Issuance slows but solid sentiment remains intact

Market sentiment remains positive heading into May, though markets had a lot to digest in the pre and post Easter weeks. Attention has been focused on Q1 European bank earnings for signs; on the regulatory front the market barely reacted to approval of the bank risk-reduction and covered bond harmonisation packages.

The holiday-foreshortened weeks saw European bank debt issuance slow across the capital structure. The tone of the market and general sentiment are unchanged, however. A slowdown in primary created ever-more conducive funding conditions. Issuers are capturing good levels while investors with cash to invest continue to chase supply. On a relative basis, credit spreads remain some ways off the early 2018 lows so while it might appear counter-intuitive that investors are chasing spread to the extent they are, on a comparative basis it's not wholly unreasonable.

The long list of key measures in the risk-reduction package cover the waterfront but didn't contain any surprises. They'll marshal in a host of measures, including a leverage ratio requirement and G-SII leverage ratio buffer; a NSFR; a revised Pillar 2 framework; a new TLAC requirement for G-SIIs; enhanced MREL subordination rules for G-SIIs and other top-tier banks; and distribution restrictions for MREL breaches.

Approval of the covered bond harmonisation gave the green light to European standard and premium covered bonds; now it's a wait-and-see game. Both packages had been wending their way through the EU bureaucracy for so long that their approval didn't really have any market impacts.

Emerging Q1 European bank earnings don't appear to have upset the tone either. At this stage, they are a bit hit-and-miss; Credit Suisse better than UBS?; Deutsche Bank attempting to demonstrate that Q1 numbers prove the turnaround plan is on track (an optimistic assertion); the Q1 performance of Barclays' investment bank unlikely to put off activist Edward Bramson.

The collapse of Deutsche Bank/Commerzbank merger talks won headlines but no shock. The negative vibes emanating from both camps in recent weeks as well as strong union opposition had made a no-outcome outcome the only realistic result. Attention now turns to Plan B. See Scope Ratings commentary on this.

Reverse Yankee in vogue

In the primary debt capital markets, the emergence of US and Canadian financials in euros and sterling has developed into a theme in European FIG; issuers finding not just excellent execution relative to dollar-equivalent levels but creating investor diversification into the bargain.

Royal Bank of Canada tapped euros for a no-grow EUR 500m five-year green bond on 24 April, printing at MS+33bp on a 6x covered book. Pricing was notable: bonds came at the tight end of MS+35bp area +/-2bp WPIR guidance and well through MS+50bp area IPTs. That pushed RBC through levels achieved by euro trades in the prior week from fellow Canadian lenders Toronto-Dominion Bank and Bank of Nova Scotia.

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Author:
Keith Mullin
+44 7826 517225
k.mullin@scopegroup.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

Bank of Nova Scotia printed EUR 1bn in five-year senior unsecured notes on 17 April at MS+43bp against demand of EUR 1.9bn, reportedly through where it could have come in US dollars. Guidance was MS+45bp area and IPTs +60bp area. Even though BNS priced wide of better-rated Toronto-Dominion Bank's euro offering, the result was positive on a US dollar spread differential basis between the two.

TD Bank had raised EUR 1.5bn at the same maturity and same format as BNS on 16 April at MS+38bp (flat to equivalent US dollar levels) on a 3x covered book; 2bp through guidance and 22bp through 60bp area IPTs

Wells Fargo sold a EUR 1bn five-year senior unsecured note on the same days BNS's euro outing at MS+48bp, against gross demand of EUR 2.6bn. Guidance had been +50bp and IPTs +65/70bp area. A week later, the US bank took GBP 600m from the sterling market with a 10-year holdco senior unsecured offering that priced at a good level of 138bp over Gilts, at worst a small single-digit concession to fair value. Books were twice covered as investors starved of issuance jumped in. Guidance had come at +140bp area +/-2bp WPIR and IPTs were +150bp area.

