Pricing power sitting firmly with issuers as bond market party continues

The debt capital markets continue in fine health. Since the last edition of Primary Market Talk, the primary FIG sector has been firing on all cylinders. European banks and insurers are keeping the Tier 2 circus well and truly alive, at the same time as senior non-preferred and senior preferred lines are active. US regional banks, meanwhile, have been actively tapping the market for deeply subordinated preferred stock.

The ECB’s decision to up its PEPP by EUR 600bn and extend it until the end of June 2021 at least, among other monetary policy action decided at the 4 June meeting, pumped up the feelgood factor. The market speculation is that there could be another EUR 500bn added to the PEPP programme before the year is out because the euro area inflation picture won’t materially shift as quickly as policy makers hope – if at all.

The power of the central bank to drive sentiment in the capital markets through its bond buying cannot be underestimated. Asset-purchase programmes are driving US and European credit inflows, which are at reportedly record levels in the US. This has led directly to heavy over-subscription of new issues and strong aftermarket performance. That can mean only one thing: new-issue pricing grinding tighter.

There’s actually nothing to stop pricing moving to below where it was pre-Covid. Before the ECB meeting, market participants had been looking for any pretext to drive pricing lower. So even though the ECB didn’t move on bank bonds or high-yield debt in its QE – no real surprises – there were more than enough positives.

Investors are resigned to the fact that pricing power lies firmly with issuers. The market sell-off in March had transferred that power to investors but in the end, it was but fleeting. Case in point: Italy pulled in pricing on its EUR 14bn 10-year sovereign trade from 15bp over its curve to 9bp and still had demand of more than EUR108 bn.

In the busy non-financial sector, Repsol’s hybrid trade was a stand-out in the past week’s primary flow. The Spanish energy major sold a dual-tranche EUR 750m PNC6 at a yield of 3.85% and a EUR 750m PNC8 with a yield of 4.25%. Combined books for the trade were EUR 11.5bn. Initial price thoughts had been 4.50% area and 5.125% area, respectively,

In the FIG sector, the market is strong too. The different market segments share many of the same issuing dynamics. With the sharp volatility of March well behind them, banks are wasting no time taking advantage of ECB rules (initially envisaged for 2021 but brought forward) allowing them to dilute regulatory capital strength by meeting a chunk of their Pillar 2 requirements under CRD V with AT1 and Tier 2 instruments.

This was always going to be a big driver of action in this product. The better market tone of recent weeks has led to a deluge of Tier 2 activity.

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Bond investors suffer supply indigestion as flow continues amid poor macro signals

Just in the past week or so, Credit Agricole, OP Corporate Bank, Standard Chartered and Commerzbank raised Tier 2 capital in euros; Commerzbank's offering coming days after the bank said it will create an AT1 programme of up to EUR 3bn. Credit Agricole additionally sold a Tier 2 tranche in yen as part of a three-tranche Samurai. UK insurer Phoenix, Macquarie Bank and US regional Valley National Bank tapped the US dollar market, while UK insurers Direct Line and Aviva sold sterling trades.

Intesa Sanpaolo also sold a sterling trade. An Italian bank selling subordinated debt in sterling is a rarity but Intesa has a bit of a following among UK buyers, having sold a senior preferred in January. Investors liked the 525bp pick-up to Gilts where underwriters started off; the 490bp spread at pricing reportedly offering the issue very keen execution on a swap-adjusted euro basis.

In senior non-preferreds, Banque Federative du Credit Mutuel, BNP Paribas, Credit Agricole, NIBC Bank and Credit Mutuel Arkea were active across currencies (Arkea in Covid-19 social bond format). Nordea, Nykredit and Swedbank raised senior preferred debt, alongside Deutsche Bank (in green format) and BBVA (also in Covid-19 social format).

Summary of FIG debt issuance 26 May to 6 June (15:00 CET)

EUROPEAN ISSUERS

Russia's Alfa Holding Issuance, the parent of **Alfa Bank**, priced a EUR 350m offering of three-year loan participation notes on 4 June at a 2.70% yield, equivalent to MS+299.6bp. Books for the trade closed above EUR 840m. The deal was upsized from an expected EUR 300m and came at the short end of threes to five-year maturity range. Price guidance was 3% area.

