Primary bond market white-hot as credit tests new lows

What a week! Even with much of Europe out on 6 January for the Epiphany holiday, the global bond market erupted into a white-hot flow of activity. Just in the first four days of the week, even before the US had closed for the day, issuance had reached almost USD 200bn equivalent across the SSA, FIG and corporate segments as over 130 borrowers jumped into a wide-open market, predominantly in EUR and USD (with GBP putting in a decent minority showing).

On top of the issues that priced in Europe and up to the US mid-way point on 9 January, there was a long tail of trades in marketing, wending their way to pricing in the US afternoon. Activity has been record-setting.

Investors piled in with seeming abandon in their quest to put cash to work, pushing volumes 22% up on the same period of 2019. The contrast with the run-up to year-end (the title of the last Primary Market Talk on 17 December was ‘Market grinds to a halt as attention shifts to 2020’) could not have been starker.

The assassination of Qassem Soleimani had momentarily threatened to derail sentiment, unleashing a bout of volatility, a flight to quality and curtailing bond market activity. But the threat was just that: momentary. The imperative to get funding programmes underway crushed geopolitical risk and utterly failed to dent investors’ preparedness for bid for paper. US stocks also hit new highs, oblivious to event-risk factors.

A number of issuers tapped multiple currencies via multi-tranche trades or in separate market visits: BNP Paribas sold a euro Tier 2 as well as senior non-preferreds in GBP, USD and AUD; ABN AMRO printed a 15-year euro covered, a euro senior non-preferred and a sterling senior preferred, for example.

The combination of central bank liquidity, bond-positive economic growth forecasts from the World Bank (a highly conditional modest rebound at best), euphoria as US-Iran rhetoric quickly de-escalated, decent fund inflows, and very active bidding for new supply squeezed bond technicals and pushed the credit market through the spread lows of January 2018. That was a noteworthy move.

Pretty much all of the paper that was in the market all week was well subscribed, enabling syndicates to run quickly through IPT, guidance/revised guidance and launch stages and shave off high-teens, high-20s basis points and even more for some borrowers at pricing as momentum built very quickly. Aggregate book coverage for euro trades was 2.5x; sterling issuance achieved close to 3x.

On the sovereign side, Slovenia (EUR 1.5bn 10s at MS+19bp); Portugal (EUR 4bn 10s at MS+33bp) and Ireland (EUR 4bn long 15s at MS+6bp) were back like clockwork, generating more than EUR 45bn of aggregate final demand. Santander was over-run with orders of EUR 10bn for its EUR 1.5bn AT1; Cellnex Telecom, a crossover name, garnered 8x coverage and shaved 35bp off its seven-year senior; Deutsche Bank got EUR 4bn/GBP 2bn for its EUR 1.5bn/GBP 850m senior non-preferred.

By borrower segment, FIG issuers accounted for around 40% of total issuance, with SSA and corporates splitting the remainder pretty evenly. Roughly 40% of corporate issuance was unrated, crossover or high yield, underlining the fact

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that the thirst for relative yield pick-up is undiminished. The lurch for yield was also seen in subordinated bank paper, not just Santander's AT1, but in heady demand for Tier 2 offerings from BNP Paribas, Credit Agricole and UniCredit – and in sovereigns, where Portugal picked up around half of that aggregate demand number quoted above owing to its superior spread pick-up.

The complexion of the US dollar market in the first days was very different to that of the euro market. In US dollars, non-financial corporate issuance accounted for half the volume (mainly big US corporates), with SSA and FIG taking a quarter each. What dollar FIG issuance there was came predominantly from Yankee issuers. In fact, not a single US bank had tapped the dollar market to the half-time US session on Thursday; domestic issuance came from insurers and other US financials.

Euros, by contrast, was a FIG and SSA show, accounting for more than 80% of issuance (evenly split) and corporates accounting for less than 19% – and that included a decent chunk from US corporates.

There was also a clear maturity differential on show as the dollar market pushed out a flow of trades of 30 years and beyond, including a 60NC5 hybrid from Southern Co and 40-year and 31-year lines from Enterprise Products. Issuers in euros, with some exceptions (Land NRW's century bond and Credit Agricole Italia's 25-year covered), mainly stuck to the belly of the maturity curve.

