Scope Insights

1 September 2020

Scope Insights – Europe's debt capital markets have finally started to emerge from one of the quietest summer breaks on record; new-issue activity has been a bust since the middle of July. In terms of themes, however, the market narrative on the return remains the same.

- **Borrowers return from summer break to receptive market**
- **Investors continue to chase yield; solid reception to subordinated supply**

The last day of August was a little slow in light of the UK holiday, but Primary Market Talk returns pretty much where it left off in July: investors continuing to crave yield and bidding actively for it. In the absence of supply, secondaries have got richer and the market looks to be headed higher.

The adjustment of the FOMC's price-stability strategy to one where inflation averages 2% caused a formidable amount of excited chatter but it didn't derail a market looking to get back into action.

Sentiment and technicals both worked in favour of new supply. Continuing on the yield theme, there was a distinct bias in favour of subordinated supply from European corporates in recent days, while subordinated paper in the European FIG sector picked up solid traction.

But all issuers achieved good execution, and syndicate managers approaching the market with a degree of caution to gauge reactions were able to ratchet in from attractive initial price thoughts to land at fair value or, at worst, with small new-issue premiums.

In the corporate segment, issuers picked up solid support in the hybrid sector, drawing over EUR 15bn of demand for EUR 4.95bn of supply, largely without pricing concessions:

- **OMV** (a EUR 750m PNC6 tranche and a EUR 500m PNC9 tranche) printed at 2.50% and 2.875% yields;
- **Solvay** got a EUR 500m PNC5 away at a yield of 2.625%;
- **Total** (EUR 1bn PNC10) at 2%;
- **Vodafone** attracted the highest over-subscription with its EUR 2bn offering, split into equal 60NC6 and 60NC10 tranches at 2.625% and 3%;
- Airline **Finnair** also got a look-in, albeit paying 10.25% on a PNC3 with a 15.25% coupon step-up at the call. Proceeds will take out even more expensive capital notes callable from 13 October. If not called, the coupon on outstanding notes switches to five-year swaps plus a 5% margin plus a 7.544% re-offer spread.

The SSA segment was also busy. European public-finance issuers, certainly, are getting in before crowding-out effects kick in when the EU starts funding its EUR 750bn Recovery Fund and EUR 100bn SURE programme. ADB, IDB, IFC, Abu Dhabi and Japan Finance Organization for Municipalities raised USD 13bn equivalent, mainly in US dollars but EU SSA issuers sold USD 18.6bn-equivalent, predominantly mainly in euros:

- **EIB** and **KfW**, which both sold EUR 3bn 10-year euro benchmarks; EIB the more notable for its 3.5x covered book vs KfW's 2.3x
- **Finland**, with a 9x covered EUR 3bn 10-year sovereign bond
- And host of government agencies across the curve, including German agricultural development bank **Landwirtschaftliche Rentenbank** (USD 1.5bn in 10-year bonds)
- **NWB Bank** from the Netherlands (EUR 1bn 15-year social bond to refinance social housing)
- Denmark's **KommuneKredit** with a EUR 500m 20-year green bond
- Plus a flow of German state issuance (**Baden-Württemberg** EUR 1bn 10-year; **North-Rhine Westphalia** EUR 1.25bn in 30-year, as well as sub-benchmark issues from **Land Berlin** and the **Free State of Bavaria**.

Green and social finance continues in the spotlight. **Sweden**'s sovereign green debut, a SEK 20bn 10-year that has been on the drawing board for years is finally in the market. After a series of well received investor calls, leads pushed out IPTs of 29bp below mid-swaps on 31 August and set guidance of MS-32bp-30bp as orders of SEK 40bn flooded in.

Germany's Federal green twin bonds are also wending their way to market. The green bond framework is out and the hotly anticipated debut will hit the market shortly.

In terms of prints, **Berlin Hyp** and **KommuneKredit** closed green trades in recent days, while **ANZ** sold an AUD 1.25bn floating-rate Sustainable Development Goal Tier 2 the week before. **Coca-Cola Femsa**, the Mexican coke bottler, priced its debut green bond on 26 August, a USD 705m 12-

year, at T+120bp. Proceeds will be allocated to projects focusing on climate action, water stewardship and the circular economy.

