Helaba

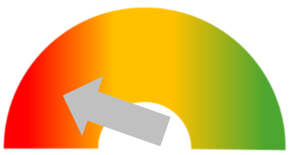
Focus on: SSA & Financials
8 December 2022

Weekly Market Update

Primary market environment: Primary market activities are gradually coming to a standstill. The majority of issuers have already closed their books. Government bonds are benefiting from growing concerns about an economic downturn. All in all, the upcoming interest rate decisions by the Fed and the ECB in the coming week are already casting their shadows.

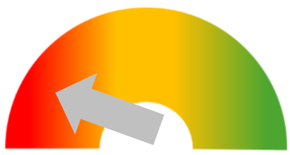
Primary market barometer

SSA



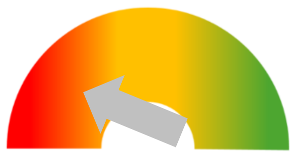
On the SSA primary market, only the EU was active this week and its paper again enjoyed brisk demand.

Covered Bonds



The lack of emissions probably signals that the funding plans for the current year are completed and preparations are underway for what is expected to be a hectic January.

Senior Unsecured



Also in this segment this week probably showed the last transactions. On the secondary market, liquidity is declining noticeably, while spreads remain pleasantly stable. Christmas is approaching, and so it is likely to remain contemplatively quiet in the coming week.

Risk trend indicator: Overall picture clouds over

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,03	-0,10	-0,02	0,81	-0,53	-1,78
European Union	0,07	0,23	0,36	1,50	2,12	2,26
Germany Covered	0,08	0,08	0,24	0,43	0,94	0,34
EU Covered	0,02	0,03	0,13	0,29	0,59	0,42
Banks senior preferred	-0,05	-0,52	-1,21	-0,22	1,48	1,25
Banks senior bail-in (SNP)	-0,03	-0,48	-1,10	-0,11	1,82	1,50
Banks subordinated	0,01	-0,32	-1,13	-0,55	1,44	1,16
Supranational	0,08	0,17	0,43	1,19	1,61	1,40
Agencies	0,04	-0,06	0,26	1,05	0,21	-0,32
Sub-Sovereigns Germany	0,07	0,16	0,61	0,91	-0,60	-0,75
Sub-Sovereigns	0,08	0,11	0,37	1,06	0,38	0,07

strong	middle	weak	unchanged	weak	middle	strong
	spread widening				spread tightening	

* ASW levels standardized and 2T-smoothed
Sources: Refinitiv, Helaba Research & Advisory

Risks on the overall market are again weighted higher, which is also reflected by our risk trend indicator and its increased red colouring.

With this issue, the Weekly Market Team says goodbye to its readers for this year.

We wish you a Merry Christmas and a Happy New Year.

SSA

Already in the previous weeks, activity in the SSA segment was very limited. This week, the EU was the only active issuer to have the primary market stage to itself. A social bond issued under the SURE programme (EUR 6.548 bn (no grow)) generated an order book volume of around EUR 25 bn, so that the final pricing was set at MS+21, 2 bps below the marketing spread. The new issue premium (NIP) was an attractive 8 bps. The EUR 500m tap (no grow) of 10/52 also went very smoothly - the book was more than 10 times oversubscribed. Investors were still left with a small NIP with the spread tightened by 2 bps.

Outlook: In the few days remaining this year, we do not expect any more issuers to appear on the primary market. Instead, preparations are already underway for the start of the new year. It is likely that the first federal states will become active at the beginning of the year.

€ SSA issues week of 5 December 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,750%	EU	Aaa /AA/AAA	6,548bn		04.12.2037	ms +21 bps	✓	07.12.2022	25,000bn	ms + 23 area
2,500%	EU	Aaa /AA/AAA	0,500bn	✓	04.10.2052	ms +66 bps		07.12.2022	10,000bn	ms + 68 area

Sources: Bloomberg, Helaba DCM

Covered Bonds

Primary market business came to a standstill this week. Obviously, issuers had already completed their funding plans for this year. Overall, we look back on a record year with an issuance volume of EUR 210 billion. The bulk of the issuance was in the 5-7 year maturity band, 3-5 and 7-10 years were more or less balanced, the 10+ range became less attractive in the second half of the year and ranked behind. The start of 2023 promises to be very dynamic on the primary market. Classically, this month is one of the most active. In addition, there is a high number of maturities coming up that are very likely to be replaced. TLTRO redemptions and a resulting capital requirement will also fuel issuance activity, in our view.

