

Focus on: Credit

6 April 2023



Primary market update EUR benchmark bank bonds: Q1 2023

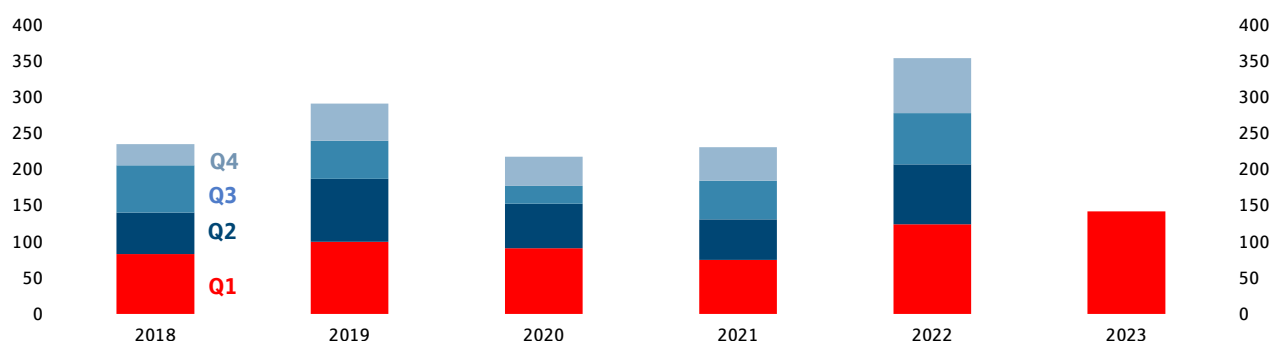
sk/ From 1 January to 9 March 2023, total issuance of **euro-denominated senior unsecured benchmark bank bonds** amounted to around EUR 69 billion, thereby outstripping the previous record volume set in Q1 2022 by a further 20 %. However, as a result of the ensuing turmoil in the banking sector, activity came to a complete standstill on 10 March 2023 and there was no further issuance of senior unsecured benchmark notes by banks. Our analysis indicates that the **exceptionally buoyant issuance in the first ten weeks of the year** was mainly driven by the high level of maturities, regulatory requirements for total liable capital and pre-financing transactions amid an environment of widening credit spreads as well as the diminished level of liquidity provided by central banks. The share of non-preferred bonds as a proportion of new issuance that are required by regulations fell somewhat compared to FY 2022, although it still reached a high level of 53 %. The modest proportional shift towards preferred issuance was in line with our expectations. In our view, TLTRO redemptions as well as comparatively tighter spreads were conducive to senior preferred funding (see our [Primary Market Update for Bank Bonds](#) of 5 January 2023).

Given the volume already placed, for the time being we stand by our forecast for **2023 as a whole** that issuance will exceed 2022 and amount to **around EUR 180 billion**, despite the market having temporarily ground to a halt. Recently, the turbulence has eased off and our assumption is that, provided stability is maintained, activity on the primary market resumes on the back of the catalysts mentioned above. Getting the timing right will remain a challenge in a market environment still marked by volatility. As was the case in 2022, issuers will take full advantage of any openings in the market, despite elevated spread levels.

cs/ A new record was set in 2022 for covered bond issuance and the momentum continued into the first quarter of 2023, which saw a placement volume of approx. EUR 89 billion. There was a multitude of reasons for this. While a number of adverse factors persisted, such as concerns over economic growth and inflation, the recent spate of bank failures also contributed to greater risk aversion and consequently to a flight into safe haven assets. In January, a large number of maturing bonds were refinanced and, in anticipation of the ECB's exit from its CBPP3 purchase programme, scheduled transactions were brought forward. The dominant maturity was in the 4 to 5-year range, with roughly 44 % of issues in this segment. However, issues faced a challenge with longer maturities from 6 years and upwards. In terms of countries, France came out on top, while Spain's EUR 15.5 billion in total issuance was remarkable for its high share. Germany was close behind at EUR 14.5 billion. So far in 2023, around EUR 7 billion in ESG-linked notes has been placed. Overall, we assume that the deluge in new issuance will slow down as the year progresses. However, we adhere to our **forecast for FY 2023 of EUR 160 billion** in total covered bond issuance.

