

PRIMARY MARKET UPDATE

EUR BENCHMARK BANK BONDS

8. January 2021

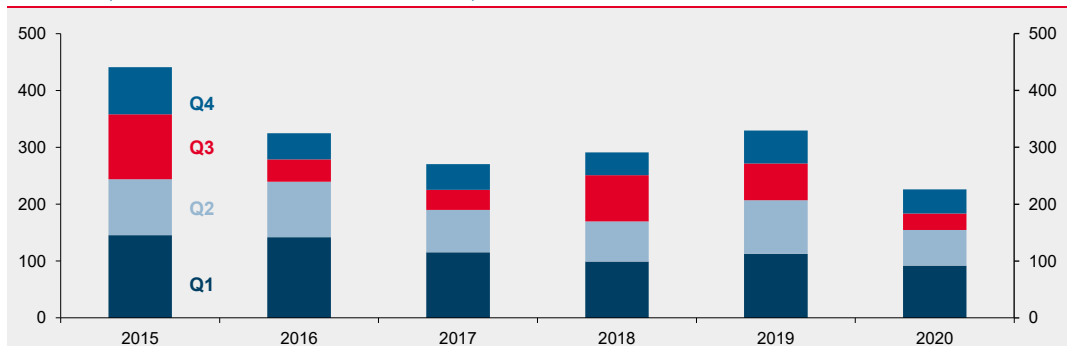
Q4 2020: Issuance remains in the doldrums

- Total issuance of euro-denominated benchmark-size bank bonds amounted to approximately EUR 27 billion in the fourth quarter of 2020. This meant that the final quarter of the year was just as weak as Q3 2020, on which the Covid-19 crisis and the summer break had a negative impact.
- The issuance volume of senior unsecured bonds with fixed coupons increased by 15 % in Q4 2020 compared to the previous quarter, reaching a total of EUR 12.4 billion. However, it represented one of the six weakest quarters in the last 10 years. Nevertheless, for 2020 as a whole, total volume came in at around EUR 90 billion, thus exceeding the amount of maturing issuance by EUR 15 billion. While the year got off to a flying start, this was followed by a sudden downturn. Due to the rapidly emerging Covid-19 crisis and the ECB's TLTRO programmes, activity remained well below initial market expectations. In particular, 2020 was dominated by the ECB's TLTRO III.4 longer-term refinancing operations with an allotment amount of EUR 1.3 trillion.
- For 2021, we anticipate that senior issuance will remain unchanged compared to 2020 at around EUR 90 billion. Rising maturities and an incipient post-crisis recovery are likely to be supporting factors in this regard. However, the latter could prove to be a bumpy ride - the damage to banks' loan books caused by the crisis will not manifest itself until government support measures expire. What is more, a combination of negative rating migrations and the MREL requirements that will apply from 2022 is likely to result in the issuance of additional non-preferred notes. Consequently, we can expect to see roughly a balance between preferred and non-preferred issuance. However, a high level of liquidity in the form of customer deposits and ECB funding suggest that there will be no significant recovery on the primary market, even if many banks have already exhausted their maximum callable volume.
- The situation in terms of covered bond and Pfandbrief issuance has recently been similar: at EUR 13.4 billion, primary market volume here in the final quarter of 2020 was only 6 % higher than the weak third quarter. In 2020 as a whole, it plummeted 31% year-on-year to around EUR 94 billion. With its covered bonds from Singapore in Q4 2020, at least United Overseas Bank added a little to geographical diversity. While issuers from seven countries accounted for almost 75 % of the primary market volume in 2019, the same proportion of issuance came from only five countries in 2020. For 2021, we expect that total primary market volume will not stray too far from the previous year's level, despite higher maturities of around EUR 134 billion due to a larger volume of pre-financing and a low-cost alternative in ECB funding. On the positive side, the small green and social covered bond segment is likely to see further growth, having accounted for a 9 % share of the market in 2020 (previous year: 5 %) owing to reduced overall issuance.¹

EUR benchmark issues Q4 2020: Primary market remains weak

EUR billions (fixed-rate and floaters, covered and unsecured)