Credit Agricole Italia's long-dated covered bond took the market back to the pre-global financial days of 2006 and early 2007. The last benchmark covered trade with a 25-year handle or above was Caja Madrid's (now Bankia) 29-year and 30-year trades of April 2007. The longest covered bond on record sold into the public market looks to have been the EUR 1bn 50-year sold by CFF in February 2006.

There was also a notable industry sector skew in the haul of US dollar corporate trades: close to USD 36bn came from companies in the old economy sectors of power and utilities, oil and gas, mining and manufacturing (including autos), which accounted for 40% of dollar issuance.

Summary of FIG debt issuance 6 January to 9 January

EUROPEAN BANKING GROUPS

ABN AMRO sold a EUR 2bn 15-year covered bond at MS+5bp on 7 January; books exceeding EUR 2.75bn. The deal was initially marketed at EUR 1.5bn minimum. Guidance for the deal emerged at MS+8bp area.
On 8 January, the bank sold a EUR 1.25bn seven-year senior non-preferred at MS+70bp to demand above EUR 3.5bn. IPTs had been MS+90bp area.
On 9 January, the bank sold a GBP 500m five-year senior preferred note at G+80bp, with demand above GBP 850m. Pricing was at the tight end of G+82bp +/2p WPIR guidance; IPTs were G+90bp area.

Allianz came to market with a EUR 1.25bn dual-tranche offering of senior unsecured notes that priced on 8 January. The EUR 500m five-year notes priced at MS+20bp (the tight end of MS+20bp-25bp WPIR guidance; IPTs MS+low 40s); while the EUR 750m 11-year priced at MS+40bp (the tight end of MS+40bp-45bp WPIR guidance; IPTs MS+high 50s). Overall demand hit EUR 5.2bn (EUR 3.3bn for the 5s; EUR 1.9bn for the 11s).

Banco de Sabadell priced a EUR 300m 10NC5 Tier 2 offering on 9 January at MS+220bp.

Banco Santander set the yield on its EUR 1.5bn PNC6 non-step-up non-cumulative contingent convertible perpetual preferred AT1 on 9 January at 4.375%. The book was above EUR 10bn at pricing. IPTs had been 4.75% area.

Banco Santander Chile sold a USD 750m senior offering on 7 January at T+108bp, the tight end of T+110bp +/-2bp guidance and comfortably through T+130bp area IPTs.

Banque Fédérative du Crédit Mutuel sold EUR 1bn in 10-year senior non-preferred notes on 8 January at MS+75bp. Demand of EUR 1.35bn was good at reoffer. IPTs had been MS+90bp area.

BBVA sold a EUR 1.25bn seven-year senior non-preferred note on 7 January at MS+70bp to demand of around EUR 2.5bn. Pricing came at guidance (MS+70bp) and through IPTs of MS+90bp area.

BNP Paribas guided, launched and priced a USD 2bn 11NC10 fixed-to-FRN senior non-preferred on 6 January at T+125bp, well through IPTs of T+140bp145bp.
On 7 January, the bank tapped the sterling market for GBP 850m in due December 2027 senior non-preferred notes at G+130bp to demand of over GBP 1.8bn at the final spread (GBP 2bn during marketing). Guidance had been G+135bp area and IPTs G+150bp area.
On 8 January, the bank sold a EUR 1bn 12NC7 Tier 2 at MS+120bp to a final book of over EUR 2.3bn. Pricing came at the tight end of MS+125bp-130bp guidance. IPTs had been MS+150bp area.
The bank is also raising senior non-preferred debt in the Australian dollar market; a benchmark 7.5-year fixed piece was being marketed with IPTs of S/Q MS+140/145bp area; a 7.5-year floating-rate tranche was being shown at IPTs of 3mBBSW+140/145bp area. The notes will price on 10 January.

BPCE launched and priced its USD1.25bn five-year senior non-preferred on 6 January at T+90bp guidance, 20bp through IPTs of T+110bp area.
On the following day, the bank sold a EUR 2.25bn dual-tranche senior preferred offering split into a EUR 1.5bn six-year that priced at MS+45bp (IPTs MS+60bp-65bp) and a EUR 750m 10-year that went at MS+55bp (IPTs MS+70bp-75bp). Overall demand was EUR 3.65bn (EUR 2.3bn for 6s and EUR 1.35bn for the 10s).

Caisse Centrale du Crédit Immobilier de France (3CIF) pushed out IPTs of MS+4bp on its planned euro benchmark four-year senior unsecured issue on 9 January.

