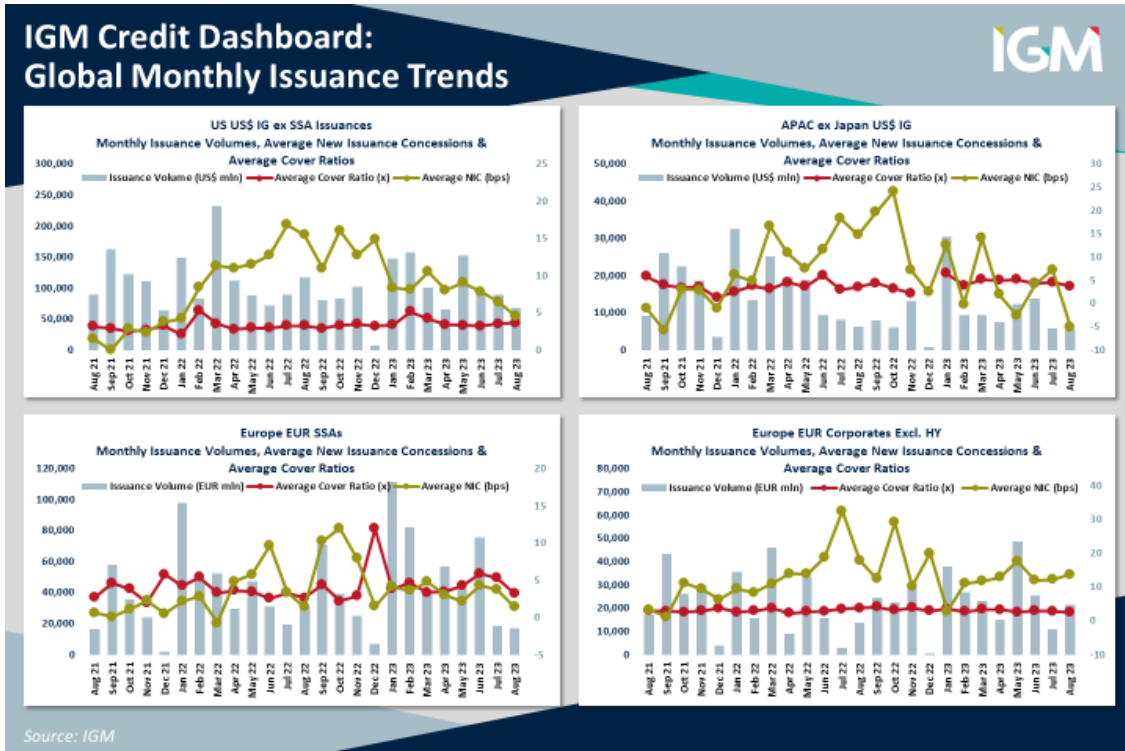


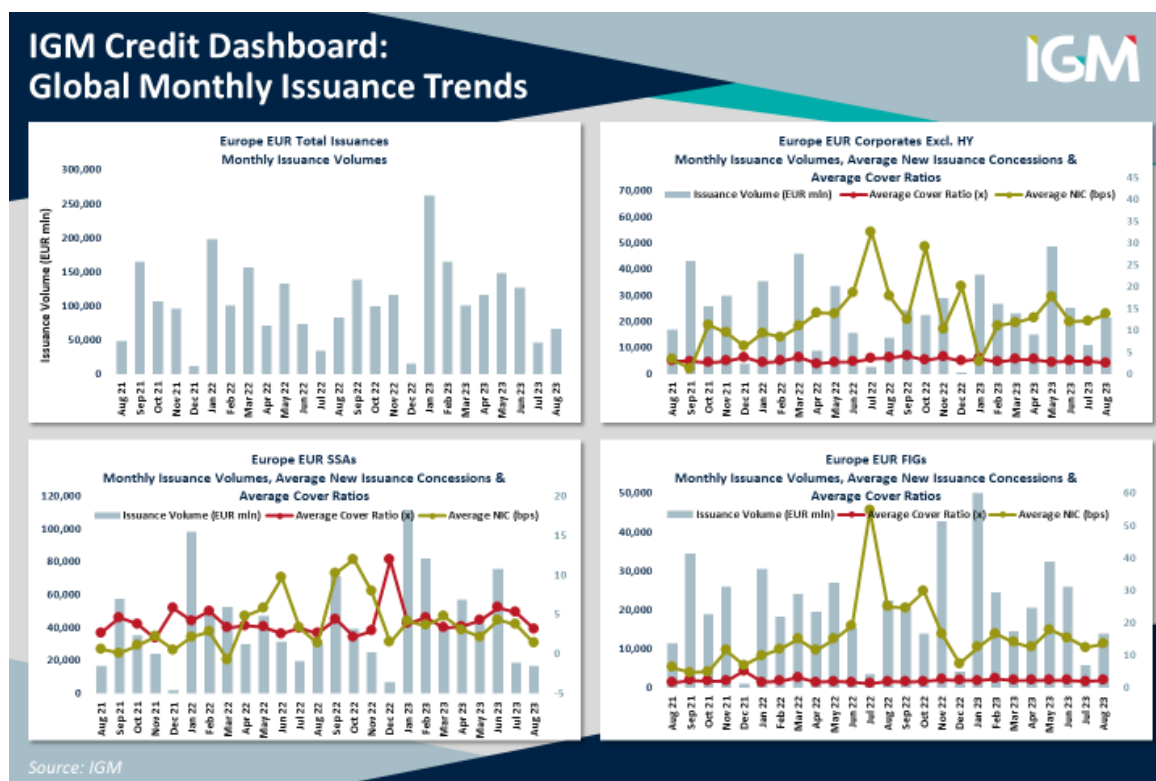
Back-loaded issuance in Europe & APAC whilst US underwhelms

August 2023



- Volatility continued in the govvie space with German and US 10yr yields swinging in 30bps and 42bps respective ranges over the month. Market concern veered between China and the US rate path, with worry of the latter hitting a peak mid-month (following unexpectedly robust US data) but subsiding as August came to an end, providing some relief to ailing stock levels.
- With all that, new issuance globally in August was largely in line with low expectations.
- In Europe, issuance was crammed into the latter part of the month with 93% of the EUR66.25bn that priced coming in the final fortnight and led by a surge from IG corporate and non-covered FIG issuers.
- Volumes in the APAC region have been weak since a brief peak in June and there we saw just USD9.038bn (incl. Japan) crossing the line in the entire month. Regional influences (the Chinese property sector and related growth concerns) continue to weigh, curtailing market fluidity and often pushing regional borrowers back into local currency financing.
- August turned out to be rather underwhelming for US new issuance with the ex-SSA total scaling only as far as USD68.1bn, a level below even the lowest Street estimate (USD75bn). M&A deals continue to be an important component, but it was general corp/industrial issuance that pushed to the fore in the quieter environment (46% of total). In HY, issuance continued to outpace the prior year with YTD volumes now USD110.29bn (vs USD77.67bn in 2022).

## EUROPEAN CREDIT ISSUANCE TRENDS



\*\* Whereas July supply was skewed to the early part of the month, **August** followed the traditional script of being backloaded with almost 93% of the entire month's **EUR66.625bn** priced in the final two weeks of the month as vacation season wound down. Despite the strong push for the finish line, that was comfortably short of the corresponding month of 2022 (EUR82.355bn). Non-covered FIG issuance witnessed the biggest percentage increase, but it was IG corporates which saw the biggest absolute rise and total supply of any asset class. That came as borrowers rushed to take advantage of a cash rich investor base that was keen to lock in historically elevated yield levels following an elongated lean issuance spell. HY rated corporate issuers were completely absent though. The 10yr German yield finished the month little changed (ending just 2.6bps lower) but that masked ongoing volatility which saw the yield swing in a near 30bps range as markets veered between China worries and concerns over the US rate path. Worries over the latter hit a crescendo in the middle part of the month to follow some robust US data prints before bets for a Fed pause gained renewed traction toward the end of the month. The fortunes of stocks appeared to ebb and flow with that of FI markets with an easing of yields in the second half of the month helping stocks to trim monthly losses.