> *"Despite the apparent end of the primary market, the secondary market is unusually busy for the time of year. Turnover is well balanced; in addition to the usual portfolio adjustments, there are also quite a few buyers on the move. A large number of domestic customers stand out, e.g. savings banks. In addition, we see buyers from the Benelux region as well as further international bank accounts." he .*
>
> *Comment from the Helaba trading floor*

On the **secondary market**, the focus is currently on the front part of the curve (especially 2-3 years), which is hardly surprising given the historical inversion of the yield curve. This maturity band currently offers by far the highest absolute yield.

As in the previous week, the ECB again significantly reduced its CBPP3 holdings by EUR 835 million last week. However, the European Central Bank has not yet committed itself to reducing its purchasing positions (quantitative tightening). In anticipation of the decreasing supply of issues in December, it had taken precautions with additional purchases in the course of November.

Outlook: In our opinion, the start of 2023 will be dynamic. Overall, we expect a primary market volume of around €160bn for the year as a whole, which will be higher than the maturing bonds (€126bn).

€ Covered Bond issues week of 5 December 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
none										

Sources: Bloomberg, Helaba DCM

Senior Unsecured

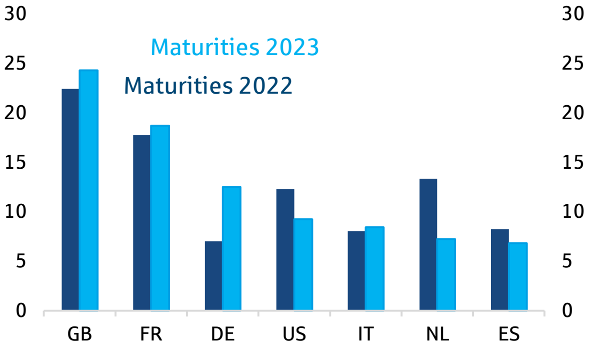
The rally in the secondary markets continues, with new issues in recent weeks taking advantage of the positive sentiment and seeing significant spread tightening. However, liquidity is becoming increasingly scarce. Fewer and fewer investors want to dispose of holdings before the end of the year. There is hardly any activity left on the primary market for senior unsecured bank bonds. Nevertheless, two issuers, Toronto-Dominion Bank and Alpha Bank, once again carried out transactions on the market.

The primary market volume of senior unsecured bank bonds in EUR benchmark format with fixed coupons will **total around EUR 180 billion in 2022** as a whole, 60% of which will be in the non-preferred rank. With an increase of 30% yoy, it will be an extremely strong year, driven mainly by high maturities, regulatory requirements for bail-in capital and prefunding in an environment of widening credit spreads.

We expect primary market activity in this area to be similarly brisk **in 2023**: We estimate the **issue volume at around EUR 180 billion**. While we expect a slight increase of 10 % yoy in senior preferred issues to EUR 80 billion versus 2022, we anticipate a slight decline of 6 % yoy to EUR 100 billion in non-preferred issues.

Outlook 2023: Maturities remain very high

Maturities by country, EUR billion



Sources: Bloomberg, Helaba Research & Advisory

We expect activity in 2023 to be supported in particular by renewed high maturities. TLTRO repayments (see our **Weekly Market Update dated 24 November 2022**) and comparatively lower spreads are also arguments in favor of senior preferred refinancing. At the same time, regulatory requirements and increasing maturities remain drivers for senior non-preferred issues. Slightly offsetting factors are already completed prefunding from 2022. Furthermore, the weaker economic environment speaks for lower new lending business, especially in corporate financing, while at the same time there could be some outflow in customer deposits driven by high cost of living.