Morgan Stanley priced EUR 1.5bn in 5.25NC4.25 fixed-to-floating senior unsecured notes at MS+68bp on 24 April, the bottom of MS+70bp area +/-2bp WPIR guidance and well through IPTs of MS+85bp area.

Summary of European bank issuance April 15 through April 26

In terms of the European bank supply that has come to market, covered bonds look to be taking a breather from an active Q1. Immediate expectations for new issues remain modest. Sell-side analysts have in fact been suggesting banks might look to fill buckets down the cap structure while the going is good. That said, heavy covered redemptions will likely push supply into negative territory, providing a solid technical backdrop for new issuance in the coming week or two.

Credit Agricole SFH continued the theme of long-dated covered supply, pricing a EUR 1.25bn 15-year mortgage covered bond on 25 April at MS+10bp. Books were almost twice covered (demand of EUR 2.9bn at re-offer from over 80 accounts), and size was at the top of the EUR 1bn-EUR 1.25bn range. Leads pulled pricing in from +15bp area guidance and bonds basically priced flat to fair value.

The deal followed 20-year outings from ABN AMRO in the pre-Easter week and MueHyp the week before, and a 15-year from DZ Hyp, all attracting good demand. **ABN AMRO**'s EUR 750m 20-year covered went at MS+11bp, having attracted demand in excess of EUR 1.8bn from over 80 investors. The success of the deal showed that long-dated demand is not restricted to German issuers. Solid demand enabled leaders to revise initial guidance of MS+15bp area to MS+12bp area +/-1bp WPIR.

Societe Generale SFH said on April 18 that it had issued the first covered bond as a security token directly registered on the Ethereum blockchain. This apparently is the first pilot project developed by SG and Societe Generale FORGE, one of 60 internal start-ups launched via its internal start-up programme. The EUR 100m offering was fully subscribed by Societe Generale.

Insurer **ASR Nederland**'s no-grow EUR 500m 30NC10 Tier 2 ended up more than 10x oversubscribed and leads were able to price the acquisition refinancing trade at MS+300bp, against MS+310bp area guidance and MS+335bp area IPTs – but still clearly at an optically attractive spread for investors in absolute terms and against comps, while offering the issuer execution through fair value.

On April 15, **Banque Postale** sold with a 10-year EUR 750m senior non-preferred green bond at fair value of MS+85bp. IPTs had been MS+100bp area. The combination of the green bid, the 10-year maturity and the SNP point in the capital structure made for a very solid deal: books closed at over EUR 2.4bn. The yield-seeking long-end bid had made the decision to pick the maturity point over a shorter point relatively straightforward.

The UK's **Co-operative Bank** got a just-covered no-grow GBP 200m offering of 10NC5 Tier 2 issue away with a super-high 9.50% coupon (the same level as IPTs). The print followed a quick-fire round of investor meetings. Subscription relied, however, on the hedge funds that took part in the bank's debt-for-equity swap.

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Credit Agricole tapped the Singapore dollar market with SGD 325m in 12NC7 Tier 2 notes, setting the coupon at final guidance of 3.80% and selling almost exclusively to local accounts. Books were in the region of SGD 500m from 60+ accounts. Initial guidance had been 4.125% area.

Dexia Credit Local tapped sterling for GBP 1bn in three-year notes in senior unsecured format, pricing at 61bp over Gilts. Demand reached GBP 1.6bn, enabling the bank to up the size from the GBP 750m minimum and tighten in 3bp from IPTs.

In the pre-Easter week, **Nationwide Building Society** sold USD 1bn in 4NC3 senior non-preferred fixed-to-floating notes at 125bp over Treasuries, well through IPTs of +145bp-150bp.

Books on **Svenska Handelsbanken**'s GBP 300m in short five-year senior unsecured notes, priced on April 26, were covered (GBP 345m at re-offer; GBP 400m gross) but there was no riot at the tight final spread of 85bp over Gilts. That was just 5bp through IPTs, and a level that reportedly didn't offer much headroom to UK covered bonds (even though it came around fair value).

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

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