\*\* **IG Corporates (ex-HY):** It took the asset class until the 21<sup>st</sup> day of the month to see its first euro supply after the summer slumber, but a late flurry meant the monthly haul finished up at EUR21.5bn. That makes it the largest August total for the sector ever, beating 2019's EUR20.7bn haul. This year was given a huge boost by the final three sessions of the month that accounted for EUR18.8bn of the final total. Although demand for the August transactions remained solid (average cover ratio of 2.44x) it was at the same time the lowest monthly average YTD.

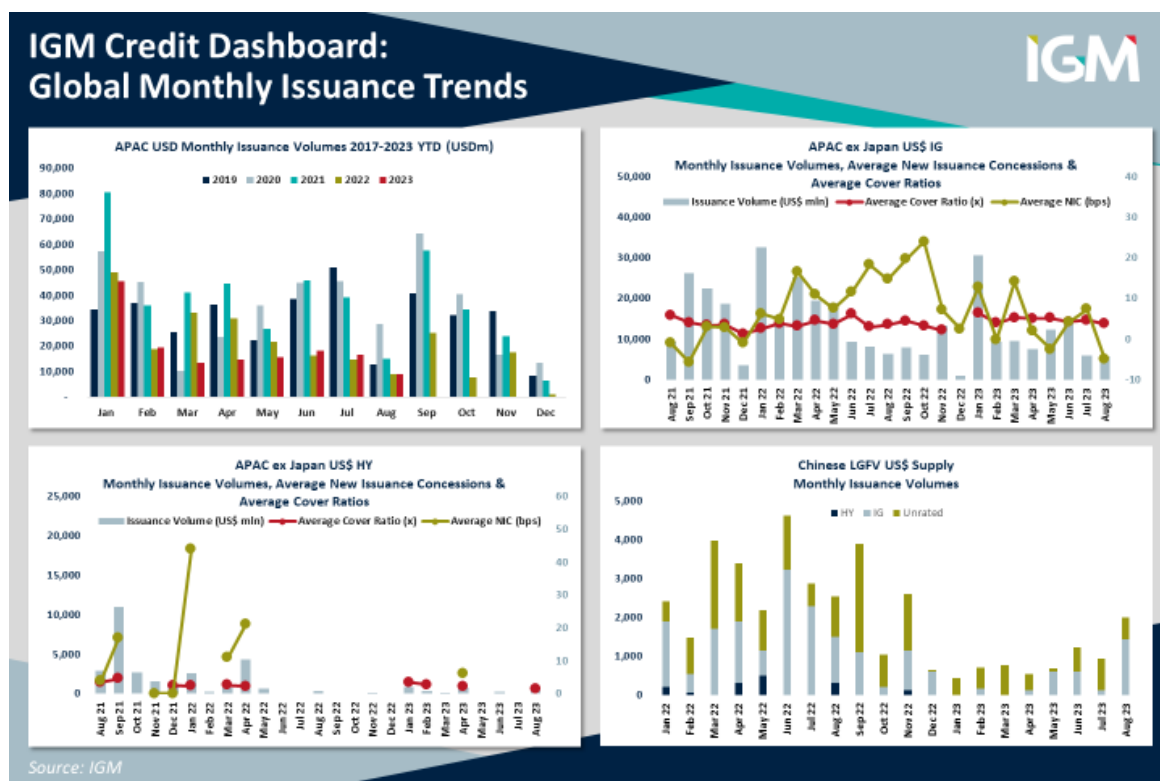
\*\* **FIG (ex-covered):** Issuers stuck with the broader back loaded script with nearly 79% of the EUR14bn total priced in final two weeks of the month. Sending a positive message regarding investor attitudes toward financial risk, the AT1 market reopened with gusto where Intesa Sanpaolo attracted the biggest order book for a euro AT1 this year. New issue premiums averaged 14bps over the month and remained in line with the average seen this year (14.6bps) while the average cover ratio at 2.38x exactly matched the YTD average.

