Helaba

Focus on: SSAs & Financials

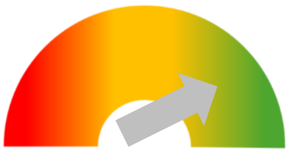
15 Febuary 2024

Weekly Market Update

Primary market environment: The DAX is still eyeing record highs. Inflation in the US has disappointed recently with high figures, somewhat dampening hopes of rapid interest rate cuts. For Nagel at the ECB, the worst thing would be to cut rates too quickly. The primary market environment remains constructive and issuance is expected to continue through the Easter holidays.

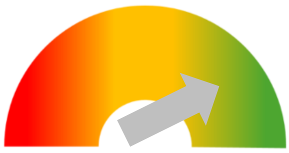
Primary market barometer

SSAs



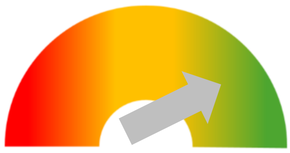
The momentum in the SSA primary market seems to have slowed somewhat, at least temporarily. Nevertheless, the majority of recent issues have enjoyed very strong investor demand, with exceptionally high oversubscription rates. Further issues are already in the pipeline.

Covered Bonds



Momentum in the primary covered bond market has slowed somewhat. Timing and pricing are all the more important for the success of transactions. We expect the primary market to remain active until the Easter holidays.

Senior Unsecured



Overall, the market environment for senior unsecured issues remains constructive. Many banks have now reported their quarterly results and we expect primary market activity in this segment to pick up.

Risk trend indicator (heat map): Relatively good sentiment for unsecured bank bonds

Relative* ASW spread change

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0.02	0.09	0.10	0.68	1.27	2.41
European Union	0.00	-0.05	0.15	0.41	0.86	2.98
Germany Covered	0.03	0.14	0.25	1.01	2.52	3.30
EU Covered	0.02	-0.03	-0.09	0.41	1.60	3.06
Banks senior preferred	0.00	0.03	-0.38	-0.11	0.73	1.56
Banks senior bail-in (SNP)	-0.03	-0.05	-0.38	-0.20	0.30	0.96
Banks subordinated	-0.01	-0.02	-0.27	-0.50	0.19	0.83
Supranational	0.01	-0.04	0.10	0.46	0.98	2.88
Agencies	0.04	0.02	-0.03	0.64	1.55	2.92
Sub-Sovereigns Germany	0.03	-0.01	0.03	0.36	0.70	0.55
Sub-Sovereigns	0.02	-0.04	0.03	0.45	0.95	1.77

strong	middle	weak	unchanged	weak	middle	strong
	spread widening*				spread tightening*	

* ASW levels standardized and 2T-smoothed

Sources: LSEG, Helaba Research & Advisory

The colour palette of our heat map has brightened a little. Overall sentiment for senior unsecured bank bonds remains relatively strong.

SSAs

The SSA primary market took a break on Monday and the overall momentum seems to have slowed, at least temporarily, after the strong activity of recent weeks. It was not until Tuesday that we saw the first transactions from **KfW**. The development bank increased its February 2031 issue by EUR 4bn and its April 2039 issue by EUR 1bn. There was strong demand for the tranches, which were 5.5 times oversubscribed. **NRW-Bank** (EUR 750m, 4 years) and Investitionsbank Schleswig-Holstein (EUR 500m, 10 years, WNG) followed on Wednesday. With order books totalling EUR 925 million and EUR 840 million respectively, both easily met their funding targets. Today, **WIBank** (EUR 500 million, 10 years) joined this week's successful issuers with an order book of EUR 718 million.

The majority of recent issues have been very well received by investors, with exceptionally high oversubscription rates, even after the strong increase in issuance volumes in January. Demand is currently so strong that some transactions are being priced below the fair value of the relevant secondary market curves. The average new issue premium this year is only 2.6 basis points. The high level of new issue activity makes pricing much easier and the initial spread can be set within a very thight range. The final spread is then only a few basis points away. In anticipation of falling interest rates, investors are focusing on long-dated bonds.

Outlook: Momentum in the primary market has slowed somewhat recently, but the environment remains constructive. More issuance is likely in the pipeline, with further activity expected from development banks and sovereigns in particular. The EU has already sent out RfPs for an issue scheduled for next week.

In addition to bonds and bills, the **ESM** (European Stability Mechanism) has launched a EUR 20bn STEP (Short-Term European Paper) compliant euro commercial paper programme. The ESM will use the programme as a balance sheet management tool among other things. The minimum size of the programme is EUR 25 million. Maturities will range up to 1 year, with a focus on 1 week to 2 months. Issuance could reportedly start in the first quarter of this year.