Aviva plc priced a GBP 500m 35NC15 fixed-rate reset Tier 2 on 29 May at G+370bp (yield of 4.084%). Demand reached GBP 3.6bn. There is a 100bp step-up at the first reset rate (to 470bp over five-year Gilts). Pricing came at the tight end of G+375bp +/-5bp WPIR guidance. IPTs were G+400bp area.

AXA Bank Europe SCF priced its EUR 500m 20-year covered bond backed by Belgian residential mortgages on 28 May at MS+24bp, the tight end of MS+25bp +/-1bp WPIR revised guidance. Books reached above EUR 1.3bn. Initial guidance was MS+28bp area.

Banque Federative du Credit Mutuel (BFCM) priced a EUR 1bn 10-year senior non-preferred note on 28 May at MS+143bp. The final book was above EUR 3.5bn. Pricing was at the tight end of MS+145bp +/-2bp WPIR guidance; IPTs were MS+175bp.

BBVA priced a EUR 1bn five-year senior preferred Covid-19 social bond on 28 May at MS+112bp. Demand reached EUR 4.8bn. Pricing was the tight end of MS+115bp +/-3bp WPIR guidance; IPTs were MS+145bp area.

BNP Paribas priced a USD 2bn 6NC5 fixed-to-floating senior non-preferred issue on 2 June at T+190bp. IPTs were T+225bp area. On 27 May, the bank priced an AUD 250m senior non-preferred bond at SQ MS+210bp.

Commerzbank priced a EUR 750m 10.5NC5.5 Tier 2 on 29 May at MS+435bp (yield of 4.086%). Books closed above EUR 5.2bn. Pricing came through MS+440bp-450bp guidance. IPTs were MS+490bp.

Credit Agricole priced a EUR 750m 10NC5 fixed-rate resettable Tier 2 on 28 May at MS+190bp (yield of 1.626%), generating EUR 3.4bn in demand. IPTs were MS+230bp.
The bank also raised JPY 122.1bn from a three-part Samurai split into a JPY 105.5bn 6NC5 senior non-preferred that priced at YOS+125bp (wide end of +123bp-125bp guidance); a JPY 10.8bn 10NC9 SNP that priced at YOS+128bp (tight end of +128bp-130bp guidance), and a JPY 5.8bn 10NC5 Tier 2 that priced at YOS+168bp (tight end of +168bp-170bp guidance).

Credit Mutuel Arkea priced a EUR 750m 9NC8 senior non-preferred social bond on 4 June at MS+150bp, against demand of EUR 2.7bn. Proceeds will fund social projects that help mitigate the severe social and economic impacts directly or indirectly caused as a result of Covid-19. IPTs were MS+180bp area.

On 26 May, the bank had priced its EUR 1bn of covered bonds backed by French prime residential home loans at MS+15bp; demand exceeding EUR 3.8bn at re-offer. Guidance was MS+20bp area.

Credit Suisse was in the market twice on 2 June. The bank priced USD 3.5bn in senior opco notes split into a USD 2bn three-year fixed-rate tranche that priced at T+88bp guidance and a USD 1.5bn 6NC5 fixed-to-floating tranche that priced at T+188bp guidance.
The bank also priced a GBP 750m 8NC7 senior holdco notes at guidance of G+223bp. Books closed above GBP 2.5bn. IPTs were G+240bp area.

Deutsche Bank priced its no-grow EUR 500m 6NC5 fixed-to-floating senior preferred green note on 2 June at MS+167bp to demand of over EUR 4.75bn. Pricing came at the tight end of MS+170bp +/-3bp WPIR. IPTs were MS+200bp area.

Dexia Credit Local priced GBP 1bn in long three-year senior unsecured notes on 27 May at G+55bp. Books reached GBP 1.375bn. Guidance was G+58bp

Direct Line Insurance Group priced a GBP 260m 12-year Tier 2 on 29 May at G+375bp (yield of 4.042%); books exceeding GBP 3.3bn. Size was at the top end of the GBP 250m-GBP 260m range. IPTs went out at G+450bp area, tightened to G+390bp area.

HSBC Holdings priced a USD 3.5bn dual-tranche SOFR-linked senior unsecured fixed-to-floating bond on 28 May split into a USD 2bn 6NC5 that priced at T+175bp and a USD 1.5bn 11NC10 at T+215bp. The shorter tranche priced at the tight end of T+180bp +/-5bp guidance (IPTs were T+200bp); the longer tranche priced at guidance (IPTs were T+235bp). Books were reported to have been USD 8.8bn.

