

Focus on: Credits

9 January 2023



Primary market update EUR benchmark bank bonds: Q4 2022

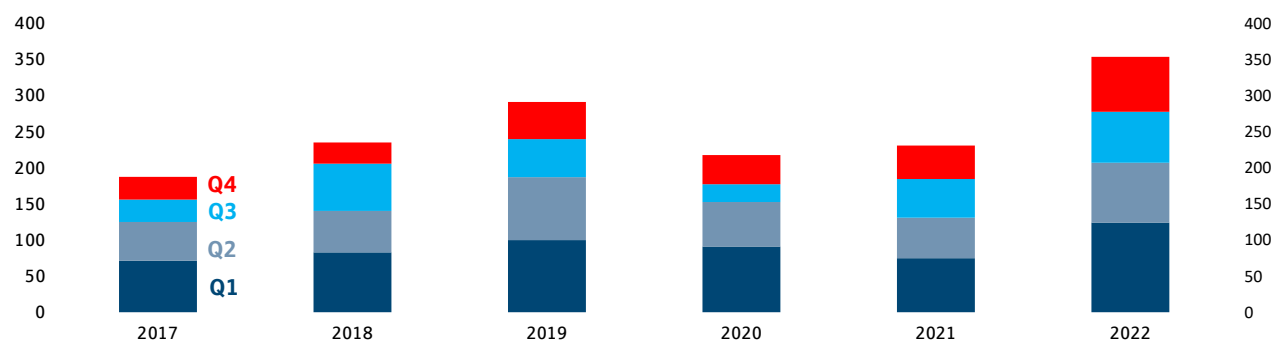
sk/ In the fourth quarter of 2022, the total volume of **euro-denominated senior unsecured bank bonds** reached a new record level of EUR 45 billion, which was almost 70 % higher than the same period of the previous year and more than twice as much as the Q4 average of the past six years. Overall, 2022 turned out to be an extraordinary year with a primary market volume of EUR 181 billion, outperforming 2021 by around 30 % and even the previous record year of 2019 by 14 %. In our view, activity was primarily fuelled by an elevated level of maturities, regulatory requirements for total bail in capital and prefinancing amid a backdrop of widening credit spreads as well as a declining supply of liquidity from central banks. At the same time, demand for credit from corporate clients, in particular, remained stable at a high level. As in the prior year, the share of regulatory driven non-preferred issues amounted to 60 %.

For 2023, our expectation is that issuance will once again amount to around EUR 180 billion. While we assume there will be a slight increase in senior preferred issues of 10 % year-on-year to EUR 80 billion, we expect non-preferred issuance to decline by 6 % to EUR 100 billion. In line with our projections, activity this year will **mainly be driven by a sustained high level of maturities**. Furthermore, TLTRO redemptions (see our [Credit Weekly of 24 November 2022](#)) as well as relatively tighter spreads would support refinancing in the senior preferred segment. At the same time, the regulatory framework will continue to act as a catalyst for senior non-preferred issuance. Limiting factors include prefinancing already concluded in 2022 as well as a generally weaker economic environment. The latter would suggest a lower level of new lending, especially among corporate borrowers, while customer deposits may also shrink due to the high cost of living. In a market that remains beset by crises and volatility, the key challenge is to get the timing right. Just as in 2022, issuers will eagerly take advantage of any available windows for issuance, even in the face of higher spread levels.

cs/ 2022 saw benchmark covered bond issuance reach an **unprecedented volume of EUR 210 billion**. This record-breaking performance was achieved despite a whole host of negative factors: rising interest rates, concerns about the economy and inflation, the war in Ukraine and dramatic increases in energy prices, all of which made for a challenging market environment for issuers. As a consequence, they were forced to accept higher new issue premiums, notably in the second half of the year. In terms of maturities, issues were dominated by the 3 to 5-year range with around 34 % of issuance in this segment. A total volume of EUR 19.1 billion in ESG-related notes were placed last year. That represents a lower share of bonds with ESG features as a proportion of total issuance compared to the previous year. A volume of EUR 126 billion in covered bonds is due to mature **in 2023**. Additionally, in view of the prevailing risk factors, demand for safe assets will remain strong. **For the year as a whole, we forecast a new issuance volume of EUR 160 billion.** This expectation of lower issuance activity is due to a combination of lower maturities compared to last year, issues already completed in 2022 (pull-forward effects) and the gradual phasing out of the ECB's purchase programmes.