EUR billions



Sources: Bloomberg, Helaba Research

AUTHORS

Dr. Susanne E. Knips
Senior Credit Analyst
phone: +49 69/91 32-32 11

Sabrina Miehs
Senior Covered Bond Analyst
phone: +49 69/91 32-48 90

research@helaba.de

EDITOR

Stefan Rausch
Head of Credit Research

PUBLISHER

Dr. Gertrud R. Traud
Chief Economist/
Head of Research

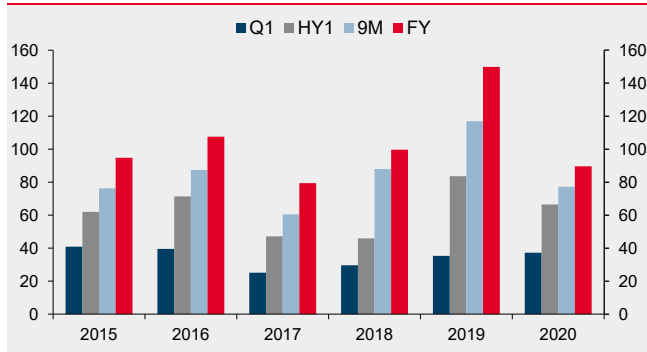
Helaba
Landesbank
Hessen-Thüringen
MAIN TOWER
Neue Mainzer Str. 52-58

This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only. The data are based on sources that we consider reliable, though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.

1. Senior unsecured bonds with fixed coupons

Q4 2020: Low liquidity requirement

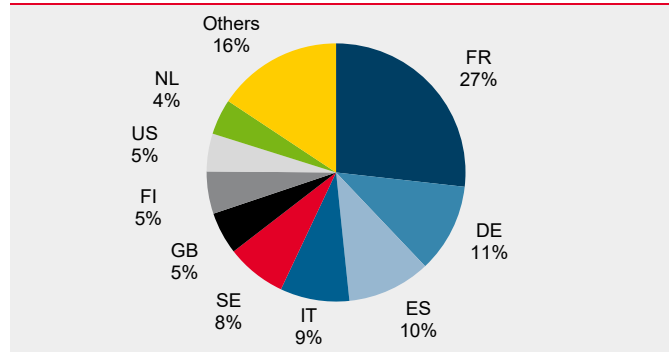
EUR billions (cumulative issuance volume) EUR billions



Sources: Bloomberg, Helaba Research

France leading the field, also due to NPS* issues

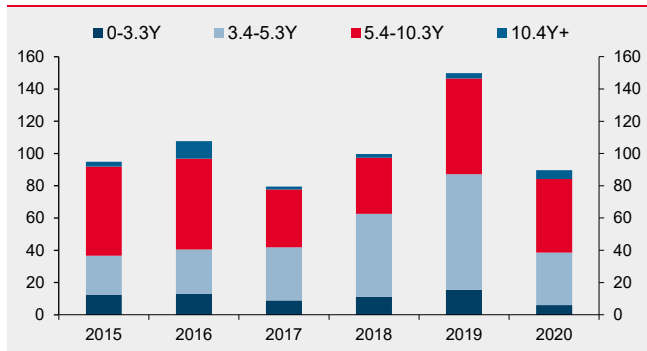
Share of issuance in 2020 by country



* Non-preferred senior
Sources: Bloomberg, Helaba Research

Longer maturities back in demand

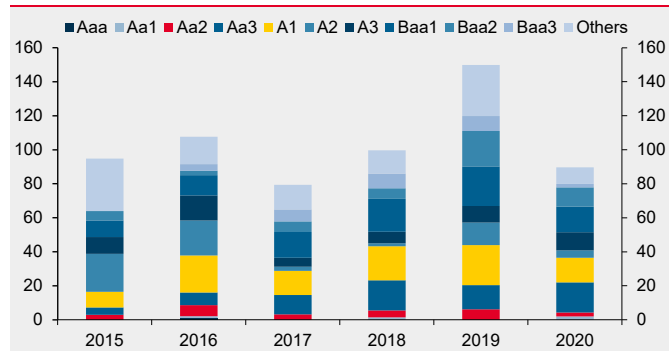
EUR billions (issuance volume by maturity) EUR billions



