Bond market sentiment resilient as investors chase yield

A busy week for banking and related news, but nothing to perturb pretty resilient bond market sentiment. The ECB’s euro-area bank lending survey, 2018 SREP results and governing council meeting were closely watched for signs. In the absence of anything material to trade off, the deals that European FIG names continued pushing out got over the line, most with solid demand intact.

The US House Committee on Financial Services garnered some attention ahead of its provocatively-titled hearing (Holding Megabanks Accountable: A Review of Global Systemically Important Banks 10 years after the Financial Crisis) but the session with the CEOs of the seven US G-SIBs turned out to be rather aimless.

Takeaways from the ECB events were unremarkable: credit standards and terms and conditions on new loans to enterprises and housing loans broadly unchanged; banks’ cost of funds and balance sheet constraints contributing to a tightening of credit standards across categories, competitive pressures leading to an easing of credit standards. Expect more of the same in Q2: banks expect an easing of credit standards for loans to enterprises and consumer credit but more tightening for housing loans.

Same give-and-take on the ECB’s asset purchase programme: positive impact on banks’ liquidity and financing conditions, negative impact on their profitability. The negative deposit rate is having an adverse impact on net interest income but a positive impact on banks’ lending volumes. No further details on TLTRO III nor comment on deposit-rate tiering. On the 2018 SREP, as Sam Theodore indicated in his summary, large euro-area banks have capital levels above minimum requirements and there were no surprises.

In single-name news, activist Edward Bramson’s quest to get voted in as a non-executive director of Barclays continued with another coruscating criticism of the bank’s strategy vis-à-vis its corporate and investment bank, while Societe Generale put up to 1,600 jobs at risk with changes to its Global Banking & Investor Solutions and International Retail Banking & Financial Services units.

Investor demand intact

In the primary bond market, Saudi Aramco’s peak demand of USD 101bn for its USD 12bn five-tranche bond market debut (no doubt on hugely inflated orders) got the headlines. The trade benefited from the search for relative yield pick-up and it was seen as cheap to other oil majors.

In European financials, investors craving spread flocked to long-dated covered bond supply from DZHyp and MuenchenerHyp, the former selling a 15-year and the latter going to 20 years. In both cases, the trades significantly extended the issuers’ curves – by 11 years in MueHyp’s case.

There has been a paucity of long-dated supply in covered bonds, which pushed up the must-have factor. DZHyp covered its no-grow EUR 500m in a matter of minutes to final demand of over EUR 2.4bn. The deal was the first 15-year since January and its success proved that the market has palpably changed since then, now that yield-chasing has become a core driver of buyer behaviour.

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Heavy demand enabled underwriters to price at MS+7bp, the bottom of MS+8bp +/-1bp WPIR revised guidance (tightened in from MS+11bp area guidance). That put it at or slightly through fair value. MueHyp came in DZHyp's wake, selling an identically-sized no-grow a EUR 500m 20-year. Perhaps more poignantly, MueHyp paid the same spread as DZHyp, effectively getting five years for free. Initial guidance of MS+12bp area was revised to +9bp area and the spread was set at fair-value of 7bp with EUR 3.1bn of orders at re-offer.

As well as going long, investors have been actively buying down the credit curve and the capital structure. That has given an added boost to emerging market issuance as well as subordinated supply. Banco BPM arguably ran close to the limits of investor tolerance; the combination of deeply subordinated issuance from a second-tier name in sub-benchmark size in a politically-volatile jurisdiction with a low growth outlook creating something of a challenge.

Leads had hoped to take advantage of solid recent interest in yieldy second-tier names. They went out with optically attractive IPTs of 8.875%-area and fixed the coupon at 8.75%, equivalent to MS+892.1bp. Things didn't turn out quite as planned, however, as more than a third of the EUR 600m in demand that built through marketing reportedly evaporated by the time the deal printed. But if success is determined by getting a deal over the line at all, the fact that the bank got its EUR 300m PNC5 AT1 away was a success. How it performs will be another litmus test.

Summary of issuance April 5 through April 11

Aareal Bank sold a USD 600m long two-year mortgage covered bond at MS+28bp, having garnered demand of USD 875m-plus at MS+30bp +/-2bp WPIR guidance (initial guidance +32bp).

ABN AMRO went out with MS+55bp-60bp IPTs for its no-grow EUR 750m seven-year preferred senior green bond, gathering robust demand allowing leads to tighten to guidance of MS+45bp area and fix the spread at fair value (MS+38bp). That was too rich for some; gross books had reached over EUR 3.5bn but were reportedly a third lighter at re-offer. Half the bonds went to green investors.

Bonum Pankki, the central credit institution for Finland's co-operative banks, followed a short roadshow with a EUR 75m three-year senior unsecured note paying a coupon of 88bp over three-month Euribor. Demand reached above EUR 130m. Pricing was at the bottom of revised guidance of +90bp +/-2bp WPIR. Initial guidance had been +90bp-95bp and IPTs had been +95bp-100bp.

DNB tapped the sterling market, reportedly picking up a small pricing benefit relative to euros with a GBP 300m short five-year preferred senior at 90bp over Gilts (vs IPTs of +95 area); books peaking at over GBP400m.

Erste Bank's no-grow EUR 500m five-year preferred senior went at MS+45bp to rapturous demand of more than EUR 4.6bn from around 300 accounts. The heavy interest, helped by the rarity value of the name in this format, enabled leads to tighten from MS+55p area guidance/MS+70bp area IPTs.

L-Bank priced a USD 1.5bn two-year senior unsecured note at MS+3bp, with books closing at USD 1.9bn-plus.

Yorkshire Building Society saw GBP 1.9bn of demand for the debut sterling MREL-eligible senior non-preferred from a UK building society following passage of the Banks and Building Societies (Priorities on Insolvency) Order in December 2018. YBS sold GBP 275m in 6NC5 senior non-preferred resettable notes at 215bp over Gilts, breezing through +220p-area guidance and +240bp to +250bp-area IPTs. The new issue came concurrent with a tender at 101.50 for its outstanding £250m 4.125% Tier 2 notes it originally sold in November 2014 and whose optional redemption date is 20 November 2019. YBS said the purpose of the offer is to provide liquidity to holders and is being made as part of active management of its liability profile.

Source for deal stats: Bond Radar (www.bondradar.com)

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