Banks hammer away at open funding window

There's a lot of event-driven news in European banking at the moment, on top of a gloomy economic and fractious political backdrop. But whether it's money laundering or other adverse sector news, macro concerns, US curve inversion (signalling to some a coming recession), volatile equities, Brexit, European elections, or trade spats, nothing seems to be having too dramatic an impact on FIG primary debt capital markets activity.

The big sector story continues to be Deutsche Bank-Commerzbank, but predicting the outcome is a tough call. UniCredit's entry into the playbook certainly adds an extra layer.

Beyond the noise and drama of news flow, however, European banks are quietly taking full advantage of low yields and tight credit spreads to hammer away at an open funding window to get as much of their annual issuance requirements done as quickly as possible; primary market windows have a tendency to close quickly and not always for obvious reasons.

Issuers were active up and down the capital structure in the first quarter and into the start of Q2, from covered bonds and preferred and non-preferred senior unsecured, through Tier 2 to AT1 lines and in euros, US dollars, sterling, yen and other currencies.

Treasurers are locking in what they see as decent levels at the same time as investors are capturing what they see as attractive relative spreads. It's a fortuitous alignment of interests. Decent aftermarket performance is adding impetus to the buying momentum. Issuers were in some cases able to print longer-dated supply towards the end of Q1 through they were pricing intermediate-maturity debt earlier in the year.

Investors have a lot of cash to put to work. At the same time, the reality of lower-for-longer rates as the global monetary stance turns dovish has unleashed a cycle of yield-chasing in credit markets – in financials and corporates – as the sovereign yield complex flat-lines or goes even more negative. Not even the deepening money-laundering scandal that is seemingly sucking in more and more European banks has put debt investors off their stride.

The pathway to pricing is by-now well-trodden, but underwriters going out with optically attractive initial price thoughts are continuing to build solid demand momentum. This is allowing them to squeeze through guidance at the mid-way stage into final pricing that is invariably 20bp-30bp tighter or even more. Book sizes are remaining more or less intact at re-offer. New-issue premiums have been squeezed and better regarded names in particular are pricing with no concessions or through fair value.

While the market does seem to appreciate light issuance days (such as April 5) to take a breather, broader fears that constant supply would create deal fatigue or market indigestion have been unfulfilled as investors line up for deal after deal across currencies and maturities, in benchmark and sub-benchmark size, and

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 7826 517225
k.mullin@scopegroup.com

Head of Credit Research:

Sam Theodore
+44 776 932 1043
s.theodore@scopeinsights.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

across the spectrum of national champions, second-tier banks, infrequent issuers and even into more storied names, including issuers with ratings or other overhangs. Everything has its price and at the moment, pricing power resides with issuers.

Even though we inhabit a world of bail-in, investors appear to be focusing less on underlying credit fundamentals and credit-structure positions and more on capturing spread, seemingly happy enough to buy down the credit curve or along the maturity curve in a risk-return scenario that is skewed towards sellers of debt. Over-subscription levels continue to be robust. If investors see an attractive spread handle, that becomes the focus rather than where the debt necessarily sits in the issuer's capital structure.

Summary of issuance April 1 through April 4*:

Aareal Bank built a book in excess of the EUR 400m final issue size of its debut five-year preferred senior, having gone out with minimum EUR 300m. Bonds printed at the bottom of MS+45bp +/- 2bp WPIR IPTs.

AIB Group, which announced the sale of a EUR 1bn NPL portfolio to Everyday Finance and Cerberus at the beginning of the week, printed USD 1bn in 6NC5 fixed-to-floating senior unsecured notes at T+195bp.

Compagnie de Financement Foncier's EUR 1.25bn eight-year covered bond went at a spread of MS+8bp on the back of EUR2.9bn in demand. Demand enabled leads to print through MS+13bp area guidance, and price a touch through fair value.

Credit Mutuel Arkea's well priced (for investors) seven-year no-grow EUR 500m senior non-preferreds drew a book in excess of EUR2.4bn, enabling underwriters to print at MS+145bp versus MS+170bp IPTs.

Criteria Caixa attracted a crowd for its EUR 600m in five-year senior unsecured notes, which priced at MS+145bp. Demand was above EUR 2.75bn, enabling the issuer to sail through MS+150bp-155bp area guidance and MS+175bp area IPTs.

DNB's EUR 750m five-year preferred seniors went at a tight spread of MS+30bp (vs +45bp area IPTs); books reached EUR 1.1bn.

ING's dual-tranche USD 2bn SEC-registered bail-in-able senior unsecured bond, split into equally-sized five and 10-year lines, was well over-subscribed at respective final spreads of T+130bp and T+158bp. The Dutch lender also raised EUR 3bn in a senior OpCo trade that drew gross demand of EUR 10bn across three tranches (2 and 3-year FRNs and a three-year fixed piece).

Islandsbanki was inundated with orders for its no-grow EUR 300m offering of three-year preferred senior notes, offering a chunky MS+130bp spread. Books were more than four-times covered, leads having started out with IPTs of MS+155bp area and MS+140bp area guidance. The Icelandic bank also launched a tender for up to EUR 300m of its EUR 500m due Sept 2020 notes.

KBC Bank's EUR 500m four-times subscribed six-year senior outing printed at MS+60bp, 5bp through guidance low-80s IPTs.

Leeds Building Society priced its GBP 600m four-year floating-rate covered bond at 62bp over SONIA, drawing demand of around GBP 1.1bn, enabling the UK issuer to shave 5bp of +67bp area IPTs on the back of GBP 750m in demand.

NIBC Bank saw over EUR 1.9bn of demand for its EUR 300m five-year senior non-preferred trade, with most of that demand intact at attractive final pricing MS+200bp; IPTs had been MS+250bp area and guidance M+225bp area.

UBI Banca followed roadshows with a no-grow EUR 500m five-year debut green bond, a preferred senior that priced at MS+150bp, with demand in excess of EUR 1.5bn from 150 investors. Leads had started with MS+170bp-175bp IPTs.

Volksbank Wien got its revived EUR 220m PNC5 temporary write-down debut AT1 away at 7.75%, equivalent to MS+788bp.

**Source: Bond Radar*

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