Sources: Bloomberg, Helaba Research

Relatively stable mix of ratings during crisis

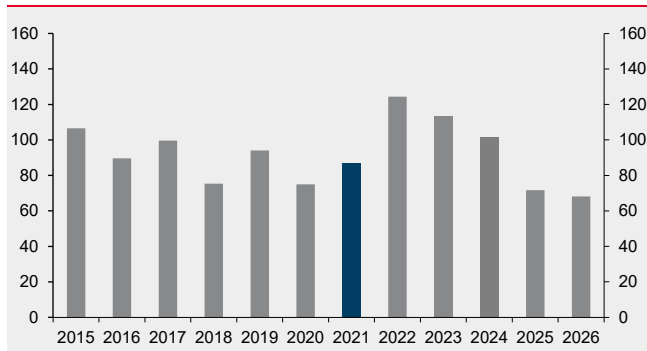
EUR billions (issuance volume by rating*) EUR billions



* Moody's rating at time of issuance
Sources: Bloomberg, Helaba Research

Maturities rise in 2021 by 16 % year-on-year

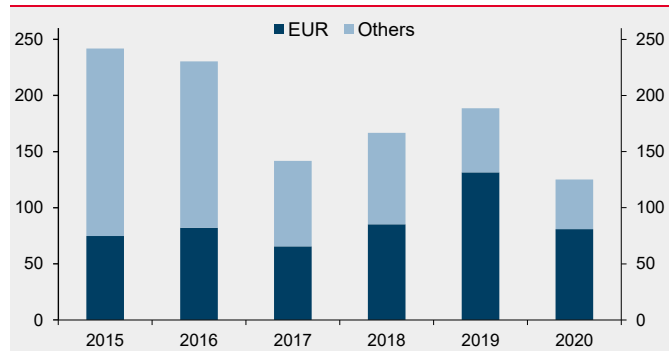
EUR billions (maturity volume) EUR billions



Sources: Bloomberg, Helaba Research

EUR share falls slightly in 2020 for first time since 2015

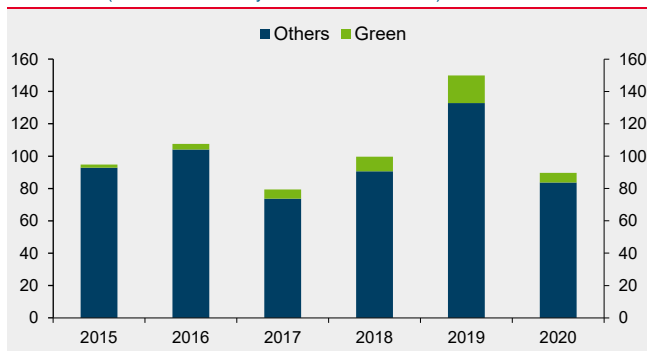
EUR billions (issuance volume of European banks by currency*)



* Bloomberg search without currency filter, limited to European issuers
Sources: Bloomberg, Helaba Research

Most recent share of green issues reaches ca. 7 %

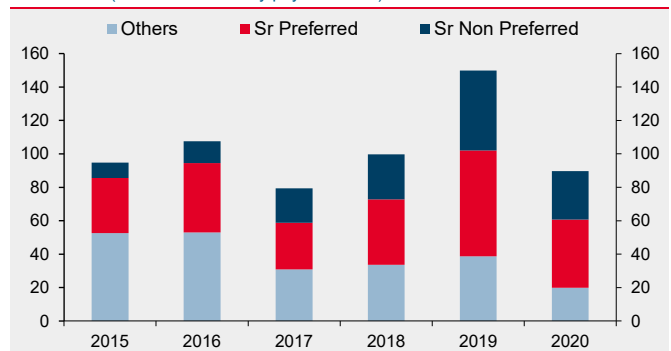
EUR billions (issuance volume by environmental criteria) EUR billions



