

# Focus on: SSA & Financials

## 14 July 2022



## Weekly Market Update



**Primary market environment:** The general conditions have changed little recently. Market volatility remains high for many assets. In view of the fact that prices are continuing to rise in many places, fears of inflation persist. It remains to be seen to what extent the ECB's interest rate decision next week will ease the situation.

### Primary market barometer

#### SSA



The SSA segment is still in vogue, especially as the search for security continues and the attractiveness vs. Bunds endures. Not surprisingly, the EU was again successful in placing a dual tranche. As usual, demand clearly outstripped supply.

#### Covered Bonds



Covered bond spreads are likely to trend sideways in the near future. Market participants are increasingly taking their leave for the summer break, the ECB's reinvestment policy is continuing and demand from end investors is weakening.

#### Senior Unsecured



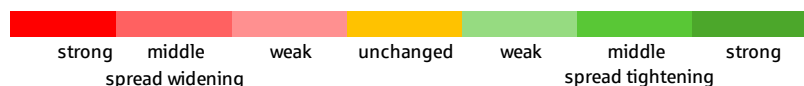
The primary market for senior unsecured bank bonds has ground to a halt. The difficult market environment is compounded by the blackout period due to the reporting season for Q2 2022 and the upcoming summer break.

Sources: Helaba Research & Advisory

### Risk aversion still dominates

Spread trend indicator\*, ASWspread change versus ...

IBOXX EURO	1 day	1 week	4 week	13 weeks	52 weeks	104 weeks
Germany	0,05	0,10	-0,53	-0,47	-2,63	-3,40
European Union	0,07	0,39	-0,06	0,80	0,15	-0,28
Germany Covered	0,12	0,51	0,53	0,65	0,65	-0,27
EU Covered	0,03	0,12	0,15	0,21	0,24	-0,02
Banks senior preferred	0,09	-0,50	-0,07	1,81	2,26	0,70
Banks senior bail-in (SNP)	0,13	-0,44	-0,09	1,60	2,29	0,67
Banks subordinated	0,02	-0,13	0,34	1,50	2,09	0,83
Supranational	0,07	0,34	0,07	0,70	0,10	-0,09
Agencies	0,04	0,12	-0,06	0,13	-0,67	-0,97
Sub-Sovereigns Germany	0,09	0,31	0,23	0,02	-0,91	-1,33
Sub-Sovereigns	0,09	0,30	0,27	0,53	-0,23	-0,91



\*ASW levels standardized and 2T-smoothed, since 14.2.22 changed calculation of ASW levels by Markit.

Sources: Refinitiv, Helaba Research & Advisory

As in the recent past, financial market participants continue to prefer the risk-off mode. The play of colours of our spread indicator underpins this impressively. Major points of interest during the banks' ongoing reporting season could be both the economic outlook and the interest rate environment.



## SSA

The SSA segment continues to exert a certain attraction at present. The reasons for this are obvious: safe investments coupled with a yield advantage over Bunds are attractive for investors. However, it is important to take a closer look at this week's new issues. The EU's dual tranche, a new issue of EUR 5 billion and a tap of the tranche maturing in 2041, was oversubscribed by 6.6 and 9.3 times, respectively, and tightened by 2 bps compared to the initial spread target. The spread premium vs. EU Bunds Dec. 2029 was approx. 81 bp. The deal of the Asian Development Bank, on the other hand, went through with somewhat more difficulty: on the one hand, a new issue premium of 6 bp had to be accepted, and on the other hand, no tightening took place. All in all, the relevant spreads vs. mid-swap continue to trade at historically narrow levels, while the spread over government bonds is exceptionally high. **Outlook:** The relatively low turnover due to the summer holidays is likely to continue until the end of August. In addition, the upcoming ECB meeting is likely to cast its shadow. If at all, issuing activity can probably only be expected on Monday or Tuesday.

