Investors leap into red-hot bond market to capture market repricing

The bond market remains wide open. Issuers added USD 50bn of supply on Monday alone after last week's USD 206bn as they jumped on the bid while it's still there. European borrowers have become more active; pricing a little calmer though still super-attractive to investors.

Even after Monday's deluge, around 30 issuers were marketing trades in euros and US dollars on Tuesday, attracted by strong investor reception and over-subscribed books on previous trades. Strong momentum and heady demand have enabled underwriters to tighten pricing between initial price thoughts and final pricing and this is pulling borrowers into the market. The unsettled general environment has made some syndicates a little cautious on pricing so they're building in cushions to make sure they capture buy-side interest.

In the FIG sector, pricing across the market is at levels investors could only have dreamed up a short few weeks ago. They're being shown pricing now on senior unsecured lines they could only have gotten on deeply subordinated paper before the sell-off. In the circumstances, it's no wonder they've been perking up and actively taking down supply.

Order books have been chunky: Barclays plc saw EUR 8.25bn in orders for its EUR 2bn 5NC4 senior unsecured note on 26 March, pricing 35bp through IPTs at MS+375bp. NatWest Markets pulled in EUR 5bn from over 250 accounts for its EUR 1bn five-year senior unsecured trade, pricing 40bp through IPTs at MS+300bp. Lloyds Banking Group saw EUR 8.75bn of demand for its EUR 1.5bn 6NC5 senior unsecured (pricing 25bp through IPTs at MS+375bp).

Credit Suisse Group's EUR 2bn 6NC5 senior bond received EUR 12bn of orders and pricing ratcheted in 40bp to MS+350bp. For Goldman Sachs's EUR 2bn five-year senior unsecured holdco bond, books closed above EUR 7bn; MS+335bp pricing 30bp tighter than IPTs.

The extent to which banks continue offering senior unsecured supply at elevated levels remains to be seen, however. Some may prefer to stick to covered bonds in the circumstances to keep a lid on the impact of market repricing.

The European banking sector is firmly under the spotlight after the ECB issued a 'recommendation' that banks withhold dividends until October to keep capital in the system to absorb losses and support lending; and refrain from share buy-backs aimed at remunerating shareholders. This is something of a one-dimensional tool that could have negative consequences, as Scope argued in a comment (Covid-19 and Europe's banks: suspending dividends looks prudent but not without long-term risks), published before the ECB's missive.

At a sector level, suspending dividends by definition affects the investability of banks. For recipients, dividends can be critical – to fund pension, insurance and other commitments; or to fund research and other public-good projects by public agencies, foundations or other organisations. A number of banks cancelled dividend plans in the wake of the announcement, but others will persist.

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There had been some concern that the ECB would extend its guidance and ask banks not to pay AT1 coupons. But Andrea Enria, chair of the ECB's supervisory board, said in an interview with the FT that this was not on his radar. One wonders whether that might change, however, in the light of circumstances.

At the outset of the market sell-off, AT1s were hammered. The ferocity of the selling had pushed prime bank paper to trade at high double-digit yields. Since then, value buyers have come in and bought at the wides and levels look somewhat better. But investor sentiment towards deeply subordinated FIG paper will remain skittish while the ECB is minded to guide banks to preserve capital.

More generally, if the dramatic uptick in supply in the past two weeks had initially been heavily US-driven, European corporate, FIG and SSA borrowers stepped up to the plate in recent days, accounting for 37% of overall issuance. A decent-sized group of brand-name investment-grade companies – among them AB Inbev, Aéroports de Paris, Air Liquide, Anglo American, BAT, Carrefour, Diageo, Heineken, Nestlé, Philips, Saint-Gobain and VW – printed in clips of a billion euros plus; some seeing prodigious over-subscription levels.

US and European corporates continue to account for the biggest issuer segment – 55% between 23 and 30 March – with FIG and SSA broadly sharing the rest between them. Among the 30 March deluge was a USD 20bn six-tranche blockbuster from Oracle, with maturities ranging from five to 50 years. Notable not just for its size but because stock buybacks were listed among potential use of proceeds (alongside cash dividends on common stock, debt repayments and future acquisitions), which caused some heads to turn in the circumstances.

In terms of companies operating in challenged sectors, Airbus was teeing up a EUR 2.5bn three-trancher on 31 March, as part of its efforts to build up liquidity at a super-demanding time for aerospace companies. Other initiatives include an increase in its contingent syndicated bank facilities and other measures. Ahead of pricing, the bond attracted EUR 11.4bn of demand. Cruise company Carnival Corp, meanwhile, was also prepping a dual-currency euro/US dollar three-year trade.