**\*\* Covered:** Seventeen tranches produced EUR14.25bn worth of covered supply in August, slightly down on the EUR15.55bn priced last August which was itself the biggest August since 2011 (when 16 tranches produced EUR18.22bn). The majority of this month's issuance arrived in the penultimate week of the month when 10 banks printed a combined EUR9.08bn total. The month's average new issue concession climbed to 6.78bp from 6.05bp in July and 6.35bp in June which had previously marked the highest metric so far this year. The average cover ratio dropped to 1.74x from 3.38x in July which at that time had registered the highest end-of-month average since Aug 2021 (3.65x). Borrowers also saw an average 3bp spread refinement, a marginal drop from July's 3.91bp figure.

**\*\* SSA:** Whilst other sectors saw a surge in issuance to end the month (after a longer than usual feeling to the summer lull) the SSAs chose to sit on the sidelines for the most part. The Federal Republic of Germany provided the proverbial icing on a rather underwhelming cake, with a EUR3bn Aug-2053 tap (its 4<sup>th</sup> and likely final syndicated deal of the year) taking August issuance to just EUR16.85bn. That was the lowest monthly tally of the year and just over half of the supply that was witnessed in August 2022 (EUR30.45bn). Coverage ratios were lower than the year-to-date average at 3.18x (vs 4.38x) whilst NICs shrunk to 1.4bp, the lowest average since August of the prior year.

**\*\* HY (Corporate):** For the second year in a row HY-rated corporates gave the August market a miss. Mid-month volatility, which pushed the iTraxx Crossover to an 11-week high, didn't help but with August volumes averaging just EUR647m in the last decade, HY issuance in the single currency is usually pretty scarce in the peak holiday month.

## APAC CREDIT ISSUANCE TRENDS



\*\* August is traditionally one of the slowest months in the APAC US dollar primary bond market and this year was no exception, as the paltry total of USD9.038bn (incl. Japan) represented a new monthly low for issuance volume in a year when the primary market has often struggled for fluidity. That as ongoing concerns surrounding China's anemic economic growth and fallout from the distressed property sector, in particular fears surrounding the financial health of Country Garden, weighed heavily on broader risk sentiment and kept potential issuers on the sidelines for much of the month. That was compounded by elevated US government bond yields and regional holidays.

\*\* That monthly total fell well short of the USD16.484bn which priced in July and was also comfortably below the USD13.288bn which got over the line in March, previously the lowest volume month of the year. August's total did at least manage to (just about) exceed the USD8.989bn that priced during same month in 2022 (and therefore continues to mark the lowest issuance volume in any month of August in more than seven years).

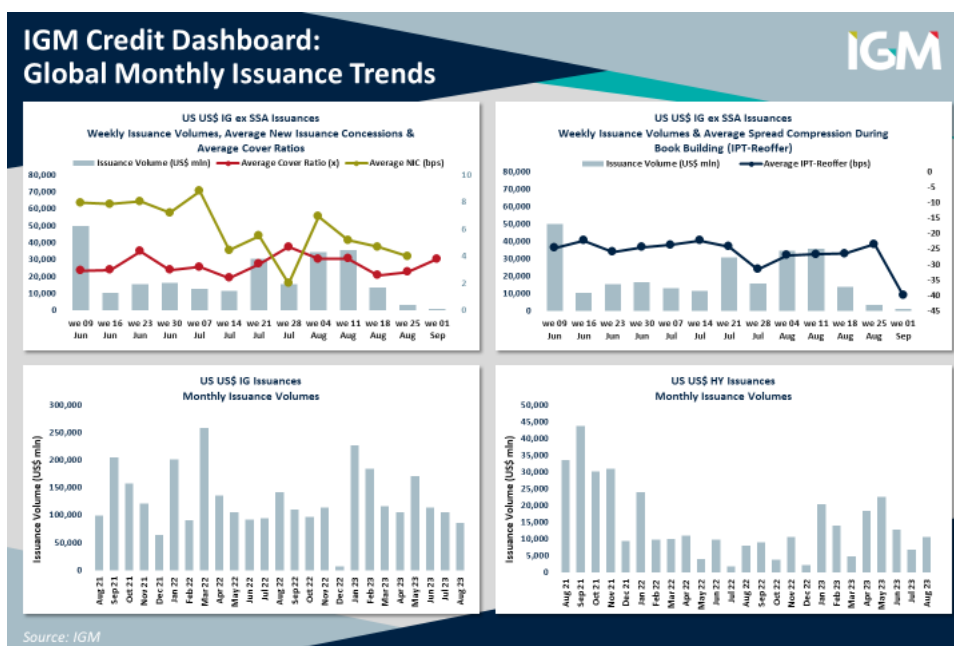
\*\* Stripping out the contribution of Japanese issuers saw APAC USD supply decline to just USD6.738bn, the majority of which was as usual contributed by regional investment grade issuers that stumped up USD5.732bn or over 85% of that total. That is the smallest total of non-Japanese IG issuance in any month this year having marginally fallen short of the USD5.875bn that priced in July.

