# Bond market takes on SSA flavour as sovereigns get active

Markets had priced in very low expectations of leaders reaching agreement at the European Council video conference on the Covid-19 recovery fund. Failure to do so didn’t therefore have much of an impact on bond spreads in Friday’s morning session. The extent of euro area peripheral widening was limited.

From a capital markets perspective, investors and market participants will welcome any broadening and deepening of ECB monetary stimulus, including via stepped-up bond-buying. Because it will most probably see the hand of the bank in more and more new-issue order books as it accelerates the PEPP and proceeds to a programme for fallen angels, having lowered its collateral standards. Talk of a European ‘bad bank’ is also doing the rounds.

A fallen-angel programme could be very timely as corporate credit quality could start to deteriorate very quickly. According to sell-side research, over half of all European investment-grade debt is already in the Triple B bucket and something approaching a quarter of a trillion euros is Triple B minus (28% of that is said to be under negative review or outlook).

The official backstop bid continues to provide encouragement to credit investors as it increases risk tolerance. Credit inflows have remained positive both in the US and Europe and in investment-grade and high-yield segments. The past week in primary bond markets saw something of a shift in the provenance of flows. From being an investment-grade, corporate-led market in recent weeks, the SSA segment held sway this week, accounting for almost 60% of the USD 149bn that had priced by the end of the London morning on 24 April.

Of that, sovereigns priced over USD 62bn as IG and EM names came to market, including Spain, Italy, Luxembourg, Hungary, Mexico, Paraguay, Guatemala, Qatar and the UAE (in the guise of Abu Dhabi). In the agency segment, the Bank of England raised USD 2bn from the US dollar market.

Italy and Spain received rapturous responses. Italy raised EUR 10bn in new five-year bonds on 21 April at BTP+21bp, and EUR 6bn from a tap of its due 25 July 2050 line at 9bp over BTPs. Both tranches tightened 6bp from guidance as combined books hit a staggering EUR 110bn. Spain’s EUR 15bn 10-year bond on 23 April (at SPGB+17bp, 5bp through initial pricing guidance) attracted demand of more than EUR 96.5bn. The other sovereign issues also saw heady demand, although not quite matching the euro area periphery duo.

Pricing bonds is always part science, part art. The art part has come to the fore in recent weeks and this was evident in pricing of the European sovereign trades. It’s clear that governments are going to have to raise enormous sums of debt to finance fiscal programmes to cushion the blow of Covid-19 impacts on their economies. When it comes to pricing bonds, issuers will always pay up for size, but at the present time, this is counterbalanced to some extent by the ECB sitting on the other side, cheque book in hand as buyer of first resort.

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Given the high degree of market uncertainty and following recent volatility, the notion of counting pricing concessions to slightly defective secondary or even recent primary in single basis points counts for less. Using that less reliable guide, syndicates pushed out levels on Spain and Italy that market participants said had 'priced to sell' all over them. But sovereigns are going to sorely need investors to stay on side as they ramp up debt issuance so now is not the time to push the envelope. Pricing forensically and pushing to the last basis point is potentially a risky syndicate strategy. This just isn't where the market is.

The flow of Covid-19 response bonds also rose this week as Agence Française de Développement, Bpifrance Financement, IDB Invest, Koomin Bank and Paraguay launched trades, adding to others that have come in recent weeks from government and supranational agencies (Cassa Depositi e Prestiti, Council of Europe Development Bank, Nordic Investment Bank, World Bank, Inter-American Development Bank, African Development Bank, International Finance Corp).

### Summary of Covid-19 debt issuance 17 April to 24 April (14:00 CET)

**Agence Française de Développement** priced a USD 2bn bond on 22 April at MS+40bp IPTs/guidance; demand reaching above USD2.65bn. While not strictly speaking a labelled response bond, the issuer said proceeds will contribute to its commitment to support the fight against Covid-19.

French development agency **Bpifrance Financement** mandated leads on 23 April for a seven-year Covid-19 Response Bond. The EUR 1.5bn issue went into marketing on 24 April, leads putting out guidance of +42bp over interpolated French government bonds, tightening to +40bp guidance. Demand reached EUR 3.3bn. Proceeds will finance *Pret Atout* loans for SMEs, *Pret Rebond* loans for SMEs and very small companies facing economic hardship due to Covid-19, and any other dedicated Covid-19 response loans. Loans will mainly assist companies with cash flow needs to maintain operations and employees.