### €-SSA-Issues week of 11 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
1,625%	EU	Aaa /AA/AAA	5,000bn		04.12.2029	ms -11 bps		12.07.2022	33,000bn	ms - 9 area
0,450%	EU	Aaa /AA/AAA	3,000bn	✓	04.07.2041	ms +24 bps		12.07.2022	28,000bn	ms + 26 area
1,625%	Eurofima	Aa2 /AA/-	0,500bn		20.07.2027	ms +8 bps	✓	13.07.2022	0,800bn	ms + 10 area

Sources: Bloomberg, Helaba DCM



## Covered Bonds

After a relatively dynamic first half-year, the momentum on the primary market is currently noticeably waning. This should not be attributed solely to the summer break. In the run-up to the harmonisation of EU regulations for covered bonds, which came into force on 8 July, there were pull-forward effects. Just

*"We are seeing a certain calming on the secondary market this week. The spreads of covered bonds from the core countries are stabilising and even longer maturities are finding occasional buyers again. This can be seen well in the recently raised 15Y Dt. Bank, which came in at +24 and is now trading +20/+18. The only German issue this week, the Dekabank 10Y at +9, was also very well received and is now trading a good basis point tighter."*

*Assessments from the Helaba trading room*

in time before the deadline, Spain, where there was a great need for adjustment, managed to implement the directive. Initial assessments by the rating agencies of the country's new legal framework tend to be positive, so there should be room for a rating improvement in the future. In addition to harmonisation, the recent increase in refinancing costs has also led to pull-forward effects. However, a lower volume of new issues does not necessarily have to be a disadvantage. The markets are currently benefiting from this, spreads are declining somewhat.

Two covered bonds were issued this week: On the one hand, Dekabank came out with a sub-benchmark (see trader quote), on the other hand, Korea Housing entered the primary market stage (4Y, 500 m at +40). The latter led to repricing in the last two days. Despite a defensive maturity of 4 years, an ESG-compliant use of funds and a spread premium of 40 bps over mid-swap fixed from the opening of the book, KHFC was unable to develop any order book momentum and achieved only a wafer-thin oversubscription of the targeted issue volume at the close of the book. The new issue premium here is in the double-digit range between 10 and 15 bp. It should also be noted that in the week ending 8 July, the bond holdings of the Eurosystem central banks under APP and PEPP were reduced more significantly by EUR 6.6 billion than before (EUR 0.2 billion). Meanwhile, the covered bond holdings were further increased by EUR 285 million. **Outlook:** Due to the summer break, fewer new issues are expected in the coming weeks. Accordingly, covered bond spreads should tend to move sideways.

## €-Covered Bond-Issues week of 11 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,125%	Dekabank	Aaa /-/-	0,250bn		19.07.2032	ms +9 bps		11.07.2022	0,600bn	ms + 13 area
1,963%	Korea Housing Finance Corpor	- /AAA/-	0,500bn		19.07.2026	ms +40 bps		11.07.2022	0,560bn	ms + 40 bp #

Sources: Bloomberg, Helaba DCM

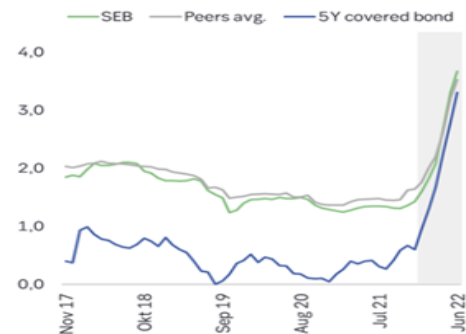


## Senior Unsecured

There are still almost no transactions on the primary market for senior unsecured bank bonds. The extremely volatile market environment determined by recession fears is weighing on the market. In particular, concerns about future gas supplies from Russia following the maintenance of the Nord Stream 1 pipeline dominate the headlines. The news from Spain on Tuesday that an additional levy for banks (and energy companies) is planned there for the next two years also weighed on sentiment. On top of that, there is the beginning of the vacation season and the blackout period due to the ongoing reporting for the 2nd quarter of 2022.

## Example Sweden: Mortgage rates driven upwards by rising funding costs

Monthly average 5Y new lending mortgage rates, %



\*Peers: Swedbank, Handelsbanken, Nordea, SBAB, Länsförsäkringar  
Quellen: SEB, Helaba Research & Advisory

**Outlook:** Most banks have not yet completed their issuance plans for this year. In the current market environment, they are postponing planned transactions and hoping for an easing after the vacations in September. In the upcoming week, it will be particularly tense on Thursday, when the ECB decides on its interest rate steps and the maintenance work on Nord Stream 1 is expected to be completed, thus showing whether or to what extent gas deliveries from Russia will resume. Furthermore, the Q2 2022 bank reporting season is getting into full swing, so we will get their assessment of how the changed economic environment will be reflected in bank balance sheets. Overall, in line with our expectation, no significant pickup in the primary market is expected in the senior unsecured segment next week.