In the pipeline, **Hungary** mandated a green Samurai, **Rentenbank** is readying its green debut, Finland's **Municipality Finance** is roadshowing its debut social bond, while **Mediobanca** held investor calls to introduce its Green and Sustainable Bond Framework ahead of a senior preferred green debut.

The FIG sector re-opened with issuers tapping the capital structure from covered bonds to AT1. In the subordinated space, there hasn't really been anything since Credit Suisse and Barclays sold AT1s in early August, so there was pent-up demand.

On the supply side, issuers are reacting to solid market technicals as well as regulatory factors. Recent changes to the make-up of Pillar 2 buffers under CRD V and brought forward in light of Covid-19 (43.75% can be met with AT1 and Tier 2 instruments; see ECB policy shift presages a plateau in banking re-regulation) are acting as issuance drivers. It's also a seller's market in that levels are attractive.

On the buy side, investors are actively buying to gain exposure to high-yielding bank paper – bank sub debt offers better yields than corporate high-yield – at the same time as seeking to benefit from performance as the market is chased up.

AT1s have out-performed other areas of the capital structure. Even so, sub-debt (including Tier 2) is still said to offer decent relative value against a tight senior stack.

Bank of Ireland took advantage of the market to price a 5x covered drive-by top-up EUR 300m PNC5.5 AT1 on 26 August at 6%.

Intesa Sanpaolo's dual-tranche AT1 on 27 August (a EUR 750m PNC7.5 priced at 5.50% and a EUR 750m PNC11 at 5.875%) was very well received. The Italian bank priced at fair value as EUR 6.3bn of orders emerged, weighted to the longer-call tranche where investors are able to earn 37.5bp per year for an extra 3.5 years of call protection.

In Tier 2, Danske Bank, NatWest and Sampo printed trades in recent days. Away from Europe, National Australia Bank priced a USD 1.5bn T2; QBE Insurance had priced an AUD 500m floating-rate Tier 2 the previous week. US insurer Prudential Financial, meanwhile, priced junior subordinated notes a USD 500m 40NC5 at 4.125% and a USD 800m 30NC10 at 3.70% on 18 August.

Summary of European FIG debt issuance:

Bank of Ireland priced a top-up EUR 300m PNC5.5 AT1 on 26 August at a yield of 6%. Books reached above EUR 1.5bn. Pricing came at the tight end of 6.125% +/- 0.125% guidance. IPTs were 6.50% area.

Barclays sold a USD 1.5bn PNC5 AT1 at yield of 6.125% on 5 August. IPS initially went out at 6.625% area, revised to 6.375% area.

BAWAG set the coupon of its EUR 175m AT1 at 5.125% on 1 September. First reset date is 1 April 2026.

Belfius Bank sold a no-grow EUR 500m five-year senior non-preferred on 27 August at MS+78bp. Demand above EUR 1.25bn enabling a print at the tight end of MS+80bp +/-2bp guidance. IPTs were MS+100bp area.

Berlin Hyp reopened the euro benchmark covered bond market on 28 August with a EUR 500m 10-year green mortgage covered bond, pulling in EUR 2.15bn of demand at a final spread of MS+6bp on a 0.01% coupon reoffered at 101.329 for a negative yield of -0.112%. Guidance had emerged at MS+9bp.

BNP Paribas priced EUR 1bn of 8NC7 senior non-preferred notes on 24 August at MS+95bp guidance to demand of over EUR 2bn. IPTs were MS+120bp.

Commerzbank sold EUR 750m of seven-year senior preferred notes on 24 August at MS+83bp, the tight end of MS+85bp +/-2bp WPIR revised guidance. Initial guidance was MS+90bp area and IPTs went out at MS+105bp-110bp.

Credit Agricole next bank (Suisse) issued its CHF 2bn base covered bond prospectus on 18 August, for the issuance of Swiss franc-denominated covered bonds. The debut issue under the programme was an eight-year soft bullet mortgage offering.

Credit Suisse Group priced a USD 1.5bn PNC7 AT1 on 4 August at a yield of 5.25%; IPTs had been 5.625% area.

Danske Bank priced EUR 500m 10NC5 Tier 2 notes on 26 August at MS+190bp. Demand reached EUR 2.75bn. IPTs had gone out at MS+220bp-225bp, tightened to MS+195bp area guidance.

