FOMC, bank earnings push FIG primary activity to the sidelines

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The FOMC meeting and an avalanche of bank earnings in Europe kept FIG new-issue activity muted. Wall St will doubtless get over its temper tantrum in the wake of the 25bp rate cut. That and the approaching end of the earnings season are likely to see a resumption of primary action.

The Fed was lambasted from all sides for its quarter point insurance rate cut on 31 July. From one side, chair Powell was criticised for not doing enough on the day and refusing to signal the start of the easing cycle most financial market participants clearly wanted. From another, he was roasted for pandering to a hectoring and boorish White House that has been demanding an aggressive series of rate cuts when it is arguable that any is really warranted.

There was a generalised sense that the FOMC statement and post-meeting comments left the Fed caught firmly between the proverbial rock and a hard place, not really pleasing anyone, particularly the monetary extremists who had convinced themselves that the Fed would be uber-dovish.

In the event, the fall in US stock and bond prices was pretty predictable as Wall St threw a fit because it failed to get its 50bp or at worst a clearer sign that it would get some sense of certainty that more cuts were on the way. That said, there continue to be reasonably high expectations of a further rate cut this year

One thing that seems to be less than crystal clear to many Wall Streeters is that the Fed does not conduct monetary policy for the good per se of financial markets and the wealth and well-being of institutional market participants. Monetary policy is there to promote maximum employment, stable prices, and moderate long-term interest rates in the US economy. Financial markets are the tail, not the dog.

With reasonable growth and technical full employment in the US, it is easy to argue fundamentally that no rate cut was required (as indicated by two FOMC dissenters), the only reason being – referenced by chair Powell – that inflation is under-shooting target.

Whether a 25bp difference in the Fed funds range will make any appreciable difference and at the same time protect the US against any downturn stemming from low global growth and US-China trade tensions (an issue that's firmly in the lap of the White House) will only be seen over time. Of course, having the Fed move now only reduces its room for future monetary manoeuvre when the next recession emerges.

In the UK, the focus on the Fed momentarily diverted attention from the ongoing Brexit saga. The Bank of England's Monetary Policy Committee voted unanimously on 1 August, as expected, to keep rates where they are, at 75bp. In the grand scheme of things, the BoE is something of a sideshow on the global stage, particularly in the absence of hard news about UK-EU negotiations and a continuation of grand political posturing from 10 Downing St.

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The prospect of the UK leaving the EU without a formal deal did, however, send sterling to a two-and-a-half-year low against the dollar, particularly as the dollar perked up in the wake of the Fed rate announcement. Some sell-side pundits are going as far as to postulate sterling-dollar parity.

The no-deal threat and its potential impact as the putative drop-dead date of 31 October approaches has discombobulated the market. One thing that has exemplified the European FIG primary market in recent months has been the willingness of investors to entertain European second-tier banks, infrequent or less well-known issuers, sub-benchmark trades, and formerly troubled banks from the Euro area periphery in the new-issue market, predominantly as yield-enhancement plays.

Taking a snapshot of sentiment this past week, it is debatable whether some of the hairier trades that were done in recent weeks would find traction today. That said, the past week did see some very solid trades – notably Tier 2 offerings from National Australia Bank and South Korea's Shinhan Bank – with heavy levels of over-subscription, proving that the market is far from being down and out.

Summary of FIG debt issuance July 26 to August 1 (15:30 CET)

Bank of America went into the market on 1 August with a benchmark euro-denominated 10NC9 senior fixed-to-floating trade, starting off with IPTs in the MS+85bp area and tightening to guidance of MS+70bp. By the end of the morning, the book was in excess of EUR 2.5bn. The size was fixed at EUR 1bn and the final spread was MS+67bp.

Huntington Bancshares kept the flow of US regional banking paper coming with USD 800m of five-year unsecured bonds at T+83bp, the tight end of T+85bp +/- 2bp guidance. Leads had gone out with IPTs of high 90s over UST.

Lloyds Bank put out IPTs of SQ ASW/three-month BBSW +90bp area on 1 August for a benchmark three-year fixed or floating-rate senior unsecured Kangaroo.

Malayan Banking sold a USD 850m five-year floating-rate Formosa bond at a spread of 3mL+80bp.

Mizuho Bank raised in AUD 1bn (roughly EUR 618m) in senior unsecured debt in the Australian market with a two-part bond split into an AUD 750m FRN and an AUD 250m fixed-rate transferable certificate of deposit. The notes priced with a margin of 75bp over semi-annual-to-quarterly asset swaps (SQASW); the FRN pricing at par; the TCD pricing at 99.881 for a 1.725% yield.

National Australia Bank reportedly took in more than USD 8bn in orders for its USD 1.5bn 15NC10 Tier 2 offering, which priced at a yield of 3.9%, equivalent to T+188bp. That was the tight end of T+190bp+/-2bp guidance. IPTs were T+215bp area, revised to T+200bp area.

Nationwide Building Society's GBP 1bn three-year FRN that went into in the market on Friday 26 July priced at SONIA+43bp, the bottom of SONIA+43bp-45bp revised guidance, with books at GBP 1.45bn. The deal came at the issuer's maximum size. Initial guidance had been +48bp area.

South Korea's **Shinhan Financial Group** priced a heavily over-subscribed USD 500m 10.5NC5.5 sustainable Tier 2 at final guidance of T+150bp. Net proceeds will finance/refinance projects in eligible green and social categories under the bank's SDG framework. Orders flooded into the book and USD 4.3bn of demand from 200 accounts was good at re-offer. The huge demand enabled leads to tighten from T+175bp area guidance.

(Source for basic bond data: Bond Radar (www.bondradar.com).

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