Intesa Sanpaolo priced a GBP 350m Tier 2 note on 3 June at G+490bp, equivalent to a yield of 5.148%. IPTs were G+520bp.

KBC Bank priced EUR 1bn in 5.5-year covered bonds backed by Belgian residential mortgages at MS+6bp. Books closed above EUR 3.4bn. Bonds priced through MS+8bp +/-1bp WPIR revised guidance; initial guidance was MS+12bp.

Estonia's **LHV Pank** priced its no-grow EUR 250m covered bond backed by prime Estonian residential mortgages on 2 June at MS+40bp. The final book was EUR 450m at reoffer. Guidance had been MS+45bp area.

NIBC Bank priced a EUR 200m tap of its EUR 300m due 2024 senior non-preferred on 3 June at MS+270bp IPTs.

Nordea Bank priced a USD 1bn offering of three-year restricted senior preferred notes on 2 June at T+83bp. IPTs were T+105bp area.

NordLB Luxembourg priced a no-grow EUR 500m seven-year lettres de gage covered bond on 3 June at MS+28bp. Demand was EUR 1.25bn. Initial guidance was MS+33bp area, revised to MS+30bp area.

Nykredit priced a EUR 750m five-year senior preferred note on 2 June at MS+90bp; demand reaching EUR 1.4bn. Pricing was at the tight end of MS+90bp-95bp WPIR guidance. IPTs were MS+115bp area.

OP Corporate Bank priced a EUR 1bn 10NC5 Tier 2 on 2 June at MS+200bp. Final books were above EUR1.5bn at final terms, having reached EUR 1.9bn during marketing.

UK insurer **Phoenix Group Holdings** priced a no-grow USD 500m 11.25NC6.25 Tier 2 on 28 May at a yield of 4.75% (T+427.6bp). Books closed at around USD 5.5bn, having been above USD 6bn in marketing. IPTs were 5.375% area.

Santander Holdings USA priced USD 1bn in five-year senior unsecured notes on 27 May at T+315bp. IPTs were T+350bp.

Standard Chartered Bank priced a EUR 1bn 10.25NC5 Tier 2 on 2 June at MS+280bp final guidance, equivalent to a 2.531% yield. Books closed above EUR 5.25bn. IPTs were MS+320bp area.

Swedbank priced a USD 1bn three-year senior preferred bond on 26 May at T+112.5bp. Pricing came at the tight end of T+115bp +/- 2.5bp guidance.

Swiss Re priced EUR 800m in 32NC12 subordinated notes on 27 May at MS+275bp. Books closed above EUR 7.75bn. At the call date, the coupon refixes to one-year MS + margin +100bp step-up. IPTs for the trade were MS+325bp area.

NON-US ISSUERS

US asset managed **Affiliated Manager Group** priced a USD 350m 10-year senior unsecured offering on 2 June at T+262.5bp guidance. Proceeds will repay outstanding debt under the revolving credit facility and a senior unsecured term loan facility. The deal was upsized from USD 300m. IPTs were T+287.50bp.

Athene Holdings priced a USD 600m PNC5 preferred stock offering on 4 June at a yield 6.375%. The deal was upsized from USD 200m. Yield guidance had been 6.50%-6.625%.

Virginia-based **Atlantic Union Bankshares Corp** priced a USD 150bm PNC5 preferred stock offering on 2 June at a 6.875% yield. Guidance was 7% area.

Bank of Nova Scotia priced a USD 1bn five-year bail-in-able senior offering on 4 June at T+95bp guidance. IPTs were T+110bp. On 28 May, the bank priced a 2.5x covered USD 1.25bn PNC5 AT1 on 28 May at the guidance yield of 4.90%. IPTs were 5.25% area.

Canadian Imperial Bank of Commerce priced an AUD 800m three-year senior unsecured offering on 3 June split into an AUD 575m FRN priced at 3mBBSW+135bp and a AUD 225m fixed-rate tranche priced at 135bp over the semi-quarterly coupon-matched ASW.

China Ping An Insurance (via Vigorous Champion International) priced a USD 600m five-year senior unsecured bond on 27 May at T+240bp. Demand reached USD 3.6bn. The bonds priced at the tight end of T+240bp-245bp final guidance; initial guidance had been T+285bp area.

