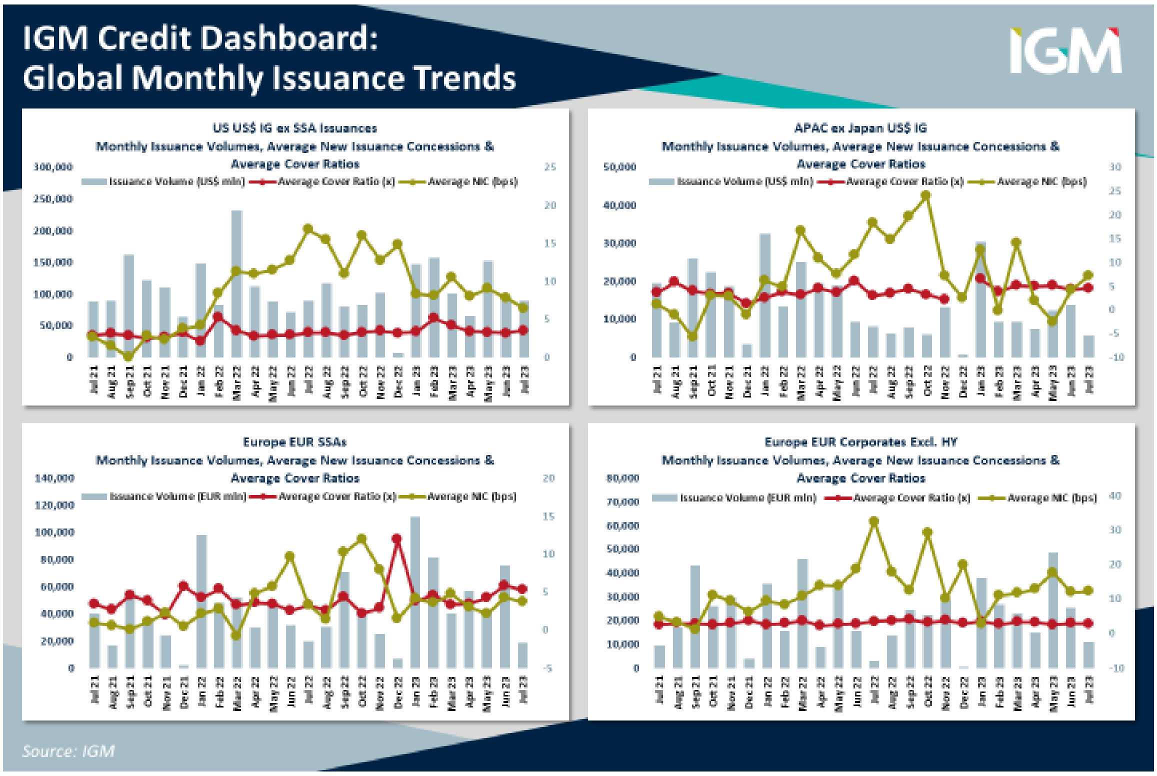
IGM Global Credit Snapshot – July 2023

A monthly trend analysis of the European. APAC and US markets

By Gavin Hendrick

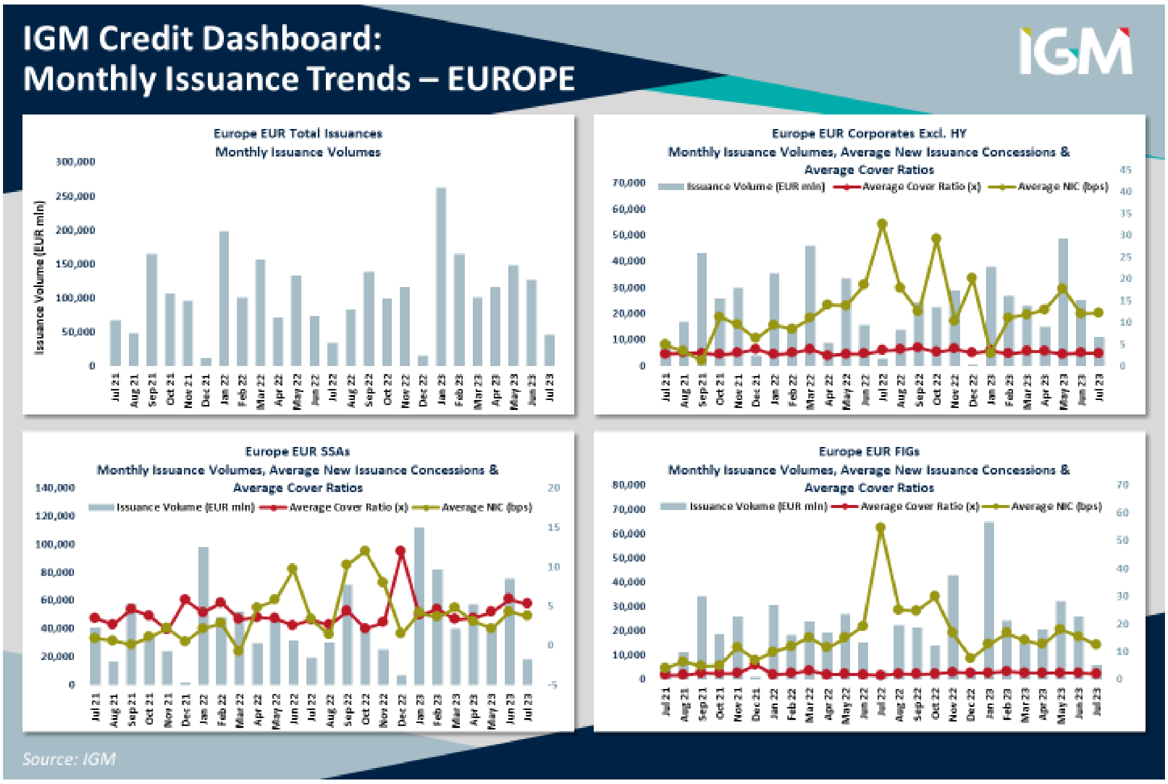
Europe slows while US exceeds expectations