EUR benchmark* issues Q4 2022: The icing on the cake of a strong year

EUR billions (fixed rate, covered and senior unsecured benchmark issuance)



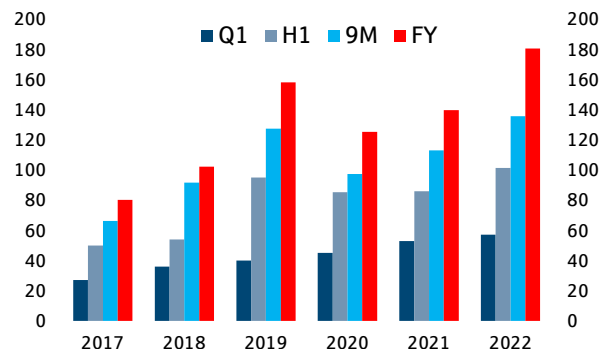
*issuance volume of at least EUR 500 million

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

1. Senior unsecured bonds with fixed coupons

Q4 2022: The culmination of a record-breaking year

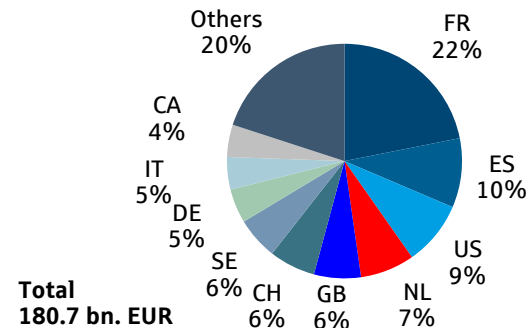
EUR billions (cumulative benchmark issuance volume)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

French banks exceptionally active

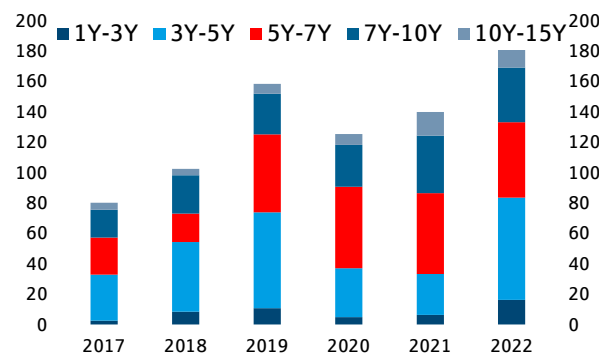
EUR billions (benchmark issuance volume by country, FY 2022)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Share of shorter maturities noticeably higher

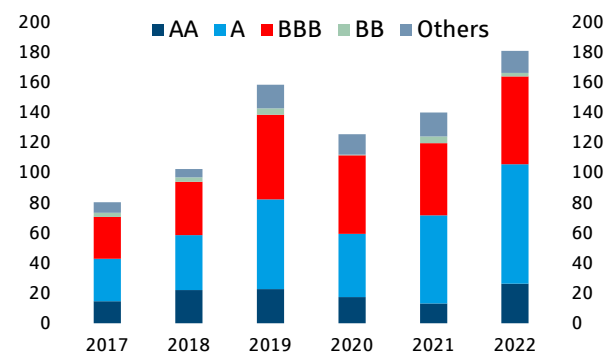
EUR billions (benchmark issuance volume by maturity)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Overall tendency towards more positive ratings

EUR billions (benchmark issuance volume by rating*)

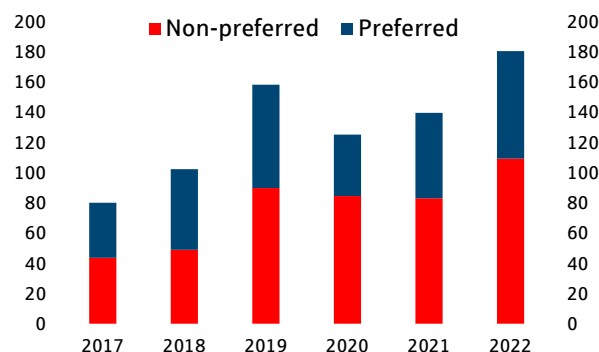


*Moody's rating at time of issuance

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Share of non-preferred issues at 61 %