*"Recession fears and signs are becoming more entrenched, causing the markets to react in a very tense manner. The iTraxx indices narrowed on a weekly basis due to the bear market rally. However, the last few days with the clouding sentiment widening again. The trading desks of the banks drive low risk before the summer, which could be seen in the spread rally driven by illiquidity."*

Assessments from the Helaba trading room

## €-Senior Preferred-Issues week of 11 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
6,000%	Nova Ljubljanska banka d.d.	- /BBB/-	0,300bn		19.07.2025	ms +483 bps		12.07.2022	0,390bn	6% area

Sources: Bloomberg, Helaba DCM

## €-Senior Non-Preferred-Issues week of 11 July 2022

Coupon	Issuer	Rating (M/S&P/F)	Volume €	Tap	Maturity	Launch-Spread vs. Mid-Swaps	ESG	Launch	Orderbook	1st Spread-Indication
2,750%	UBS Group AG	- /A-/A+	1000bn		15.06.2027	ms +115 bps		07.06.2022	1900bn	ms + 130-135 bp

Sources: Bloomberg, Helaba DCM

## Reporting dates of selected banks

Bank	Date
Wells Fargo	07/15
Citigroup	07/15
Svenska Handelsbanken	07/15
Bank of America	07/18
Goldman Sachs Group	07/18
Nordea Bank	07/18
Swedbank	07/19
BAWAG Group	07/21
Bankinter	07/21

Sources: Bloomberg, Helaba Research & Advisory



## Short news

**7/13 Bank recovery and resolution management:** The European Union's Single Resolution Board, the authority that deals with failing banks, will ramp up pressure on lenders to boost their capital levels so that none of them will remain "too big to fail" by January 2024, [Reuters](#) reported.

**7/13 Covered Bonds/Regulatory treatment:** European covered bonds will have to comply with the legislative package harmonising the EU covered bond framework (EU Covered Bond Directive and updated Article 129 of the Capital Requirements Regulation [CRR]) from 8 July 2022 or risk losing their preferential regulatory treatment, according to [S&P](#).

**7/13 Bleak earnings outlook for cooperative banks:** Germany's cooperative banks expect worse results this year compared to 2021, when they made a cumulative pretax profit of €10.5 billion, mainly due to the rise in interest rates and the weakening economy, [Handelsblatt](#) wrote, citing Andreas Martin, board member of the Association of German Volksbanken and Raiffeisenbanken.

**7/13 Spain with new tax on banks:** Spain will impose new taxes on large banks and energy companies to fund policies to ease the impact of record inflation on consumers as reported by [Bloomberg](#). The levies on both financial institutions and energy firms will last for two years.

**7/12 ECB survey on possible gas supply freeze:** According to the [Börsen-Zeitung](#), the ECB has asked major banks to analyze the impact of a gas supply freeze on their loan portfolios.

**7/11 EU-Taxonomy/Minimum Safeguards:** The Platform on Sustainable Finance seeks [public feedback](#) on its draft report on minimum safeguards until 22 August. The minimum safeguards set out in Article 18 of the Taxonomy Regulation require that companies implement procedures to comply with OECD Guidelines for multinational enterprises and the UN guiding principles on business and human rights. The Platform report aims to provide advice on how compliance with minimum safeguards could be assessed. The Platform's advice will feed into Commission work on the usability of the EU Taxonomy.

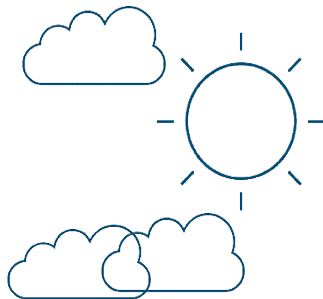
**6/8 Climate stress test:** The ECB supervisory authority has presented the [results of the climate stress test](#). Unsurprisingly, despite the progress made, it criticizes extensive shortcomings in the implementation of climate stress tests (see our publication "[European banks: Climate risk stress test highlights need for further action](#)" dated 11 July 2022).