July 2023



- **European** issuance followed a well-trodden path for the early summer period with the lowest monthly volume of the year (so far) concentrated largely into the opening two weeks of the month. Coverage ratios held up well and NICs remained relatively stable in the face of thinned out markets
- In **APAC** USD volumes remain lacklustre with many regional players turning to local currency bonds/loans for financing. There was a minor uptick in issuance from South Korea, but the HY space remained in the doldrums
- In contrast **US** issuance was robust. Overall (and ex-SSA) volumes came ahead of the Street's highest estimates. FIG and Yankee FIG accounted for the rump of issuance (64% of ex-SSAs) whilst Corp/Industrial issuance fell from 36% (YTD to June) to 17%

EUROPEAN CREDIT ISSUANCE TRENDS



** **Overall EUR supply experienced its usual seasonal slump in July with volumes sinking to just EUR46.51bn (all asset classes), the lowest monthly total of the year so far.** That was, however, up almost 39% on the corresponding month from 2022. SSA saw by far the biggest absolute slowdown whilst HY corporates were the only sector to buck the overall trend. Slowing supply came as the approach of earnings, start of vacation season and verdicts from the ECB (26th) and Fed (27th) deterred issuers and narrowed the available window. With that, July was front loaded with over 78% of supply printed in the first two weeks of the month. The environment for spread product was generally friendly with the combination of improving sentiment and light supply proving supportive. EU stock indices finished July with a flourish, hitting long-term highs, although sentiment had taken a transient hit in the early part of the month as strong US data prompted markets to price in more central bank tightening. However, risk bulls were back in charge toward the end of July with soft landing hopes buoying sentiment after signs of easing US inflation soothed tightening worries.

** **IG Corporates (ex-HY):** The sector saw just EUR10.9bn cross the tape in euros in July, making it the slowest month for the asset class this year and even falling short of April's EUR15.05bn. It also failed to reach the 10yr July rolling average of EUR12.57bn but was still more than we saw in July 2022 (EUR2.807bn) and 2021 (EUR9.565bn). Demand remained solid for corporate paper with the average cover ratio across the month’s deals coming in at 2.83x, whilst the average NIC paid at 12.15bps was consistent with the 11.34bps average seen in H1.