> *„The rally continues! The mood on the markets is still positive and the stock markets remain for weeks at high levels. Yields are sharply lower and credit spreads are marginally wider on iTraxx indices and in turn narrowed all the more sharply in the cash segment. Flows are gradually easing and volumes are getting smaller, while sellers are getting sparser. The trading desks have lost inventory in the multi-week tightening and have been able to buy little secondarily. A squeeze has taken place as shorts have been covered, which is also having an impact on liquidity. The rally has run very far and with the interest rate decisions next week is the last highlight of the trading year, which could again provide movement.*
>
> *Einschätzungen aus dem Handelsraum der Helaba*

Outlook: Issuers have implemented their funding plans and are already preparing for next year. At the same time, many investors are closing their books towards the end of the year. Christmas is approaching, and so it is likely to remain contemplatively quiet next week.

€ Senior Preferred issues week of 5 November 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
7,500%	Alpha Bank SA	Ba3 /B+/-	0,450bn		16.06.2027	ms +505 bps		06.12.2022	0,875bn	8% area

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 5 November 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,631%	Toronto-Dominion Bank	A1/A/AA-	1,250bn		13.12.2029	ms +110 bps		06.12.2022	1,950bn	ms + 135 area

Sources: Bloomberg, Helaba DCM

Short news

12/06 S&P Global Ratings on Covereds in 2023: According to S&P, covered bond issuance is flourishing against a backdrop of general market disruption. Inflationary pressures and interest rate changes have boosted supply and demand, with volumes reaching a decade high in 2022 and expected to remain robust in 2023. **The presence of unused notches reduces the risk of a downgrade of covered bonds, it added.** The cost of mortgage financing has tripled in some countries since the beginning of 2022. The rise in inflation combined with higher mortgage rates will weaken house price growth. However, strong household balance sheets and low unemployment continue to support residential mortgage growth, according to the agency.

12/05 Fitch Ratings on covered bonds in Belgium: According to Fitch, Belgian covered bond ratings are resilient to deterioration in asset performance. Mortgage covered bonds issued by Belfius Bank SA/NV, KBC Bank NV and ING Belgium NV/SA benefit from sufficient overcollateralisation buffers that should mitigate the deterioration in asset performance expected for the Belgian residential mortgage market, Fitch Ratings said in a new report. In addition, covered ratings benefit from a buffer of four to seven notches against a downgrade of banks' long-term issuer default ratings.

12/05 Fitch Ratings on overcollateralisation of covered bonds: The weaker economic outlook will have a limited impact on covered bond ratings, Fitch Ratings said. Positive selection of cover pools and overcollateralisation (OC) will mitigate the deterioration in asset performance resulting from pressure on household debt servicing capacity due to high inflation, rising interest rates and high energy costs.

12/05 Payment morale of German companies worsens significantly: According to the credit agency **Creditreform**, German companies had significantly poorer payment morale in the third quarter of 2022 than in the same period of the previous year. Late payments have developed negatively in view of the numerous crises such as persistently high inflation, the Ukraine war and inflation rates for material and energy costs.
12/05 Liquidity coverage ratios on a decline: Many large European banks recorded declines in their liquidity coverage ratios in the third quarter of 2022, data compiled by **S&P Global Market Intelligence** shows. In a sample of 34 European banks, 22 reported a deterioration in their liquidity coverage ratio.

12/05 Eurozone bank lending predicted to fall: Eurozone bank lending ist predicted to fall for the first time since 2014 as countries fall into recession. Banks will reduce their lending in the face of rising interest rates and volatile economic conditions, making it harder for cash-strapped companies to borrow, according to a report by EY seen by the **Financial Times**.

12/02 ECB supervision on ESG risk management: The European Central Bank (ECB) in a **press release** published the results of its **thematic review**, which shows that banks are still far from adequately managing climate and environmental risks. The ECB is now setting staggered deadlines for banks to progressively meet all the supervisory expectations it laid out in its **Guide on climate-related and environmental risks** in 2020. The ECB also published a **compendium of good practices** observed in some banks, demonstrating that swift progress is possible and aiming to facilitate the improvement of practices across the sector.