Yum! Brands stood out as the sole high-yield offering in a sea of investment-grade supply. The company upsized its short-dated 5NC2 by 20% to USD 600m and priced 25bp through the wide end of guidance at a 7.75% yield, equivalent to a 737bp spread over US Treasuries. The company's 10-year outing back in September 2019 priced with a yield of 4.75% and a spread of T+329bp, showing how the pricing context has changed.

In SSA, Nordic Investment Bank issued its first Covid-19 Response Bond on 30 March, a well-received EUR 1bn three-year to finance projects the bank said will mainly promote the efficient operation of healthcare systems and provide financial support and labour market solutions to alleviate frictions to supply chains. More than 80 investors came into the book and the deal was 3.2x over-subscribed, making for what the issuer noted was its largest-ever book for a euro benchmark. Pricing came 3bp through the wide end of guidance at MS+6bp, with a 0% coupon, equivalent to a yield of -0.263%.

Summary of FIG debt issuance 25 March to 31 March (15:00 CET)

Insurer **Aflac** priced a USD 1bn 10-year senior trade on 30 March at T+295bp. IPTs had emerged at T+340bp.

Insurer **American Financial Group** priced a USD 300m 10-year senior bond on 26 March at IPTs of T+462.5bp.

Bank of America tapped its 31NC30 of 17 March by USD 2.5bn on 26 March at T+235bp. IPTs were T+260bp area.

Bank of Nova Scotia priced a USD 900m three-year mortgage covered bond on 25 March at IPTs of MS+100bp.

Barclays plc sold a EUR 2bn 5NC4 senior unsecured holdco note on 26 March at MS+370bp, building a book of EUR 8.25bn. Pricing came at the tight end of MS+375bp +/-5bp WPIR guidance and at the top of the EUR 1.5bn to EUR 2bn size range. IPTs were MS+410bp area.

Credit Suisse Group sold a USD 3bn 11NC10 senior bond on 27 March at T+350bp guidance; IPTs emerged at T+387.5bp. The group also priced a EUR 2bn 6NC5 senior holdco bond on the previous days, 26 March at, MS+350bp; books closed above EUR 12bn. IPTs were MS+390bp area.

Goldman Sachs priced a USD 3.5bn five-year senior bond at T+300bp on 26 March. IPTs were T+337.5BP. The bank also priced a EUR 2bn five-year senior unsecured holdco bond on the day prior, 25 March, at MS+335bp; books closing above EUR 7bn. IPTs were MS+365bp area.

HSBC Holdings priced a USD 2.5bn 10-year bond on 25 March at T+415bp. IPTs were T+450bp area.

Lloyds Banking Group priced a EUR 1.5bn 6NC5 senior unsecured holdco bond on 26 March at MS+375bp. The final book was around EUR 8.75bn. IPTs were MS+400bp area.

Morgan Stanley priced a USD 3bn 11NC10 senior unsecured on 26 March at T+285bp. IPTs were T+312.5bp area.

NatWest Markets priced a EUR 1bn five-year senior unsecured opco bond on 26 March at MS+300bp. Books closed above EUR 5bn with over 250 accounts involved. Pricing came at the tight end of MS+310bp +/-10bp WPIR guidance. IPTs were MS+340bp area.

Raymond James priced a USD 500m 10-year senior unsecured on 26 March at T+390bp. IPTs were T+425bp area.

Standard Chartered sold a USD 2bn 11NC10 senior note on 26 March at T+385bp. IPTs initially emerged at T+425bp area, revised to T+412.5bp area.

State Street priced a USD 1.75bn senior trade split into a USD 750m 3NC2 tranche at T+255bp (launched at T+265bp; IPTs T+325bp-337.5bp); a USD 500m 6NC5 at T+245bp (launched T+255bp; IPTs T+312.5bp area) and a USD 500m 11NC10 at T+235bp (launched cat T+245bp; IPTs T+312.5bp area).

Toronto-Dominion Bank priced a USD 1.25bn mortgage covered on 27 March at MS+100bp, the same level at IPTs.

Wells Fargo sold a USD 2bn tap of its 31NC30 bond on 26 March at T+275bp guidance (IPTs T+280bp area). The original trade priced on 23 March.

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

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