Caixabank priced its EUR 1bn five-year senior preferred offering on 9 January at MS+58bp, with books above EUR 2.35bn. Pricing came at the tight end of MS+60bp +/-2bp WPIR guidance; IPTs had been MS+75bp-80bp area.

Commerzbank sold a EUR 500m tap (marketed at EUR 250m minimum) of its EUR 500m due December 2026 senior preferred offering on 7 January. The original deal came in November 2019. The tap priced at MS+65bp with books over EUR650m; IPTs had been MS+70bp area.

Coventry Building Society tapped the market for GBP 500m in five-year floating-rate covered bonds on 8 January. Notes priced at SONIA+52bp. Demand was above GBP 2.3bn. Pricing came at the tight end of SONIA+53bp +/-1bp WPIR revised guidance; initial guidance was +58p area.

Credit Agricole priced a EUR 1.25bn 10-year senior non-preferred bond on 7 January at MS+70bp to final demand of over EUR2.15bn (demand had reached EUR 2.5bn during marketing). Pricing came at the bottom end of MS+70bp-75bp guidance; IPTs had emerged at MS+90bp area.
On 8 January, the bank tapped the US dollar market with USD 1.25bn in Tier 2 notes that priced at T+145bp. IPTs were T+175bp area.

Credit Agricole Italia priced its EUR 1.25bn dual-tranche covered bond on 9 January. The spread on the EUR 500m eight-year was MS+23bp (IPTs MS+29bp area); the spread on the EUR 750m 25-year was MS+45bp (IPTs MS+50bp area). Combined books were above EUR 3bn heading into pricing (EUR 1.6bn for the 8s; EUR 1.4bn for the 25s).

Credit Suisse priced EUR 1.25bn in 8NC7 senior holdco notes on 7 January at MS+77bp; books went above EUR 2.75bn. Pricing came at the bottom of MS+80bp +/-3bp WPIR guidance; IPTs had been MS+95bp area.

Danske Bank sold a GBP 750m 8NC7 senior non-preferred note on 7 January at G+165bp, building demand of GBP 2.3bn good at reoffer. Pricing came at the tight end of G+165bp-170bp WPIR guidance; IPTs had been G+180bp area.
The bank tapped the euro market on the following day, selling EUR 1bn in eight-year Finnish covered bonds at MS+7bp to demand of over EUR 1.8bn. Pricing came at the tight end of MS+8bp +/-1bp WPIR revised guidance; initial guidance had been MS+11bp area.

Deutsche Bank sold a senior non-preferred dual-currency sterling and euro offering on 9 January. The spread on the EUR 1.5bn seven-year was set at MS+170bp (the tight end of MS+170bp-175bp WPIR guidance and 20bp through MS+190bp-area IPTs); the spread on the GBP850m short five-year was fixed at G+210bp, the tight end of G+210bp-215bp WPIR guidance and against IPTs of G+230bp area. Books for the euro piece were above EUR 4bn and above GBP 2bn for the sterling piece.

Erste Bank sold a EUR 750m 10-year mortgage covered bond on 7 January at MS+3bp, with demand exceeding EUR 2.8bn. Pricing came at the tight end MS+4bp +/-1bp revised guidance; initial guidance had been MS+8bp area.

Intesa Sanpaolo sold GBP 350m in senior preferred notes on 8 January at G+180bp; the final book was GBP 900m-plus pre-rec (GBP 1bn in marketing). Guidance had emerged at G+190bp area.

Landesbank Baden-Württemberg priced a EUR 750m long seven-year mortgage covered bond on 7 January at MS-1bp to a book that closed above EUR2.1bn (of which over EUR1.9bn was good at reoffer). Investors had been guided to a spread of MS+3bp.

Leeds Building Society priced a GBP 600m five-year floating-rate UK covered bond at SONIA+54bp. The final book size was identical to Nationwide's, GBP2.1bn at reoffer (GBP 2.3bn during marketing). Pricing came at the tight end of SONIA+55bp +/-1bp WPIR revised guidance; initial guidance had been SONIA+60bp area.

Asset finance broker **Lincoln Finance** was out marketing a EUR 500m tap of its April 2024 5NC1.5 senior secured fixed-rate note on 9 January at a price of 102.25-102.75. A tap of the senior secured 5NC1 FRN (marketed at 3mE+387.5bp) was dropped.