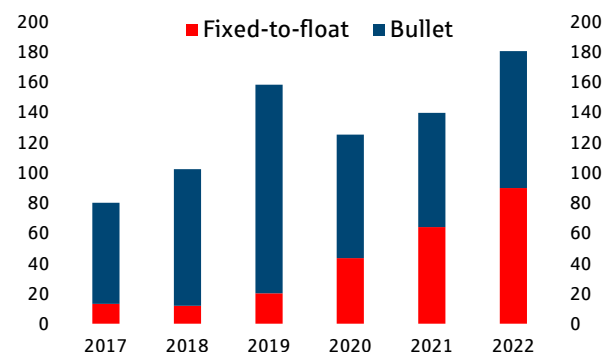
EUR billions (benchmark issuance volume by payment rank)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Preference for regulatory call option

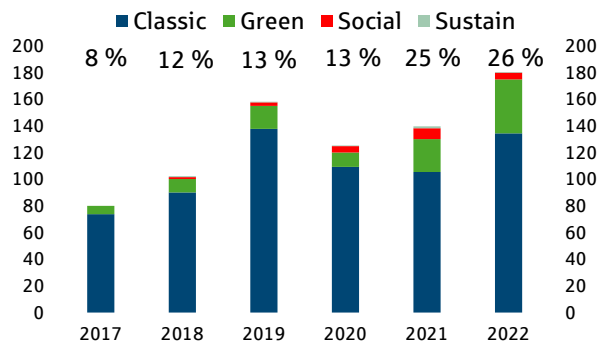
EUR billions (benchmark issuance volume by maturity type)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Sustainable notes account for 26 % of total issuance

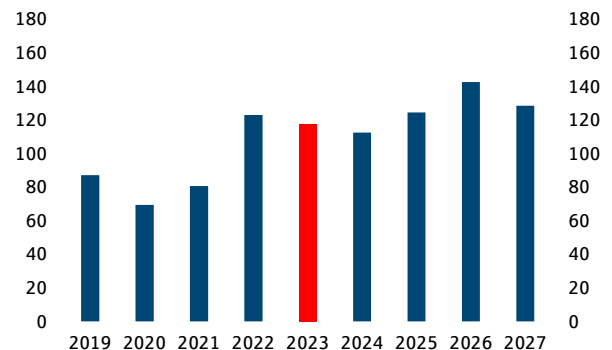
EUR billions (benchmark issuance volume by ESG instrument indicator)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

High level of maturities due in 2023*

EUR billions (benchmark maturity volumes)



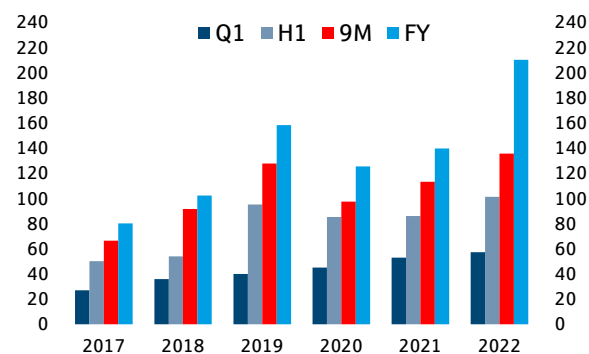
*slight deviation from new issues

Sources: Bloomberg, Helaba Research & Advisory

2. Covered bonds with fixed coupons

Issuance volume breaks all previous records in 2022

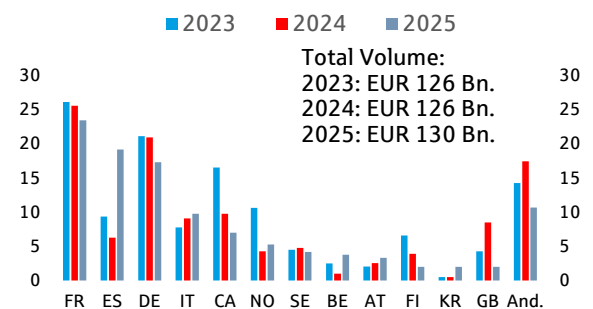
EUR billions (cumulative benchmark issuance volume)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Maturities remain high in 2023

