT1, announcing on 20 March that it will not exercise the 30 April option to call its EUR 300m 7.625s owing to economic factors. DB had said on 11 March that it would not call its USD 1.25bn 6.25% AT1, which also has a 30 April call date. Current AT1 economics render calls less likely.

As for FIG market repricing, spreads may have moved dozens of basis points wider at the top end of the seniority spectrum (40bp-plus in covered bonds). But while the shifts look big on a relative basis to where the market was pre-corona, new funding levels are still keen on a comparative historical basis. There are still a number of unsettling elements at play. As central bank buying programmes get into gear, pricing should settle into a more stable pattern (corona news flow notwithstanding).

A lot of asset managers are in a state of flux at the moment, having experienced outflows. That and the extreme volatility has had them somewhat discombobulated. Participants have been alarmed as much by the sheer speed with which spreads have blown out as they have by the extent of the widening – which has been more severe than the global financial crisis. Beyond that, secondary liquidity has been very spotty and underlying government bond markets have been occasionally dysfunctional, which has only exacerbated and exaggerated price swings.

As to where the market settles, one shouldn't overlook the fact that the pre-corona credit market was simply over-bought, and spreads were too tight. Notwithstanding the severe adverse underlying market drivers, there is broad support for a rebalancing back in favour of buyers.

Summary of FIG debt issuance 16 March to 24 March

AXA Bank Europe priced a EUR 500m 4.5-year mortgage covered bond on 20 March at MS+38bp; demand reaching above EUR 700m. Initial guidance went out at MS+35bp-40bp.

Bank of America priced a EUR 1.5bn 9NC8 senior holdco trade on 24 March at MS+365bp, building demand of above EUR 5bn. The deal started out with IPTs of MS+380bp. On 17 March, the bank priced a USD 3bn 31NC30 senior unsecured trade at T+260bp, through IPTs of T+275bp area.

Bank of Montreal priced a EUR 1.25bn three-year covered bond on 19 March at MS+45bp guidance; building demand of EUR 1.4bn.

BPCE SFH priced its EUR 1bn five-year covered bond on 24 March at MS+40bp guidance; books reaching EUR 1.2bn.

Charles Schwab Corp priced a dual-tranche senior unsecured trade on 20 March split into a USD 600m five-year at T+370bp (4.212% yield) and a USD 500m 10-year at T+370bp (4.643% yield). Both tranches priced 5bp through IPTs.

CIBC priced a EUR 750m 3.5-year covered bond at MS+48bp guidance on 23 March, amassing orders of EUR 810m. CIBC also priced a GBP 125m tap of its covered FRN on 17 March at SONIA+82bp guidance, books reaching above GBP 140m.

Citigroup printed a USD 4bn 11NC10 senior trade on 24 March at T+360bp, through IPTs of T+375bp.The bank also priced a USD 1.3bn 21NC20 senior trade on 19 March at T+350bp guidance.

US health insurer **Humana** priced a dual-tranche senior unsecured offering on 23 March split into a USD 600m five-year at T+412.50bp and a USD 500m 10-year also at T+412.50bp

JP Morgan Chase priced a USD 1.3bn 11NC10 senior unsecured holdco trade on 19 March at the IPT level of T+350bp.

MetLife priced a USD 1bn 10-year senior unsecured offering on 19 March at T+350bp. IPTs were T+350bp-362.5bp

Morgan Stanley priced a USD 2bn 31NC30 senior trade on 19 March at T+375bp.

US insurer **Progressive** priced a dual-tranche senior unsecured trade on 17 March split into USD 500m 10-year at T+225bp (the tight end of T+230bp +/-bp guidance; IPTs were T+250bp area) and a USD 500m 30-year at T+245bp guidance (IPTs were T+262.50bp area).

Royal Bank of Canada priced a EUR 1bn five-year mortgage covered bond on 18 March at MS+40bp guidance to final books of over EUR 1.25bn.

Toronto-Dominion Bank priced a EUR 1bn four-year mortgage covered bond on 20 March at MS+50bp to demand of above EUR 1.2bn.

Wells Fargo priced a USD 6bn senior trade on 23 March split into a USD 2.5bn 11NC10 at T+375bp and a USD 3.5bn 31NC30 at T+370bp. Both tranches had started with IPTs of T+375bp.

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

Too much too soon? Too little too late? Market not in a mood to wait and see

Scope Insights GmbH

Lennéstraße 5
D-10785 Berlin

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

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