Lloyds Bank priced GBP 750m in 6NC5 senior unsecured notes on 8 January priced at G+130bp. The book was GBP 1.85bn at guidance. Pricing was at the tight end of G+130bp-135bp WPIR guidance (IPTs were G+145bp area).

Moneta Money Bank mandated leads on 7 January ahead of a potential Tier 2 of up to CZK 2.6bn (EUR 103m).

Nationwide Building Society priced a GBP 1bn five-year floating-rate mortgage covered bond at SONIA+55bp, building GBP 2.1bn of demand. Initial guidance had been SONIA+60bp area when the deal launched on 3 January, revised to SONIA+55bp-57bp.

Nykredit set the size of its seven-year senior non-preferred on 9 January at EUR 750m priced at MS+80bp, with books already at EUR 1.4bn at the tight end of MS+80bp-85bp WPIR guidance. IPTs had been MS+100bp area.

OP Corporate Bank launched/priced its WNG EUR 500m seven-year senior non-preferred on 9 January at MS+65bp with books around EUR 1.2bn. Pricing came at the tight end of MS+s65np-70bp guidance (IPTs MS+80bp-85bp).

Rabobank priced a five-year GBP 500m senior non-preferred at G+82bp guidance, building final book demand of over GBP 950m. IPTs had been G+90bp area.

Raiffeisenlandesbank Niederösterreich-Wien sold a no-grow EUR 500m 15-year mortgage covered bond on 8 January at MS+7bp to a EUR 1.2bn book of demand. Pricing came at the tight end of MS+8bp +/-1bp WPIR revised guidance; initial guidance had been MS+11bp area.

Santander Consumer Finance sold EUR 1bn in five-year senior preferred bonds on 8 January at MS+60bp to a final book of EUR 1.35bn. Pricing came at the tight end of MS+60bp-65bp guidance; IPTs had been MS+75bp-80bp.

Santander UK pushed out guidance of T+60bp +/-3bp on its USD 1.25bn three-year senior unsecured dollar trade on 6 January and launched and priced at the tight end (T+57bp). IPTs were T+75bp area.
On 8 January, the bank tapped the euro market for EUR 1.25bn in seven-year covered bonds backed by prime UK residential mortgages that priced at MS+17bp. Books closed over EUR 3.25bn pre-rec. Pricing came at the tight end of MS+18bp +/-1bp revised guidance; initial guidance had been MS+22bp area.

Standard Chartered Bank sold USD 2bn 6NC5 fixed-to-floating senior notes on 7 January at T+120bp guidance; IPTs had been T+135bp area.
On the morning of 9 January, the bank priced a EUR 750m 8NC7 senior unsecured offering at MS+90bp, building demand of over EUR 1.4bn. IPTs had been MS+105bp area.

Turkiye Sinai Kalkinma Bankasi (TSKB) mandated leads to arrange roadshows on 9 January ahead of a potential US dollar 144a five-year senior unsecured benchmark offering.

UniCredit Bank AG sold EUR 1.25bn in 12-year mortgage covered bonds on 8 January at MS+6bp; the final book was EUR 2.15bn at reoffer. Initial guidance was MS+10bp area, revised to MS+8bp area.

UniCredit sold a EUR 1.25bn 12NC7 Tier 2 on 8 January at MS+280bp; books were above EUR 3bn at reoffer. Price guidance had emerged at MS+290bp area, revised to MS+280bp area. IPTs were MS+310bp area.

NON-EUROPEAN GROUPS

Ares Capital sold USD 750m in long five-year senior unsecured on 8 Jan at T+165bp guidance (IPTs T+190bp area).

Bank of China was in the market on 9 January with two trades. It priced a USD 1.6bn dual-tranche senior unsecured. The two-year FRN priced at T+58bp (tight end of 3mL+58bp-60bp WPIR final guidance; initial guidance +85bp area); the five-year fixed piece priced at T+78bp (the tight end of T+78bp-80bp WPIR final guidance; initial guidance T+110bp area). The book was above USD 7.5bn.
The second offering was a EUR 800m three-year senior. The launch spread was MS+47bp, the tight end of MS+50bp +/-3bp WPIR final guidance; books were above EUR 2.35bn. Initial guidance had been MS+70bp-75bp.