12/01 European banks are worst-placed for a long recession according to McKinsey report: European banks are poorly positioned for a long recession due to high capital burdens and low-interest rates, McKinsey & Co. said in its annual report on the state of the industry. As reported by **Bloomberg**, the fragmented nature of Europe's banking sector makes it hard for its myriad of small and mid-sized lenders to compete at scale in larger markets.

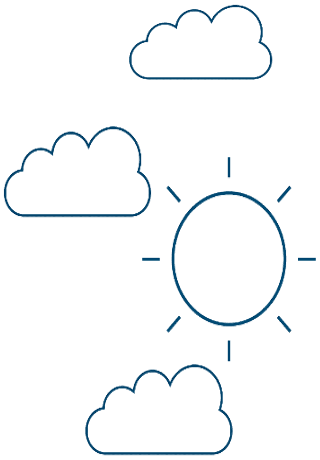
12/01 EU looks to exclude banks and funds from sustainability rules: EU ministers have backed a carve-out for banks and investment funds from a landmark regulation designed to force companies to report on environmental and human rights abuses in their supply chains. Four diplomats confirmed to the **Financial Times** that France had been behind the last-minute effort to have financial institutions excluded as it tries to make Paris a hub for international finance.

Market Data (current*, vs. 1 week, vs. 4 weeks)

E-STOXX 600 Banks	137	-2,26%	3,49%	iBoxx € Cov. Germany	6,0	0,3	2,3	iTraxx Senior Financial	101,1	-1,3	-16,2
10Yr-Yield	1,8	-0,2	-0,4	iBoxx € Cov. Bonds	18,2	0,5	3,7	iBoxx € Supranational	13,7	1,40	5,15
Swap 10J	2,5	-0,1	-0,4	iBoxx € Banks PS	70,6	-13,4	-30,6	iBoxx € Agencies	-3,7	-1,45	3,82
iBoxx € Germany	-61,9	-2,5	-0,3	iBoxx Banks NPS	113,4	-15,9	-36,1	iBoxx € Sub-Sov. Germany	12,0	2,03	9,83
iBoxx € EU	18,8	2,1	4,6	iBoxx Banks Subordinated	179,1	-15,8	-61,2	iBoxx € Sub-Sovereign	25,0	0,98	4,71

* Closing prices from the previous day
Sources: Refinitiv, Helaba Research & Advisory, * ASW-Spreads

Leisure tip for the weekend: Christmas Market of the Nations in Rüdesheim



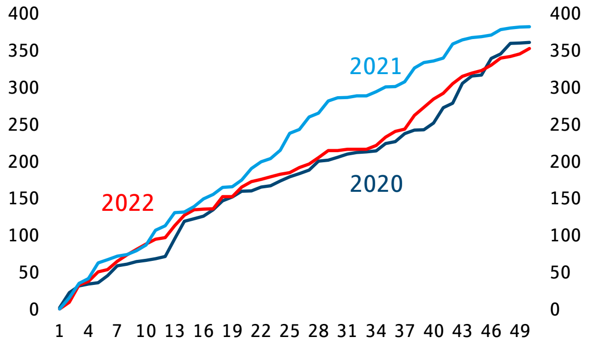
Christmas Market, Rüdesheim- In the city in the Rheingau, it becomes international every year at Christmas. More than **17 nations** from six continents offer goods, specialties and customs. Christmas **traditions from all over the world** are presented in a unique way. There is also a wide range of events with **concerts, performances, parades** and varied programs on the weekends. A special Christmas market in the heart of the old town of Rüdesheim with its alleys, courtyards, squares and romantic places.