Citic Securities priced a USD 1bn dual-tranche senior unsecured offering on 28 May split into a USD 500m three-year that priced at T+155bp guidance (IPTs were T+210bp); and a USD 500m five-year that priced at T+170bp guidance (IPTs were T+235bp). Demand for the threes reached USD 2.2bn; and USD 1.85bn for the fives.

Citigroup priced a USD 3.5bn 11NC10 fixed-to-floating senior offering on 26 May at T+188bp, the tight end of T+190bp +/-2bp guidance. IPTs were T+215bp area.

Citizens Financial priced a USD 400m offering of PNC5 fixed-rate reset non-cumulative perpetual Series F preferred stock on 28 May at a 5.65% yield. IPTs were 6% area.

Huntington Bancshares priced USD 600m in long call PNC10 preferred stock offering with a Treasury spread back end 27 May at a yield of 5.625%. The deal was initially increased from USD 400m to USD 500m and then to the final issue size. IPTs were 6% area.

Macquarie Bank sold a USD 750m 10-year Tier 2 on 27 May at T+295bp. IPTs initially went out at T+350bp, revised to T+325bp area.

MassMutual priced a USD 1bn three-year FA-backed note on 4 June at T+62bp guidance. IPTs were T+80bp area.

Metropolitan Life priced a USD 1bn three-year FA-backed note on 1 June at T+75bp guidance. IPTs were T+95bp area.

MUFG Bank priced a EUR 500m four-year sustainable note on 2 June at MS+128bp, the tight end of MS+130bp +/-2bp WPIR guidance. Books closed at EUR 2.6bn. IPTs were MS+160bp area.

Protective Life priced a USD 500m three-year FA-backed offering 2 June at T+87.5bp. The deal was upsized from USD 300m. IPTs were T+115bp and guidance emerged at T+90bp area.

Qatar National Bank sold a CNH 1.2bn five-year senior unsecured offering into Taiwan on 3 June at a yield of 3.80% final guidance.

Alabama-based regional bank **Regions Bank** priced a USD 350m PNC5 preferred offering at the guidance yield of 5.75% on 2 June.

Reinsurance Group of America priced a USD 600m 10-year senior note offering on 4 June at T+240bp guidance. IPTs were T+300bp area.

Royal Bank of Canada priced USD 1.5bn in five-year senior unsecured notes on 3 June at T+85bp guidance. IPTs were T+105bp area.

Sumitomo Mitsui Banking Corporation priced an AUD 2.4bn senior unsecured bond on 2 June. The note was split into an AUD 1.2bn three-year FRN that priced at 3mBBSW+95bp (guidance +100bp; IPTs +100bp+105bp)), an AUD 1.025bn five-year FRN priced at 3mBBSW+115bp, and an AUD 175bm five-year fixed-rate tranche priced at 115bp over semi-quarterly coupon-matched ASW. Spread guidance for the five-year tranches was +120bp; IPTs were +120bp-125bp.

SVB Financial (Silicon Valley Bank) priced a USD 500m 10-year senior unsecured offering on 2 June at T+245bp. The deal was upsized from USD 400m. Pricing came at the tight end of T+250 +/-5bp guidance. IPTs were high 200s.

Truist Financial priced a USD 1.5bn dual-tranche senior unsecured offering on 2 June split into a USD 750m five-year that priced at T+90bp guidance (IPTs T+110bp area), and a USD 750m 10-year that priced at T+130bp guidance (IPTs T+150bp area). On 27 May, Truist priced a USD 1.bn PNC5 preferred stock offering at a yield of 4.95%; IPTs were 5.25% area. The notes have five-year call periods and a back end fixed at 4.605% over US Treasuries.

Miami-based **UnitedBank** pushed out 5.25% IPTs on 4 June for a no-grow USD 300m 10-year subordinated note offering, tightening to guidance of 5.125%-5.25% and printing at the tights.

United Community Bank, the bank holding company headquartered in Georgia with executive offices in South Carolina, priced a USD 100m offering of non-cumulative perpetual preferred stock at a 6.875% yield on 3 June.

Valley National Bank priced a USD 115m 10NC5 fixed-to-floating SOFR-linked Tier 2 on 29 May at T+514bp.

Wells Fargo priced USD 6bn in senior unsecured holdco notes on 26 May split into a USD 2.75bn 4NC3 that priced at T+145bp guidance (IPTs were T+175bp area); and a USD 3.25bn 8NC7 that priced at T+187.5bp guidance (IPTs were T+215bp area).

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

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