€ SSAs issues week of 12 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2.750%	KFW	Aaa /AAA/AAA	4.000bn		20.02.2031	ms +10 bps		13.02.2024	22.000bn	ms + 12 area
0.875%	KFW	Aaa /AAA/AAA	1.000bn	✓	04.07.2039	ms +29 bps		13.02.2024	5.500bn	ms +30 area
2.875%	Investitionsbank Schleswig-Holstein	- /-/AAA	0.500bn		21.02.2034	ms +21 bps		14.02.2024	0.880bn	ms + 23 area
2.750%	NRW.BANK	Aa1 /AA/AAA	0.750bn		21.02.2028	ms +5 bps		14.02.2024	0.925bn	ms + 6 area
2.875%	WIBank	/AA+/	0.500bn		22.02.2034	ms +22 bps		15.02.2024	0.718bn	ms + 23 area

Sources: Bloomberg, Helaba DCM

Covered Bonds

Primary market activity continued this week, albeit at a slower pace than in previous weeks. The importance of picking the right issue window is illustrated by the example of Norwegian heavyweight **SR-Boligkreditt**. While Germany, the most important market for EUR-denominated covered bonds, was celebrating carnival, SR-Boligkreditt opened the order books for a EUR 500m eight-year covered bond issue. The unquestionable quality of the issuer was easily recognised by the market. Only on Thursday did the Italian **Banco BPI** follow with a benchmark (EUR 500m, 6.1 years, WNG).

Core eurozone bonds are currently lagging somewhat in terms of performance. In the view of our trading room, this does not mean that previous new issues from this region have been a flop. Rather, it is due to subsequent performance and demand, particularly from foreign investors, for whom these bonds are not necessarily the first choice, despite the comparatively high premiums. One reason for this could be the currently rather subdued overall picture of the German economy. The fact that the price action across the universe of new issues showed a decline in new issue premiums was initially due to a certain amount of courage on the part of investors, whose traditional crowd has probably been joined by an increasing number of speculative accounts. And the reference to supposed secondary curve points was not always helpful, especially as the market has lacked resilient liquidity across the board for years. Not least since the free float dried up as a result of QE. In addition, significant holdings are in the hands of static investors. Reading resilience levels based on steady flows into secondary bonds should therefore be taken with a pinch of salt and leads to a distorted view of what is - according to our trading room. Rather, the "through-the-secondary-curve pricing" is a reflection of investors' generally more positive view at present, also relative to higher yield differentials, e.g. versus credits and/or EGBs (European government bonds). The latter are becoming less meaningful as bund/swap spreads thighten. Based on current conditions, supply/demand ratios, risk sentiment and volatile interest rate expectations, our trading team expects spreads to widen moderately at best and performance prospects for non-core assets to improve.

Outlook: The news surrounding the US regional banks continues to cause uncertainty, but we expect the primary market to remain active until the Easter holidays. The end of blackout periods should also help.

> „In recent trading weeks, a creeping underperformance of German covered bonds has become apparent. Valuations have reached new extremes since concerns about US regional banks and CRE exposures resurfaced this year. Trading patterns showed clear signs of stress (selling focused on shorter maturities, flat spread curves, spread widening of up to 40 bps). Smaller institutional and retail buying has provided some calm, although Street bid/offer spreads are far from tight at up to 20bp.".
>
> *Comment from the Helaba trading floor*

€ Covered Bond issues week of 12 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
3,125%	SpareBank 1 SR-Bank	Aaa /-/-	0,500bn		19.02.2032	ms +44 bps		12.02.2024	1,005bn	ms+48 area
3,250%	Banco BPI S.A.	Aaa //	0,500bn		22.03.2024	ms +64 bps		15.02.2024	2,850bn	ms +70 area

Sources: Bloomberg, Helaba DCM

Senior Unsecured

Primary market activity in senior unsecured bank bonds has been relatively low recently. In addition to the current reporting season, the carnival season may have contributed to this. However, the few transactions that have taken place have attracted strong investor interest, resulting in high levels of oversubscription in the books and a continuation of the **trend towards low bid spreads**.

In the uncovered segment, Italy's **BPER** impressed on Tuesday with an impressive green 6NC5 senior preferred debut issue with an initial size capped at EUR 500m. The order book peaked at EUR 3.35bn, allowing the initial spread target to be narrowed by 40bp to a final MS+160bp during bookbuilding. **Raiffeisen Bank International** today launched a 5.5NC4.5 Senior Non-Preferred Bond with a volume of EUR 500m and achieved a 4x oversubscribed book with an initial spread target of MS+235bp. They were joined by **Mizuho Financial Group** with a 10.25 year non-preferred bond - again the book reached more than EUR 2bn with an initial spread indication of MS-165-170bp and was therefore likely to have been well oversubscribed.