**IDB Invest**, part of the Inter-American Development Bank group, priced a slightly over-subscribed USD 1bn two-year Covid-19 bond on 23 April at IPTs of MS+38bp (equivalent to T+53.5bp). Minimum size had been set at USD 750m. The mandate came in the wake of IDB Invest's announcement that it would contribute up to USD 5bn in financing for companies affected by the coronavirus pandemic. IDB Invest is also working on a USD500m Crisis Mitigation Facility, targeting investments that provide a direct response to the pandemic through health and health-related sectors and access to short-term lending to SMEs through financial institutions and supply-chain finance.

**Kookmin Bank** priced a no-grow USD 500m five-year sustainable bond on 23 April at final guidance of T+150bp; books reached USD 4.4bn in marketing but closed at USD 3.9bn from 181 accounts. Initial guidance had been T+195bp area. Net proceeds will be allocated to finance/refinance new/existing projects from a combination of Green Eligible Categories and Social Eligible Categories in accordance with the bank's Sustainable Financing Framework. The bank intends to allocate proceeds to support SMEs and SOHOs (Small Office/Home Office) affected by Covid-19.

**Paraguay** priced a USD 1bn bond with a 10-year weighted average life on 23 April at a yield of 4.95%, through mid-5% IPTs. Proceeds will be used for general budgetary purposes, including Covid-19 response.

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**Bank of America** priced a USD 3bn SOFR-linked 11NC10 fixed-to-floating bond on 22 April at T+197bp. Pricing was revised from T+200bp guidance. IPTs were T+225bp area.

**Bank of Montreal** priced a USD 1.5bn five-year senior unsecured bond on 22 April at T+150bp guidance. IPTs were T+175bp area.

**BNY Mellon** priced a USD 1.25bn senior unsecured offering on 17 April at T+125bp. IPTs were T+155bp area.

**BPCE** priced a EUR 1.5bn five-year senior preferred note on 20 April at MS+95bp, building demand of EUR 3.1bn. Pricing came at the tight end of MS+100bp +/-5bp WPIR guidance. IPTs were MS+125bp area.

**Caisse de Refinancement de l'Habitat** priced a EUR 1.25bn seven-year covered bond on 23 April at MS+31bp. Books closed over EUR4.5bn. Guidance was MS+36bp area.

**First Horizon Bank** (formerly First Tennessee Bank) priced USD 450m (upsized from USD 300m) of 10-year subordinated notes on 23 April at the guidance yield of 5.75% (equivalent to T+514bp).

**Jupiter Fund Management** priced a GBP 50m 10NC5 Tier 2 on 23 April at a 9.125% yield, equivalent to G+875bp.

**Legal & General Group** launched a GBP 500m 30.5NC10.5 Tier 2 into marketing on the morning of 24 April at guidance of G+435bp area, fixing the spread at G+425bp. Books closed above GBP 5bn at guidance.

**Morgan Stanley** priced a USD 3bn 6NC5fixed-to-floating senior unsecured offering on 23 April at T+183bp, the tight end of T+185bp +/-2bp guidance. IPTs were T+215bp area.

UK insurer **Phoenix Group Holdings** priced a GBP 500m 11-year Tier 2 on 23 April at a yield of coupon 5.689%, equivalent to G+540bp.

**Swedbank** put out IPTs of MS+130bp-135bpH, tightened to MS+100bp-105bp guidance and set the spread at MS+98bp on its EUR 1bn five-year senior preferred trade on 24 April. Books had reached EUR 3.5bn at guidance by the end of the London morning.

US insurer **Travelers Companies** priced a no-grow USD 500m 30-year senior offering on 23 April at T+140bp. Pricing was at the tight end of T+145bp +/-5bp area guidance. IPTs were T+180bp area.

**Wells Fargo** priced a USD 6.5bn dual-tranche senior unsecured bond on 23 April. The deal was split into a USD3bn 6NC5 that priced at T+183bp guidance (IPTs were T+215bp area), and a USD 3.5bn 21NC20 that priced at T+190bp guidance (IPTs T+220bp area).
Wells Fargo also launched a dual-tranche euro trade on 24 April, split into a EUR 1.5bn 5NC4 at guidance of MS+165bp /-5bp WPIR (IPTs of MS+200bp area) and a EUR 1.5bn 10NC9 at guidance of MS+190bp +/-5bp WPIR (IPTs of MS+225bp area). Books had reached above EUR 8.5bn in aggregate by the end of the London morning.

*(Source for raw bond data: Bond Radar (www.bondradar.com); bank and media sources*

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