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

E-STOXX 600 Banken	121	0,98%	-6,63%	iBoxx € Cov. Germany*	7,0	5,4	7,2	iTraxx Senior Financial	128,8	-2,2	9,6
10J-Rendite	1,15	-0,01	-0,50	iBoxx € Cov. Bonds*	15,0	5,6	8,2	iBoxx € Supranational	5,8	5,75	4,01
Swap 10J	1,96	-0,05	-0,49	iBoxx € Banks PS	87,1	-8,2	3,0	iBoxx € Agencies	-10,7	3,59	3,29
iBoxx € Germany	-73,4	1,99	-3,06	iBoxx Banks NPS	129,3	-9,2	2,9	iBoxx € Sub-Sov. Germany	6,7	6,10	6,58
iBoxx € EU	5,5	6,21	2,81	iBoxx Banks Subordinated	241,9	-7,6	25,6	iBoxx € Sub-Sovereign	20,6	5,37	6,75

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

**Leisure tip for the weekend: DomStufen Festival in Erfurt**



Every summer, Erfurt hosts the DomStufen Festival. The 70 steps of the historic cathedral and the Severi Church are transformed into an opera and musical stage. This year, visitors can look forward to the opera **Nabucco** by Verdi. Located in the middle of Erfurt's historic city center, the festival has been attracting hundreds of thousands of visitors from many countries around the world for years. From July 15, 2022 to August 07, 2022, a number of other productions and world premieres will be staged. The schedule can be viewed via the link below. **Helaba** has been a major sponsor since 1994.

More information: [DomStufen Festival](#)

Do you have ideas for leisure tips? We would be happy to receive your suggestions at [research@helaba.de](mailto:research@helaba.de).  
Source: <https://www.domstufen-festspiele.de/>

**GlobalCapital Covered Bond Awards 2022**

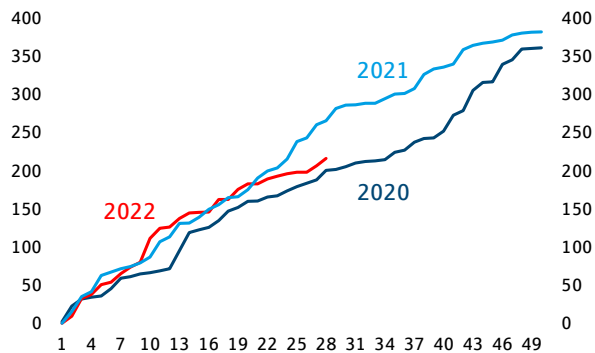
**Take part in the voting for this year's "Global Capital Covered Bond Awards" by 5 August!**

**Votes for Helaba in the categories "Deal of the Year" and "Best Bank for Distribution" via this [link](#) would be very much appreciated.**

## Chartbook SSA, Covered Bonds, Senior Unsecured

### SSA: Primary volumes

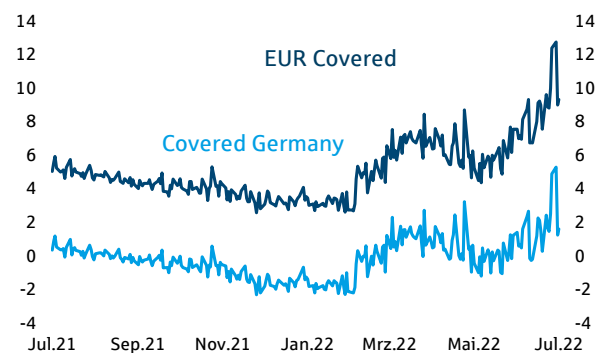
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

### SSA: Spread development

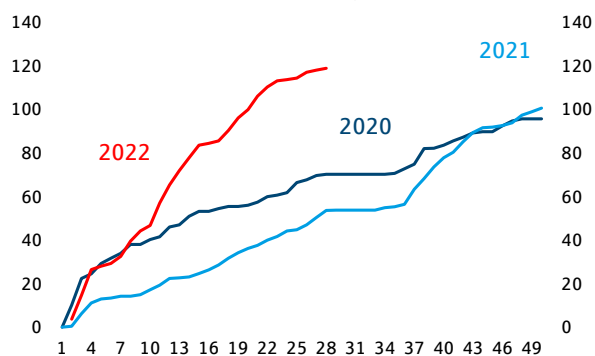
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

### Covered Primary volumes

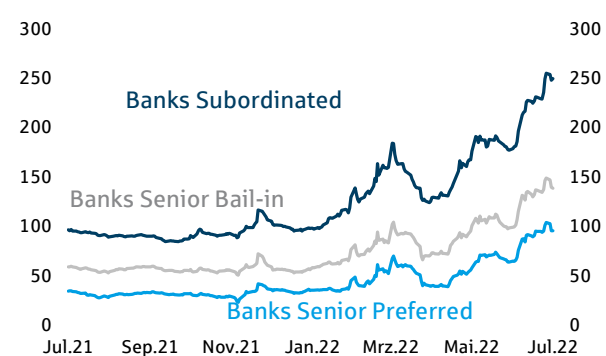
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