„The mood in the credit segment is tense, but still surprisingly stable. Equity markets are currently looking a little beaten up, trading nervously not far from recent all-time highs. Yesterday's inflation data from the US underlined this once again, while at the same time putting the market's still high interest rate expectations to the test. As a result, interest rate volatility remains above average. The iTraxx indices are trading tighter on a weekly basis, showing that the regional banking problems surrounding real estate lenders in Germany are having little impact on the overall market."

Comment from the Helaba trading floor

Outlook: The quarterly reporting season for banks is drawing to a close, which means that the blackout periods for issuers are also coming to an end. The refinancing needs of European banks will remain high in 2024, mainly due to long maturities and declining customer deposits (see our **Primary Market Update EUR Benchmark Bank Bonds** dated 11 January 2024). We expect primary market activity to pick up in the coming days.

€ Senior Preferred issues week of 12 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4.250%	BPER Banca S.p.A.	Ba1 /BBB-/BBB	0.500bn		20.02.2030	ms +160 bps	✓	13.02.2024	2.400bn	ms + 200 area

Sources: Bloomberg, Helaba DCM

€ Senior Non-preferred issues week of 12 February 2024

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
4,625%	Raiffeisen Bank International AG	Baa2 //	0,500bn		21.08.2024	ms +195 bps		15.02.2024	3,800bn	ms +235 area
3,980%	Mizuho Financial Group, Inc.	A1 //A-	0,750bn		21.05.2034	ms +130 bps		15.02.2024	2,650bn	ms +165-170

Sources: Bloomberg, Helaba DCM

Reporting dates of selected banks

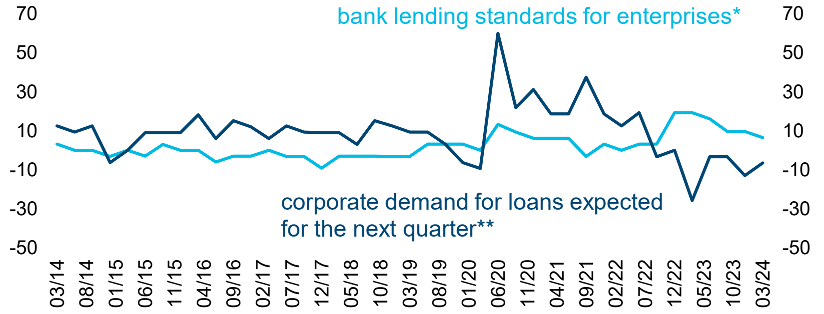
Issuer	Date	Issuer	Date
CREDIT SUISSE GROUP AG-REG	2/16	HSBC HOLDINGS PLC	2/21
NATWEST GROUP PLC	2/16	LLOYDS BANKING GROUP PLC	2/22
BARCLAYS PLC	2/20	STANDARD CHARTERED PLC	2/23

Sources: Bloomberg, Helaba Research & Advisory

Chart of the Week

Corporate lending business shows signs of stabilisation

Bank Lending Survey Germany



* Positive values are tightening, negative values are loosening
** Positive values represent an increase, negative values a decrease in loan demand
Quellen: Refinitiv, Deutsche Bundesbank, Helaba Research & Advisory

According to the **Bank Lending Survey** (BLS) recently published by the Deutsche Bundesbank, banks in Germany continued to tighten their lending standards in all credit segments in 2023, albeit at a slower pace over time. The degree of tightening has varied across economic sectors. According to the experts, demand for loans from companies continued to fall, although the rate of decline also slowed. The main reason for the decline in demand was the higher general level of interest rates until the third quarter of 2023. Demand for corporate loans also fell as a result of declining investment in fixed assets. According to the BLS, banks expect demand for corporate loans to remain broadly unchanged in the first quarter of 2024.

Short news

2/14 ESG ratings - Council and Parliament reach agreement: The Council and European Parliament reached a **provisional agreement** on a proposal for a regulation on environmental, social, and governance (ESG) rating activities, which aims to boost investor confidence in sustainable products.

2/12 SRB MREL dashboard for Q3 2023: The Single Resolution Board (SRB) published its Minimum requirement for own funds and eligible liabilities **(MREL) dashboard for Q3 2023**. The dashboard presents the evolution of MREL targets and shortfalls for resolution and non-resolution entities as well as the level and composition of resources of resolution entities in the quarter.