\*\* Those IG issuers which did take the plunge were rewarded from a pricing perspective however, as illustrated by the average new issue concession that came in at -5bp (negative). That was well below the average 7.3bp premium paid by IG issuers in July (7.49bp on aggregate in the Jan to July period).

\*\* The regional high yield market remained subdued in August although it did see a rare benchmark issue courtesy of Continuum Green Energy Limited (-/B+/B+) which sold a USD435m 9.50% 3.5NC1.5YR Senior Secured Green bond. That represented the first regional HY USD benchmark since fellow Indian renewable energy company ReNew Energy Global plc raised USD750m of funding in April. That USD435m also marked the third highest monthly volume of the year for APAC USD HY supply, in a year that prior to August had only managed to produce USD2.325bn in total and nothing at all in July.

\*\* A notable trend in the latter part of the month was a mini revival of USD funding from Chinese LGFVs which had been largely absent from the offshore market until then. That was consistent with a bounce in Chinese stocks after Beijing announced various measures to support the beleaguered property sector and stimulate economic growth, along with plans to revive the ailing stock market. Chinese LGFVs sold a combined USD2.003bn of offshore issuance in August, which boasted the highest total from the issuer class this year and the highest since November 2022, with potential issuers having often found the door closed in the intervening period.

## US CREDIT ISSUANCE TRENDS



\*\* Primary market issuance disappointed in August with overall volumes that didn't reach the lowest of the street's monthly estimates and with five blank issuance days to boot. That saw just USD68.1bn (ex-SSA) crossing the line which was a far cry from the USD135.35bn seen during the same month in the prior year (the Street had been expecting around the USD95bn level, with the guesses ranging from a low of USD75bn, to a high of USD115bn). For context, over the past decade prior to this year, August had averaged USD86.131bn (ex-SSA)

\*\* Despite lacklustre volumes there were notable highlights during the month. We saw two more M&A transactions with OneOK raising USD5.25bn via a 5-pt offering of 3s, 5s, 7s, 10s and 30yr notes (proceeds to partly fund the USD18.8bn acquisition of Magellan Midstream Partners LP), whilst ConocoPhillips raised USD2.7bn via a 3-pt offering to help fund its USD3bn acquisition of the remaining 50% stake in Canadian Surmont oil facility. That brought the number of M&A-related deals priced this year to 24, collectively raising USD103.5bn, or 11.82% of year-to-date total issuance.

\*\* The corporate/industrial sectors otherwise dominated the rather sparse landscape, accounting for 46% of the month's tally, though FIGs (38%) followed close behind thanks to two trips to the market by Goldman Sachs (USD4.25bn), and a pair of USD5bn deals from Wells Fargo and Bank of America.

\*\* As disappointing as August was, it should set the stage for a healthy primary market in September. Indeed, over the last decade September (ex-SSA) issuance has averaged USD133.833bn, making it one of the busiest months of the year, second only to January. This year the Street is looking for USD125bn in new (ex-SSA) issuance although the high estimate came in at USD141bn. Digging a little deeper, with last month nearly USD20bn below the average estimate and with progress being made on some sizeable M&A proposals – Broadcom/VMWare (USD61bn), Amgen/Horizon (USD28bn) and Microsoft/Activision (USD69bn) – IGM's US credit market analysts have suggested more along the lines of USD135bn in ex-SSA issuance to price in September.

\*\* High-yield markets moved higher and ended August 2023 with a +0.285% return for the month. August 2023 showed 17 tranches priced totalling USD10.68bn, an increase of 32% vs 2022 issuance volume. The average spread widened by six basis points within the month.