Sources: Bloomberg, Helaba Research

Share of preferred issues higher compared to last year

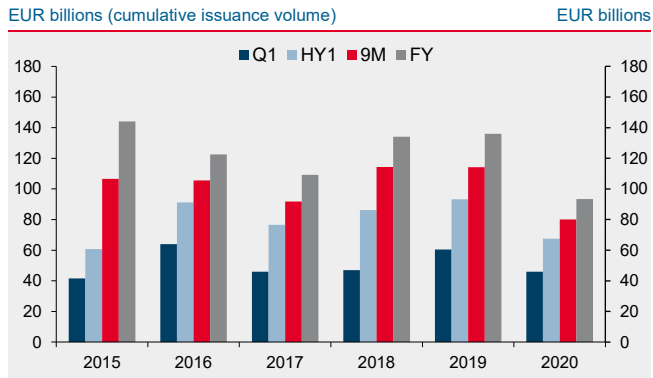
EUR billions (issuance volume by payment rank)



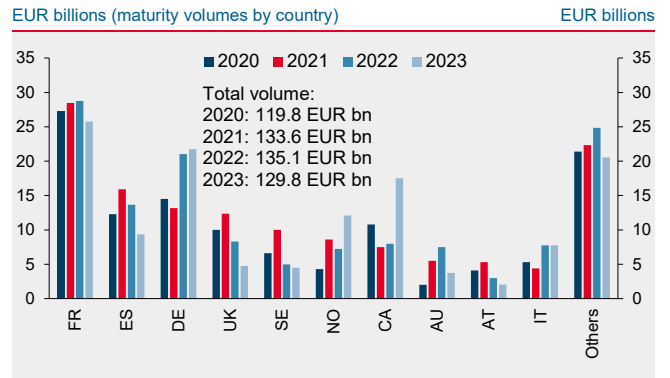
Sources: Bloomberg, Helaba Research

2. Covered bonds with fixed coupons

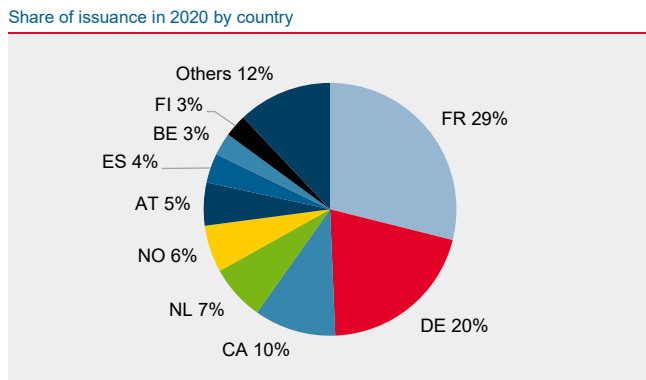
2020: Issuance volume falls due to TLTROs



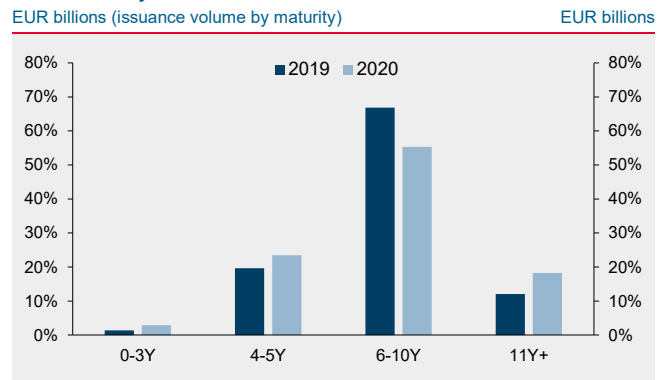
Maturities set to rise further in 2021



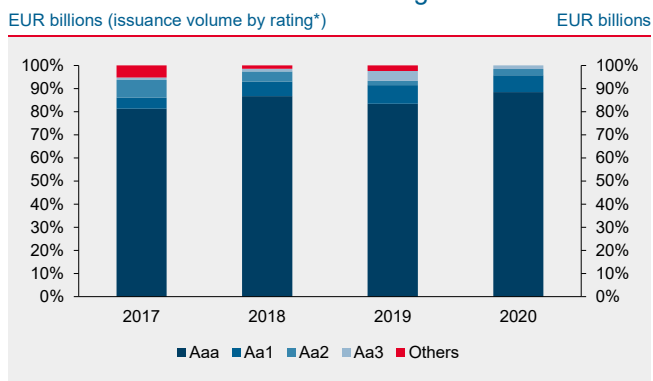
Little diversity: issuers from only 5 countries account for almost 75 % of issues