2/9 What to expect for sustainable finance in 2024: 2023 was not a stellar year for some segments of the sustainable finance market, writes **The Banker**. After 2 years of mild growth, will 2024 see sustainable finance turn a corner, or will geopolitics and a lack of 'courage' among investors continue to dampen uptake?

2/9 The state of cybercrime in the financial sector: Digital innovation continues to accelerate, but modernization also offers a fertile breeding ground for cybercriminals. In this **article**, Finextra discusses the most common cyberattacks threatening the financial sector, the impact of attacks on financial institutions and banks, as well as the biggest cyber breaches over the past year.

2/8 Agreement on postponing adoption deadlines for certain ESRS: The **European Commission** welcomes the political agreement between the European Parliament and the Council on the proposal to postpone by two years the deadline for adopting sector-specific European Sustainability Reporting Standards (ESRS). (see our publication **European banks: The sharpening countours of ESG disclosure** dated 30. Nov. 2023)

2/8 BVR Chief Economist Bley expects rising insolvency figures: According to a study published on 8 February, the Federal Association of German Cooperative Banks (BVR) expects the number of corporate insolvencies to rise by 7.8% year-on-year to around 19,300 cases in 2024. The number of consumer insolvencies is expected to rise by 6.5% to around 71,400 cases. (**finanzen.net**)

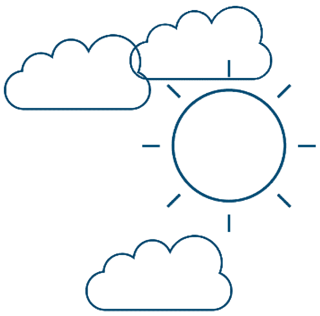
2/8 German banks plan to tighten lending standards, Bundesbank says: Financial institutions in Germany are planning to tighten their lending standards again in the current quarter, according to the Bundesbank, after having eased them in the second half of last year in a wide range of areas, with the exception of the real estate sector. These are the findings of the Bundesbank's **Bank Lending Survey** (BLS) published today. The weak economic environment and stricter regulatory requirements on sustainability were cited as reasons. For the current first quarter, banks expect demand for corporate loans to remain largely unchanged. However, demand for residential mortgages is expected to pick up.

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

E-STOXX 600 Banks	168	0.37%	2.85%	iBoxx €Cov. Germany	28.7	1.4	3.2	iTraxx Senior Financial	68.2	-3.5	-4.4
10Yr-Yield	2.35	0.05	0.08	iBoxx €Cov. Bonds	36.2	0.2	0.2	iBoxx €Supranational	30.1	-0.1	1.8
Swap 10J	2.69	-0.01	0.00	iBoxx €Banks PS	84.1	0.6	-9.8	iBoxx €Agencies	15.3	0.6	0.2
iBoxx €Germany	-24.26	1.92	1.76	iBoxx Banks NPS	106.2	-1.9	-13.0	iBoxx €Sub-Sov. Germany	22.0	0.4	1.2
iBoxx €EU	37.02	-0.47	2.59	iBoxx Banks Subordinated	171.8	-1.1	-13.5	iBoxx €Sub-Sovereign	37.7	0.0	1.0

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

Leisure tip for the weekend: Mathildenhöhe Darmstadt



The Mathildenhöhe in Darmstadt is an artists' colony founded at the end of the 19th century. Today it is an important cultural and historical site that attracts visitors from all over the world. The artists' colony was built on a hill named after the Grand Duchess Mathilde of Hesse-Darmstadt. A wide range of cultural events take place here every year. You can find out more about the history and development of the Artists' Colony at the Artists' Colony Museum. The museum has a collection of art and furniture from the Art Nouveau period.

Find out more: **Mathildenhöhe**

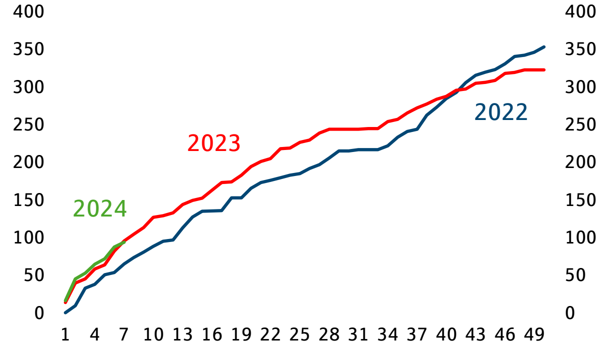
Do you have ideas for leisure tips? We would be happy to receive your suggestions at **research@helaba.de**.