EUR Benchmark* issues in Q1 2023: A record-breaking quarter

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



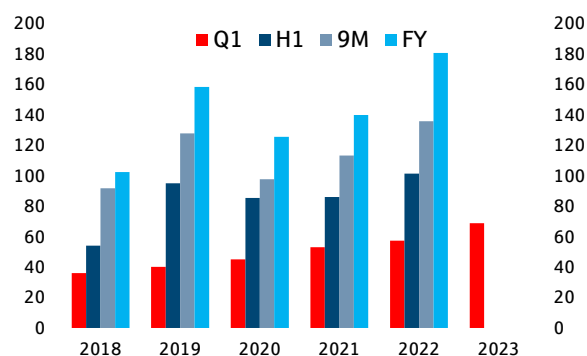
*issuance volume of at least EUR 500 million

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

1. Senior unsecured bonds with fixed coupons

Q1 2023: Year gets off to a strong start

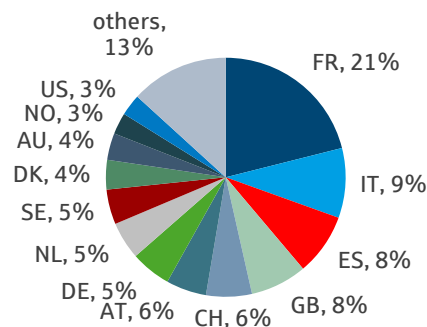
EUR billions (cumulative benchmark issuance volume)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Particularly buoyant activity by French banks

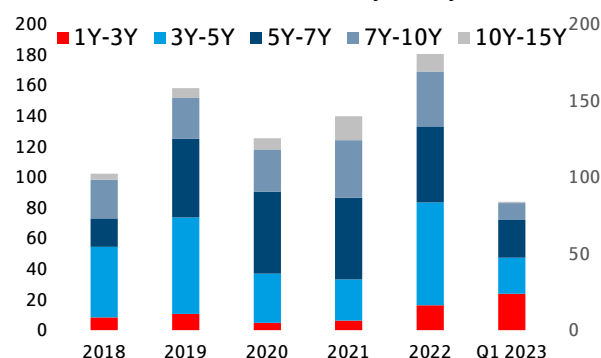
EUR billions (benchmark issuance volume by country, Q1 2023)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Short maturities highly sought after

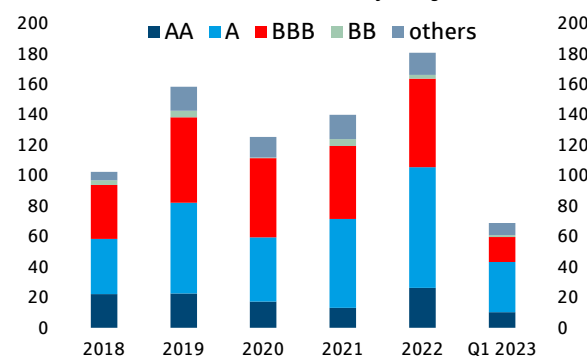
EUR billions (benchmark issuance volume by maturity)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Positive trend in rating mix persists

EUR billions (benchmark issuance volume by rating*)

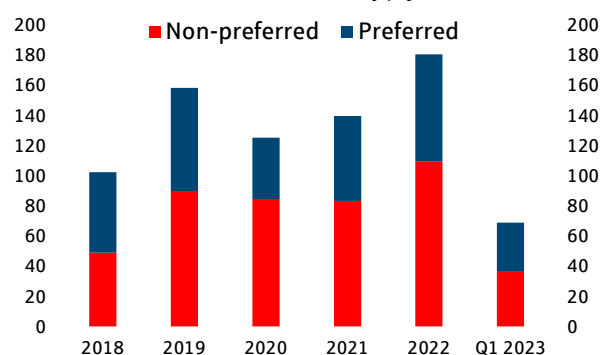


*Moody's rating at time of issuance

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Share of non-preferred issues reaches 53 %