Bank of Nova Scotia tapped the US dollar and euro markets on 7 January. The bank sold a EUR 1.5bn seven-year covered bond at MS+9bp to demand of more than EUR 2.4bn. Guidance had been MS+13bp area.
The bank also sold USD 2.25bn in bail-in-able notes split into USD 1bn in due February 2023s priced at T+43bp (the tight end of T+45bp +/-2bp guidance) and USD 1.25bn in due February 2025s priced at T+62bp (tight end of T+65bp +/-3bp guidance).

China Development Bank mandated leads on 9 January to arrange investor calls ahead of a potential benchmark offering of sterling senior unsecured notes.

China Merchants Securities mandated banks on 8 January to arrange Hong Kong roadshows ahead of a potential offering of Reg S US dollar senior unsecured notes.

Commonwealth Bank of Australia sold a GBP 1bn floating-rate covered bond on 7 January at SONIA+55bp. Books closed over GBP1.7bn at guidance. Pricing came at the tight end of SONIA+55bp-57bp WPIR guidance. IPTs were SONIA+60bp area.

Korea Housing Finance Corporation mandated leads to arrange a European roadshow commencing 13 January ahead of a potential euro-denominated RegS/144a social covered bond backed by Korean residential mortgages.

India's **Manappuram Finance** priced its USD 300m three-year senior unsecured bond at a yield of 5.90%. Investor demand topped USD 1.15bn from 116 accounts. Pricing came at the tight end of final guidance of 5.90%-5.95%, revised from initial guidance of 6.25% area.

MassMutual put out IPTs of T+75bp area on 9 January on its benchmark US dollar seven-year Funding Agreement-backed notes. Guidance tightened to T+65bp +/-3bp and the notes priced at the tight end (T+62bp).

Metropolitan Life was in the market twice on consecutive days. The insurer launched a dual-tranche three-year senior bond on 6 January. The USD 1bn fixed-tranche launched and priced at T+40bp guidance (IPTs had been T+high 50s); the USD 1bn FRN priced at SOFR+57bp guidance (IPTs SOFR-equivalent spread).
On the following day, MetLife was back with a USD 1bn PNC5 preferred offering, upsized from USD 250m, which sold at a 4.75% yield, 12.5bp through 4.875% guidance.

Mizuho Financial Group sold EUR 750m in 10.25-year senior holdco notes on 7 January at MS+67bp; proceeds will go to Mizuho Bank, where it will qualify as internal TLAC. Pricing came at the tight end of MS+70bp +/-3bp WPIR guidance. IPTs had been MS+85bp area. Books closed at EUR 1.3bn.

National Australia Bank put out T+45bp +/-2bp guidance on its benchmark three-year fixed-rate tranche (IPTs T+high 50s) and the equivalent spread over Libor for its three-year FRN (same IPT spread). Pricing came at the tight end (T+43bp) for the fixed-rate tranche and 3mL+41bp for the floater.

National Bank of Canada put out guidance of T+55bp +/-2bp on its USD senior unsecured on 9 Jan (IPTs T+60s).

Nomura Holdings was marketing a benchmark dual-tranche US dollar senior unsecured TLAC-eligible trade on 9 January split into a five-year (launched at T+100bp guidance, revised IPTs T+115bp-area; initial IPTs T+120bp area) and a 10-year (launched at T+125bp guidance, revised IPTs T+140bp; initial IPTs T+145bp area).

Sumitomo Mitsui Financial Group launched and priced its USD 1.25n five-year senior unsecured tranche at T+75bp, having pushed out guidance of T+80bp +/-5bp (IPTs had been T+95bp area). The USD 1.25bn 10-year launched and priced at T+95bp (bottom of T+100bp +/-5p guidance and vs IPTs of T+115bp area).

Westpac was out with a three-tranche US dollar senior unsecured split into a USD 750m three-year fixed-rated piece (IPTs of T+60bp area, guidance of T+45bp +/-3bp, launch at T+42bp), a USD 750m three-year FRN (3mL-equivalent IPTs and guidance; launch at 3mL+39bp) and a USD 750m 10-year fixed-rate tranche (IPTs of T+100bp area, guidance and launch at T+80bp).
On the morning of 9 January European time, the bank was also out with a benchmark five-year US dollar covered bond, set to price during US hours. IPTs were MS+45bp area, tightened to MS+40bp guidance

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

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