More information: **Hessen's Christmas Markets. Hessen Tourismus (hessen-tourismus.de)**

Do you have ideas for leisure tips? We would be happy to receive your suggestions at research@helaba.de.
Source: https://www.hessen-tourismus.de/en/inspiration/blog/hessens-christmas-markets/

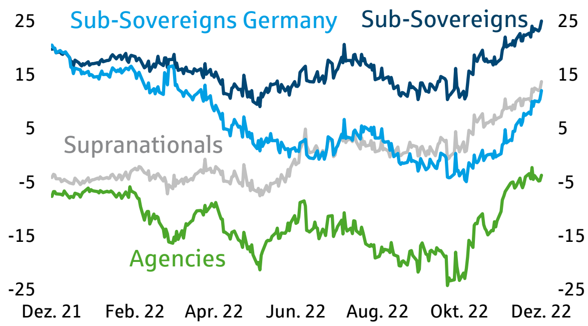
Chartbook SSA, Covered Bonds, Senior Unsecured

SSA: Primary volumes
EUR benchmark issue volume cumulative by weeks, bn EUR



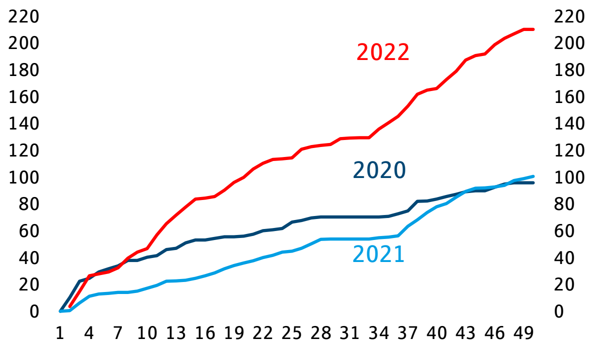
Sources: Bloomberg, Helaba Research & Advisory

SSA: Spread development
ASW spread, bp



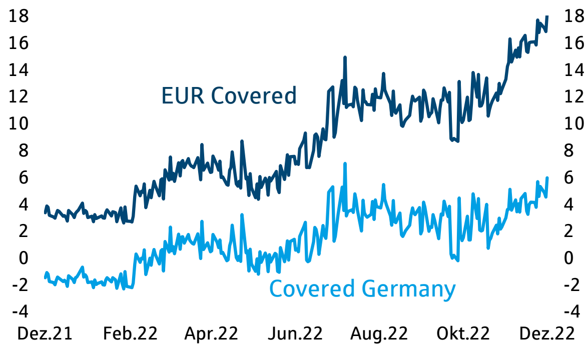
Sources: Bloomberg, Helaba Research & Advisory

Covered Primary volumes
EUR benchmark issue volume cumulative by weeks, bn EUR



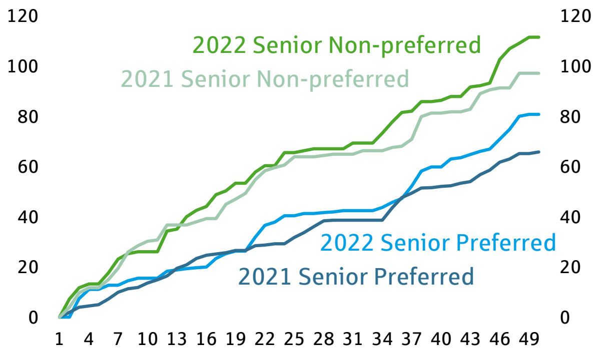
Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development
ASW spread, bp



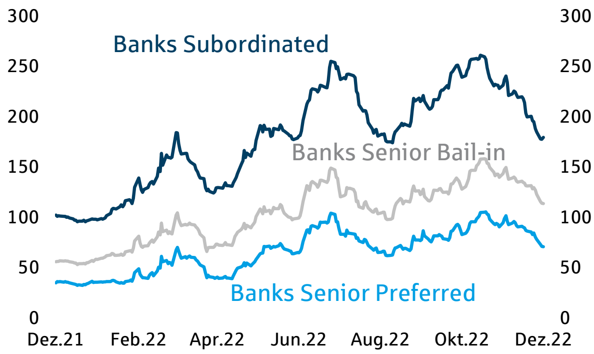
Sources: Bloomberg, Helaba Research & Advisory

Senior Primary volumes
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development
ASW spread, bp



Sources: Bloomberg, Helaba Research & Advisory

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