Sources: www.traveloptimizer.de/www.mathildenhoehe.eu/homepage/

Chartbook SSAs, Covered Bonds, Senior Unsecured

SSAs: Primary volumes

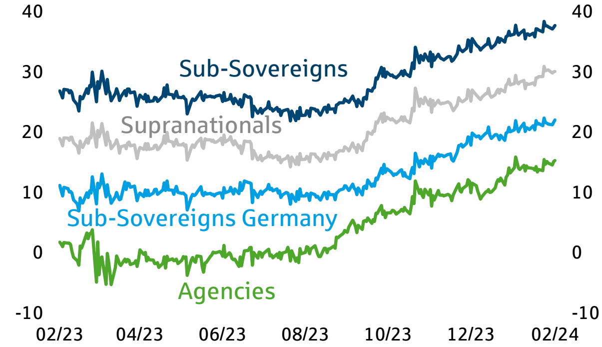
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

SSAs: Spread development

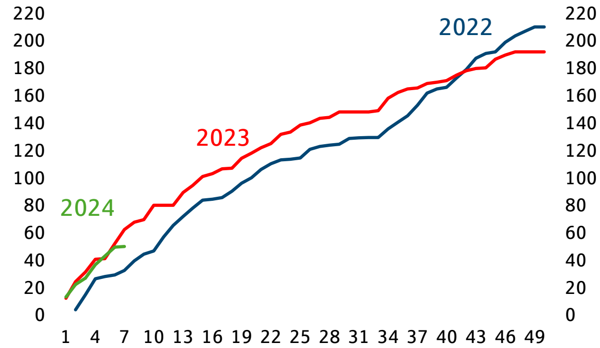
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Covered Bonds: Primary volumes

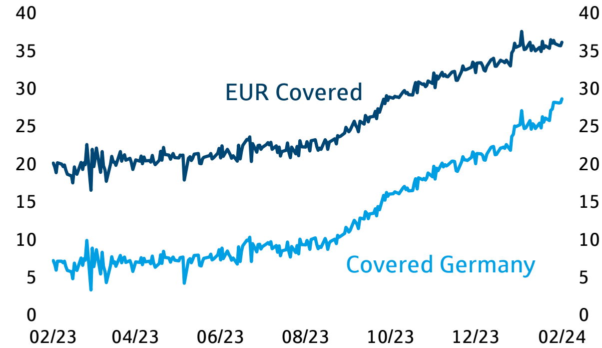
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Covered Bonds: Spread development

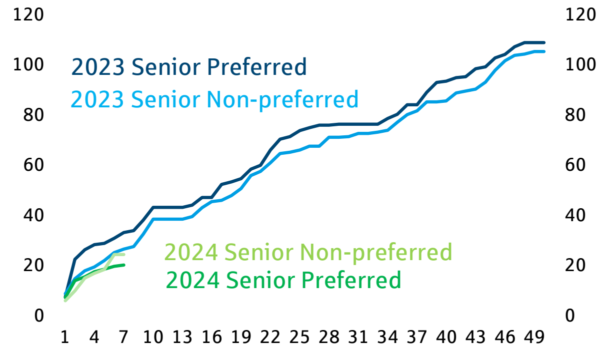
ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

Senior Unsecured: Primary volumes

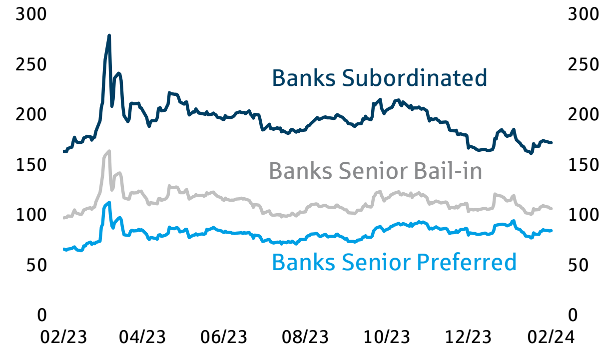
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

Senior Unsecured: Spread development

ASW spread, bp



Sources: LSEG, Helaba Research & Advisory

News from Research & Advisory

- → Focus on Credit – MayorEuropean Banks: Heading into 2024 with strong credit risk buffers
- → Focus on: Credit - Primary market update bank bonds
- → Focus on: Credit – Primary market update corporate bonds
- → Focus on: Credit – Primary market update Schuldschein
- → Focus on: Credit – European banks: The sharpening contours of ESG disclosure
- → Markets & Trends 2024 – Global economy in a transition game

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