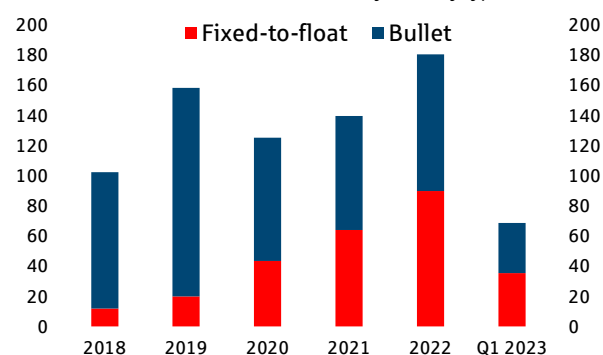
EUR billions (benchmark issuance volume by payment rank)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Preference for regulatory call option

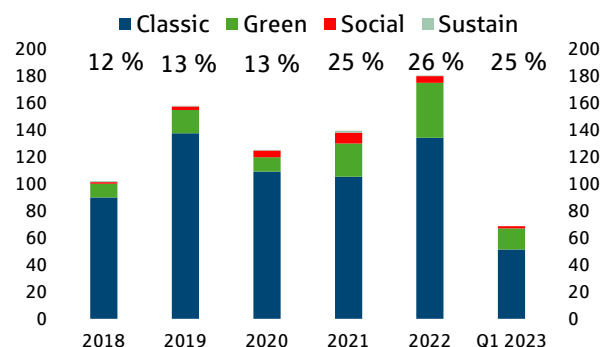
EUR billions (benchmark issuance volume by maturity type)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

ESG-linked placements at 25 % of total issuance

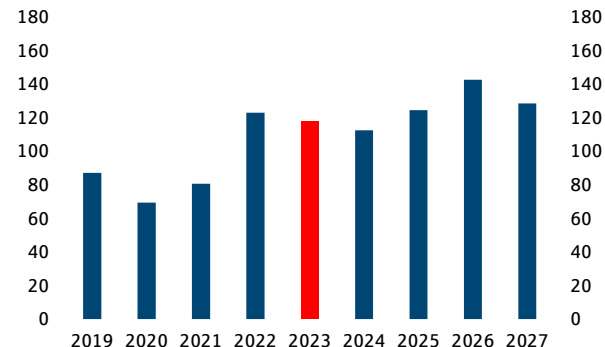
EUR billions (benchmark issuance volume by ESG instrument indicator)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

2023 to once again see high level of maturities*

EUR billions (benchmark maturity volumes)



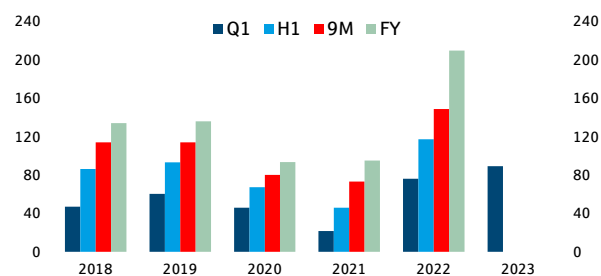
*slight deviation from new issues

Sources: Bloomberg, Helaba Research & Advisory

2. Covered bonds with fixed coupons

Momentum remains strong

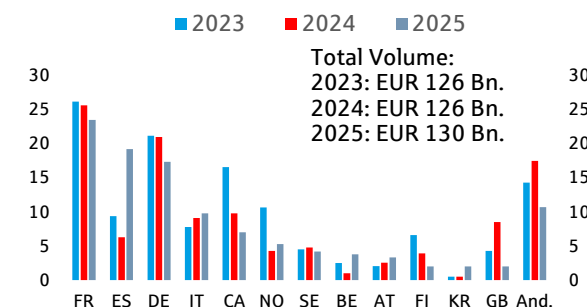
EUR billions (cumulative benchmark issuance volume)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Maturities in 2023 remain on a high level