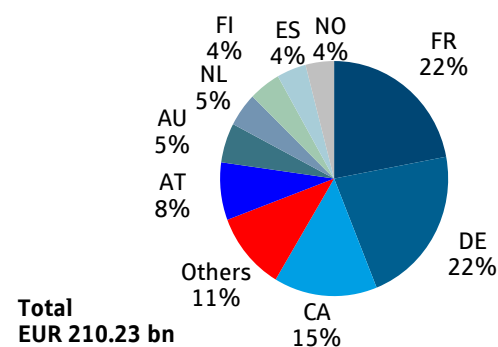
EUR billions (benchmark maturity volumes by country)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

France just pips Germany to the post

% (of benchmark issuance volume by country, FY 2022)

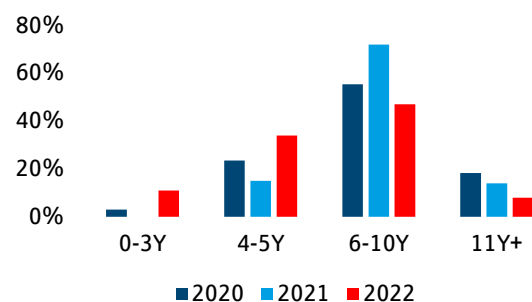


Total
EUR 210.23 bn

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Average maturity in decline

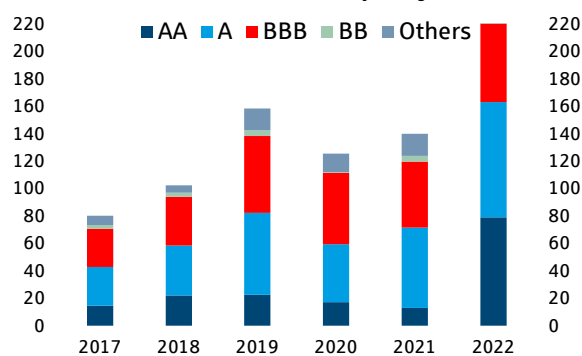
% (of benchmark issuance volume by maturity, FY 2022)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Clear trend towards “AA” and “A” ratings

EUR billions (benchmark issuance volume by rating*)

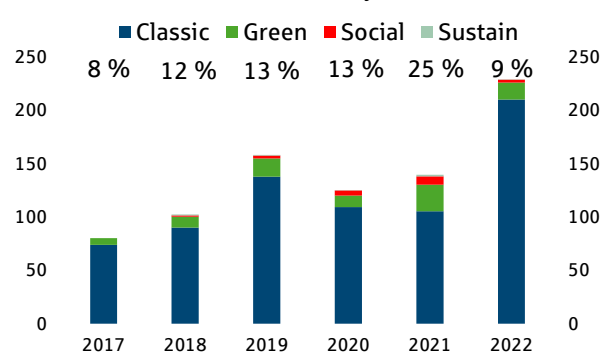


*Moody's rating at time of issuance

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Sustainable covered bonds: Zero growth

EUR billions (benchmark issuance volume by ESG instrument indicator)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

3. ECB's targeted longer-term refinancing operations

TLTRO III: Relatively limited use of repayment options

Overview of ECB's targeted longer-term refinancing operations

	Allocation	Settlement	Earliest voluntary repayment (settlement)	Maturity	Allocated amount (EUR bn)	Outstanding amount (EUR bn)
TLTRO-III.3	19.03.2020	25.03.2020	29.09.2021	29.03.2023	115.0	39.1
TLTRO-III.4	18.06.2020	24.06.2020	29.09.2021	28.06.2023	1.308.4	631.2
TLTRO-III.5	24.09.2020	30.09.2020	29.09.2021	27.09.2023	174.5	94.4
TLTRO-III.6	10.12.2020	16.12.2020	22.12.2021	20.12.2023	50.4	46.5
TLTRO-III.7	18.03.2021	24.03.2021	30.03.2022	27.03.2024	330.5	293.7
TLTRO-III.8	17.06.2021	24.06.2021	29.06.2022	26.06.2024	109.8	77.0
TLTRO-III.9	23.09.2021	29.09.2021	29.06.2022	25.09.2024	97.6	91.2
TLTRO-III.10	16.12.2021	22.12.2021	29.06.2022	18.12.2024	51.9	44.5

Sources: Deutsche Bundesbank Eurosystem, [ECB Eurosystem](#), Bloomberg, Helaba Research & Advisory



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