Increase in volume of covered bonds with maturities of over 11 years



An asset class with first-class ratings - in 2020 as well



Most recent share of sustainable issues reaches 9 %

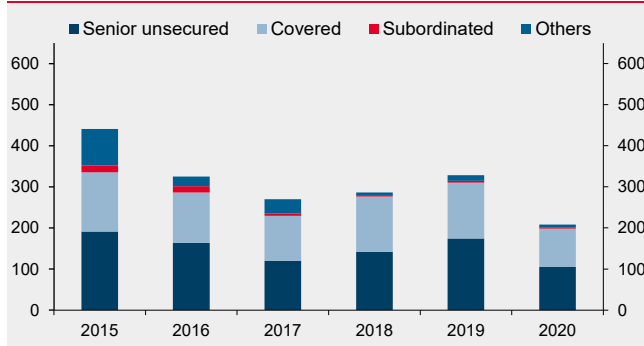


3. Covered and uncovered bonds – fixed-rate and floaters

Share of senior unsecured bonds sees modest rise

EUR billions (issuance volume by ranking)

EUR billions

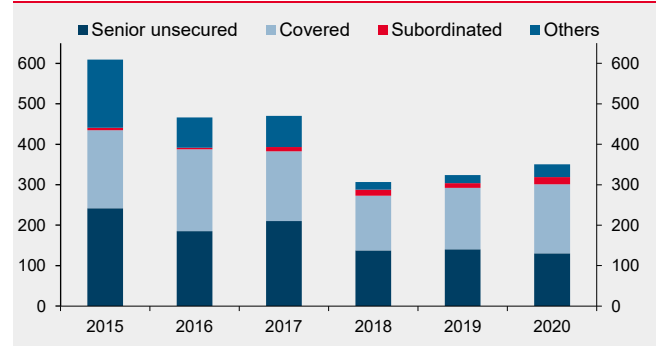


Sources: Bloomberg, Helaba Research

Maturities exceed issuance volume

EUR billions (maturity volume by ranking)

EUR billions



Sources: Bloomberg, Helaba Research

TLTRO II-III: targeted longer-term refinancing operations by ECB

Overview

	Allotment date	Settlement date	First possible voluntary early repayment date (settlement)	Maturity date	Allotted amount (EUR billions)	Outstanding amount (EUR billions)
TLTRO-II.4	23.03.2017	29.03.2017		24.03.2021	233,5	15,7
TLTRO-III.1	19.09.2019	25.09.2019	29.09.2021	28.09.2022	3,4	3,4
TLTRO-III.2	12.12.2019	18.12.2019	29.09.2021	21.12.2022	97,7	97,7
TLTRO-III.3	19.03.2020	25.03.2020	29.09.2021	29.03.2023	115,0	115,0
TLTRO-III.4	18.06.2020	24.06.2020	29.09.2021	28.06.2023	1.308,4	1.308,4
TLTRO-III.5	24.09.2020	30.09.2020	29.09.2021	27.09.2023	174,5	174,5
TLTRO-III.6	10.12.2020	16.12.2020	22.12.2021	20.12.2023	50,4	50,4
TLTRO-III.7	18.03.2021	24.03.2021	30.03.2022	27.03.2024	.	.
TLTRO-III.8-10	06 – 12/2021					

Sources: Deutsche Bundesbank Eurosystem, ECB Eurosystem, Bloomberg, Helaba Research

¹ See Covered Bond Special: "[Green covered bonds: The EU Taxonomy - a climate killer?](#)" of 11 December 2020 as well as Credit Special: "[European bank bonds: Supervision wearing green-tinted spectacles](#)" of 8 December 2020 ■