Deutsche Bank priced a EUR 750m 6NC5 senior non-preferred bond on 28 August at MS+185bp on demand of EUR 1.4bn. IPTs went out at MS+195bp area.

Erste Bank Group put out IPTs of MS+245bp area on its no-grow EUR500m 11NC6 Tier 2 on 1 September.

Intesa Sanpaolo priced a dual-tranche AT1 on 27 August split into a EUR 750m PNC7.5 priced at a yield of 5.50% (IPTs 6% area) and a EUR 750m PNC11 at a yield of 5.875% (6.50% area). Final books were around EUR 2.75bn and EUR 3.55bn, respectively, having been bigger during marketing. The deal was upsized from EUR 1.25bn.

Mediobanca Banca di Credito Finanziario conducted investor calls to introduce its new Green and Sustainable Bond Framework and pushed out IPTs of MS+165bp for a no-grow EUR 500m seven-year green senior preferred bond on 1 September.

Münchener Hypothekenbank pushed out. guidance for its no-grow EUR 500m 15-year mortgage covered bond on 1 September at MS+11bp, tightened to MS+8bp +/-1bp WPIR as orders of EUR 1.6bn emerged.

Nationwide Building Society sold a USD 750m offering of five-year senior preferred notes on 24 August at T+75bp; IPTs had been T+95bp area.

NatWest Group plc sold USD 850m of 15.25NC10.25 Tier 2 notes on 25 August at T+235bp guidance. IPTs were T+260bp.

Nordea Bank sold USD 1bn of five-year senior preferred notes on 24 August at T+58bp, the tight end of T+60bp +/-2bp guidance. IPTs were T+80bp area.

As part of its joint bid with Rand Merchant Investment for UK Property & Casualty insurance company Hastings Group, Finnish insurer **Sampo** priced a EUR 1bn 32NC12 Tier 2 on 27 August at MS+260bp to demand of over EUR 5.5bn at guidance of MS+270bp +/-5bp. IPTs were MS+300bp area.

SE Banken priced a three-year senior unsecured offering on 25 August split into a USD 1bn three-year at T+38bp (guidance T+40bp +/-2bp area; IPTs of T+60bp area); a USD 400m three-year FRN at 3mL+32bp (same spread guidance and IPTs) and a USD 600m five-year at T+58bp (guidance T+60bp +/-2bp; IPTs T+80bp area).

Summary of non-European FIG debt issuance:

Agricultural Bank of China priced USD 800m of five-year senior unsecured on 28 August at T+147.5bp. Books closed above USD 3.3bn. Pricing came at the tight end of T+150bp area +/-2.5bp final guidance. Initial guidance was T+195bp area.

Ahli Bank issued IPTs of MS+190bp for a no-grow USD 500m five-year senior unsecured bond on 1 September.

ANZ Banking Group priced an AUD 1.25bn 10.5NC5.5 floating-rate SDG Tier 2 on 19 August at 3mBBSW+185bp.

Athene Global Funding priced a EUR 500m offering of five-year funding-agreement backed notes on 26 August at MS+150bp; the tight end of MS+150bp-155bp WPIR guidance. Books closed at EUR 900m. IPTs were MS+165bp area.

Equitable Financial Life Insurance Company priced USD 500m in seven-year FA-backed notes on 25 August at T+95bp guidance. IPTs were T+110bp area. The deal was upsized from USD 300m.

National Australia Bank priced a USD 1.5bn 10-year Tier 2 on 17 August at T+165bp guidance, equivalent to a yield of 2.332%. IPTs were T+190bp-195bp.

Pricoa Global Funding priced a USD 400m offering of five-year FA-backed notes on 25 August at T+55bp guidance. IPTs were T+65bp area.

Prudential Financial priced two tranches of junior subordinated notes on 18 August: a USD 500m 40NC5 junior subordinated note that priced at the 4.125% final guidance yield (initial guidance was 4.25%; and IPTs were 4.50% area). The company also sold a USD 800m 30NC10 note at the 3.70% guidance yield; IPTs were 4.125%-4.25%.

QBE Insurance Group priced an AUD 500m floating-rate 16NC6 year Tier 2 note on 18 August at 3mBBSW+275bp.

Rizal Commercial Banking Corp priced a no-grow USD 300m PNC5 AT1 on 21 August at a 6.50% yield. Books closed at USD 600m. Initial price guidance was 6.75% area.

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