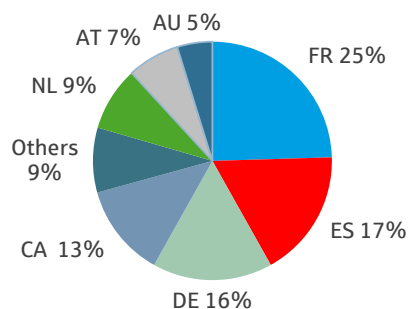
EUR billions (benchmark maturity volumes by country)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

France retains its top spot

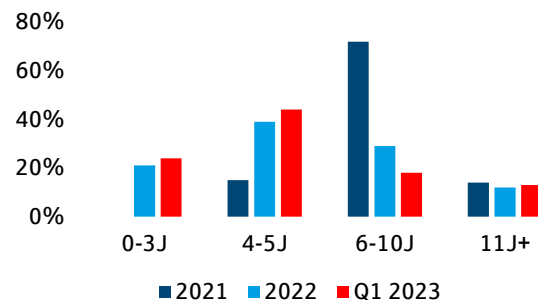
% (of benchmark issuance volume by country, Q1 2023)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

Mid-range maturities especially popular

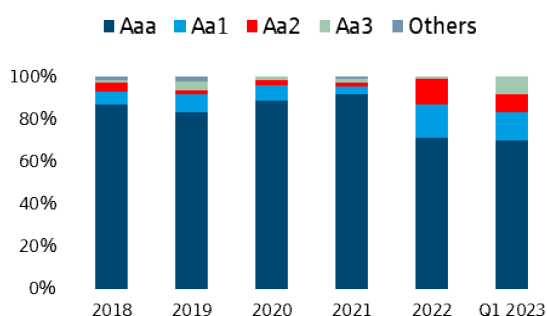
% (of benchmark issuance volume by maturity)



Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

"AAA"-rated notes on around same level as 2022

EUR billions (benchmark issuance volume by rating*)

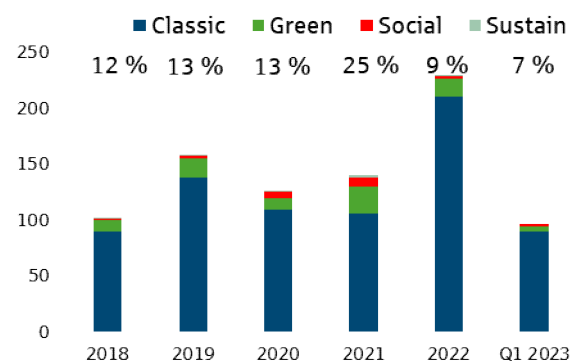


*Moody's rating at time of issuance

Sources: Bloomberg, Helaba DCM, Helaba Research & Advisory

ESG covered bonds: A promising start

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: Portfolios are being reduced

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.4	18.06.2020	24.06.2020	29.09.2021	28.06.2023	1.308,4	476,8
TLTRO-III.5	24.09.2020	30.09.2020	29.09.2021	27.09.2023	174,5	83,8
TLTRO-III.6	10.12.2020	16.12.2020	22.12.2021	20.12.2023	50,4	45,5
TLTRO-III.7	18.03.2021	24.03.2021	30.03.2022	27.03.2024	330,5	284,3
TLTRO-III.8	17.06.2021	24.06.2021	29.06.2022	26.06.2024	109,8	73,3
TLTRO-III.9	23.09.2021	29.09.2021	29.06.2022	25.09.2024	97,6	90,9
TLTRO-III.10	16.12.2021	22.12.2021	29.06.2022	18.12.2024	51,9	43,9

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



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