### Covered Bonds: Spread development

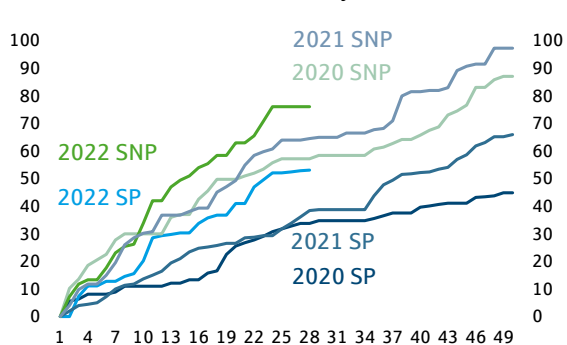
ASW in bp



Sources: Bloomberg, Helaba Research & Advisory

### Senior Primary volumes

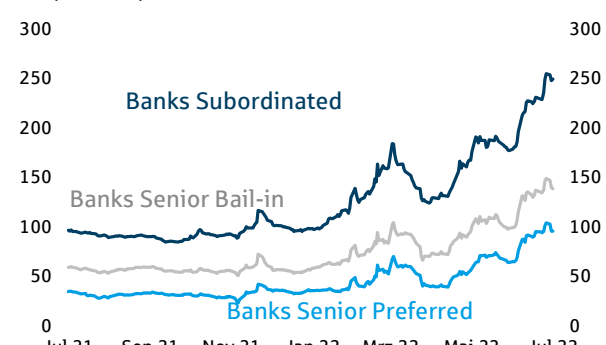
EUR benchmark issue volume cumulative by weeks, bn EUR



Sources: Bloomberg, Helaba Research & Advisory

### Senior Unsecured: Spread development

ASW spread in bp



Sources: Bloomberg, Helaba Research & Advisory



## News from Research & Advisory

- **FOCUS ON: CREDITS – PRIMARY MARKET UPDATE EUR BENCHMARK BANK BONDS: Q2 2022**
- **FOCUS ON: CREDITS – EUROPEAN BANKS: CLIMATE RISK STRESS TEST HIGHLIGHTS NEED FOR FURTHER ACTION**
- **EUR CORPORATE BONDS: PRIMARY MARKET Q2 2022**
- **EUROPEAN BANKS: ACTIVITIES BECOMING EVER GREENER**
- **FOCUS ON: CREDITS - EUROPEAN BANKS: WAR IN UKRAINE CLOUDS OUTLOOK**
- **IMPLEMENTATION OF THE EU COVERED BOND DIRECTIVE: SPAIN VERSUS FRANCE AND GERMANY (VIDEO)**
- **IMPLEMENTATION OF THE EU COVERED BOND DIRECTIVE – STATE OF PLAY: AUSTRIA VERSUS FRANCE AND GERMANY (VIDEO)**
- **IMPLEMENTATION OF THE EU COVERED BOND DIRECTIVE – STATE OF PLAY IN FRANCE AND GERMANY (VIDEO)**
- **COVERED-BOND-LAWS: IMPLEMENTATION OF THE EU REGULATION (VIDEO)**

## Team of authors



Sabrina Miehs, CESGA  
Head of FI & SSA Research  
Senior Advisor Sustainable  
Finance  
T 069/91 32-48 90



Dr. Susanne Knips  
Senior Credit Analyst  
T 069/91 32-32 11



Christian Schmidt  
Covered Bond & SSA  
Analyst  
T 069/91 32-23 88

## Publisher and editorial office

Helaba Research & Advisory

Editor:

Sabrina Miehs, CESGA  
Corporate Research & Advisory

Responsible:

Dr. Gertrud R. Traud  
Chefvolkswirtin/  
Head of Research & Advisory

Neue Mainzer Str. 52-58  
60311 Frankfurt am Main  
T +49 69 / 91 32 - 20  
Internet: [www.helaba.com](http://www.helaba.com)

## Disclaimer

This publication has been prepared with the greatest care. However, it contains only non-binding analyses and forecasts of current and future market conditions. The information is based on sources which we consider to be reliable, but for whose accuracy, completeness or up-to-dateness we cannot assume any liability. All statements made in this publication are for information purposes only. They must not be understood as an offer or recommendation for investment decisions.



Here you can subscribe to our newsletter:  
<https://news.helaba.de/research/>