Issuers and investors work to find accommodation in capital markets

Not a heavy week in FIG debt capital markets but the supply that came aptly exemplified the state of the market. Issuance showed the lengths investors are prepared to go book yield, but at the same time how far issuers are willing to go to try and offer them something while still hitting target funding levels.

Issuers and investors are in it together and need to find accommodation on price if the capital markets are to function as they should. For core European national champion names, it's not as simple as trying to force the situation, hammering away to get traction on instruments that are negative-yielding or close. Issuers get that and the impression given is that they are trying to be flexible even as they have control of the board.

For sure, the status quo is allowing troubled, infrequent and less well-known names to take their chances in a seller's market at levels of the capital structure and at pricing that would have been unthinkable just a few months ago. Some of that is opportunistic: if the window is there, why not take your chances? At the same time, issuers that didn't have market access before now have it at what for them are economic terms.

European issuers moving out the curve or, if they need shorter-dated funds, looking to utilise euro/dollar swap spread dynamics and tap US dollars in order to offer investors some vestige of return is an attempt to find a solution that works for the other side. It may give the market a technical nuance, but 10-year US Treasury yields straddling +2% and 10-year Bunds staring at -0.40% renders the fundamental rationale pretty clear.

The market's low-return profile is only going to get lower if Fed and ECB easing actions emerge as expected. That tends to push investors to either turn a blind eye to adverse credit factors or assign much less importance to them in the quest to find yield. It's a strategy that might come back to haunt them over time but as more and more of the market pushes towards zero yield and below – even high-yield bonds – the predicament is clear.

A lot of this past week's issuance told a story. Like Italy's troubled Monte dei Paschi di Siena getting a subordinated debt deal over the line 2.5x covered. Or infrequent issuer Banco Desio e della Brianza's covered bond almost four-times over-subscribed. Or investors accepting an uplift of just 9bp between MUFG Bank's five-year senior unsecured holdco tranche and its (albeit green) 10-year.

Muenchener Hypothekenbank and Lloyds Bank tapped US dollars to issue positive-yielding short-dated covered bonds because the front-to-intermediate tenor euro market for core names is all trading negative. Tesco Bank picked GBP 1.6bn of investor orders for its GBP 250m 6NC5 MREL-eligible senior unsecured holdco bond, its debut bond outing. And there was prodigious demand for Westpac's US dollar Tier 2 two-trancher enabling the Australian bank to shave 50bp off IPTs on the 20-year bullet tranche while still offering relative-value benefits.

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Summary of key FIG debt issuance July 12 to July 19 (13:00 CET)

Banca Monte dei Paschi di Siena sold a EUR 300m bullet 10-year Tier 2 on 16 July at a chunky coupon of 10.50%, with demand of EUR 750m. Guidance had been 10.75% area and IPTs were 11%-11.50% area. The deal offered a MS+1,032bp spread while the bank said the offering was an important step in the implementation of its restructuring.

Banco Desio e della Brianza sold a no-grow EUR 500m seven-year on 16 July backed by prime Italian residential mortgages. The book at re-offer was over EUR 1.9bn (EUR 2.1bn at the highs) and the notes priced at MS+50bp, the bottom end of MS+50bp-53bp WPIR guidance, reported to have been at fair value. IPTs had been MS+63bp area.

Credit Suisse sold a EUR 500m tap of its EUR 1bn 1.00% 8NC7 holdco issue on 16 July at a spread of MS+90bp. The original deal priced on 17 June. Books reached EUR 800m. IPTs for the tap had been MS+95bp area.

JP Morgan printed EUR 1.5bn of 12NC11 senior unsecured fixed-to-FRN notes on 18 July at MS+80bp on a 3x covered book. IPTs had been MS+100bp area, tightened to MS+85bp guidance. Final pricing was reported to have been flat to where the bank could have priced in dollars.

LBBW priced a no-grow EUR 500m offering of seven-year green senior non-preferreds on 17 July at MS+53bp, the tight end of MS+55bp +/- 2bp revised guidance, a reported low single-digit concession, having received EUR 850m of interest from over 100 accounts. Initial guidance had been MS+65bp area.

Lloyds Bank picked up USD 1.3bn of demand for its USD 1bn three-year UK covered bond, which priced at a spread of MS+36bp, reported to have been at or slightly through fair value. Guidance had been MS+38bp area.

Muenchener Hypothekenbank sold a twice-covered no-grow USD 600m long three-year mortgage covered bond at 16 July at a spread of MS+26bp, the tight end of MS+27bp +/- 1bp WPIR guidance. IPTs had been MS+30bp area. The bank's USD 600m three-year 1.375s matured on 19 July 2019.

MUFG Bank sold its revived EUR 1bn holdco senior unsecured two-trancher on 16 July split into a no-grow EUR 500m five-year at MS+58bp, the tight end of MS+60bp +/- 2bp guidance (IPTs MS+ low 70s); and a no-grow EUR 500m 10-year green tranche at MS+67bp, the tight end of MS+70bp +/- 3bp guidance (IPTs MS+ high 80s). Final books ended up at around EUR 1.4bn for the 5s and EUR 1.85bn for the 10s.

PIC brought a GBP 450m PNC10 RT1 at a 7.375% yield on 18 July with demand of over GBP 1.3bn. That enabled leads to tighten from 7.625% IPTs and print at the tight end of 7.50% +/- 0.125% WPIR guidance.

Rabobank priced USD 1bn in five-year senior non-preferreds on 15 July at T+83bp, the tight end of T+85bp +/-2bp guidance and reported to be broadly at fair value. IPTs had been T+ high 90s.

Royal Bank of Canada sold EUR 1bn in five-year senior unsecured notes on 16 July at a spread of MS+42bp, the bottom end of MS+45bp +/- 3bp WPIR guidance. Demand at pricing reached EUR 1.25bn (EUR 1.4bn at the highs). Leads had gone out with IPTs of MS+55bp area.

Tesco Personal Finance sold its debut bond offering, a no-grow GBP 250m 6NC5 MREL-eligible senior unsecured holdco bond. Pricing of G+305bp came well through IPTs; not surprising given the GBP1.65bn of demand good at re-offer. IPTs of G+340bp tightened into initial guidance of G+320bp area, revised to G+305bp-310bp.

Westpac got solid traction for its heavily over-subscribed USD2.25bn dual-tranche Tier 2 on 16 July. The USD 1.25bn 15NC10s priced at T+200bp, while the USD 1bn bullet 20s priced at 180bp over the old long bond. Both tranches had gone out with IPTs of T+230bp area. Pricing on the shorter piece was initially revised to T+215bp area, and to T+205bp area for the 20s. Market participants noted that bonds offered good value vs. secondaries and comps.

● Major US/Canadian bank action in the US dollar market:
Bank of America sold a USD 2.5bn 11NC10 fixed-to-FRN trade on 18 July at T+113bp, through T+125bp area IPTs.
Bank of Nova Scotia sold a no-grow USD 500m 3.5-year green bond at T+58bp on 15 July vs. IPTs of T+75bp area.
CIBC sold USD 750m in 4NC3 fixed-to-FRN senior notes on 15 July at T+80bp (5bp through IPTs).
Morgan Stanley printed its USD 2bn 6NC5 fixed-to-FRN bond on 18 July at T+92bp vs T+105bp area IPTs.

(Source for basic bond data: Bond Radar (www.bondradar.com).

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