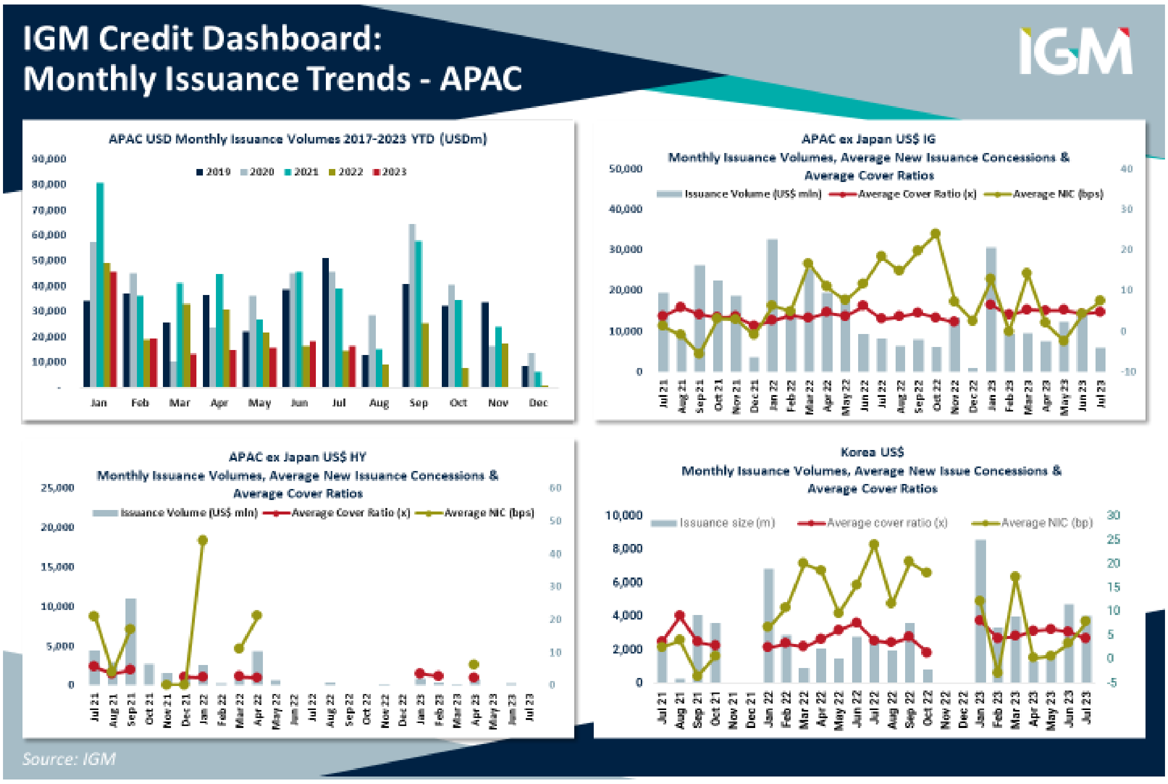
** **FIG (ex-covered):** Pre-vacation trades were mostly squeezed in ahead of the Bastille-day holiday before activity decelerated sharply toward the end of the month (just 11% of the meagre EUR5.96bn raised was printed in the final two weeks of July). What did emerge found a generally solid home although July’s average cover ratio at 1.99x was the lowest this year and below the 2.45x YTD average. Slightly softer cover ratios did not translate into any noticeable loss of pricing power for issuers though – on the contrary – July’s average NIC at 12.5bps was the lowest of 2023 so far (vs the 14.92bps monthly average in the Jan-June period).

** **SSA**: At EUR18.55bn the sector’s monthly haul was by far the smallest of the year so far (and only 45% of that seen in March – EUR40.457bn, the previous slowest month) and was spread over just 10 individual deals. All trades were completed in the first 2 weeks of the month led by the EU, EIB, EFSF and the Hellenic Republic of Greece which when combined accounted for almost 84% of volumes. Cover ratios were boosted by the lack of supply coming in at a healthy 5.29x (2023 average: 4.23x) whilst, like the Corp sector, NICs were in line with the year-to-date average at 3.71x.

** **Covered:** Eleven tranches produced EUR7.75bn worth of covered issuance in July, making it the busiest July on IGM records since 2018 when 16 deals raised EUR10bn. The bulk of the month's supply arrived in the third week of the month when two banks printed a combined EUR4bn via three tranches. The average NIC at 6.05bps was very close to the YTD high seen in June (6.35bps) but the standout this month was the sizable increase in the average cover ratio which at 3.38x was more than double June's 1.53x and was the highest since August 2021 (3.65x). In terms of spread refinement, leads trimmed an average 3.91bps off guidance, registering an increase from June's 3bps figure.

** **HY (Corporate):** After June posted the lowest monthly volume of the year so far, the bar was set low for HY issuers to buck the month's slowing trend seen across the other asset classes. Sticking with the broader script, most (75%) of the EUR3.35bn raised by seven issuers came in the opening two-weeks of July although supply was on tap all the way through to the final week of the month as positive sentiment boosted support for riskier assets.

APAC CREDIT ISSUANCE TRENDS



Source: IGM

** North Asian issuers underpinned an otherwise underwhelming month in the APAC USD primary bond market where total issuance closed out at USD16.484bn (incl. Japan), of which Japan and South Korea headquartered issuers contributed USD13.85bn or ca. 84% of the total. Fresh negative headlines surrounding the financial health of Chinese property companies, ongoing concerns about the sluggish pace of China's economic recovery and the prolonged high cost of US dollar funding either kept many regional issuers side-lined or steered them towards local currency bond and/or loan markets which continued to offer more economic funding opportunities, as is now a well-established trend.

** July's total fell short of the USD18.321bn that materialised in the previous month of June 2023, although it did exceed the even more disappointing monthly volumes seen in March, April and May 2023. July ended up as the fourth busiest issuance month this year to date. It also topped the USD14.629bn that priced in July 2022, although fell well short of the USD45.598bn and USD39.108bn seen in the same month in 2020 and 2021 respectively, when the primary market was still firing on all cylinders.

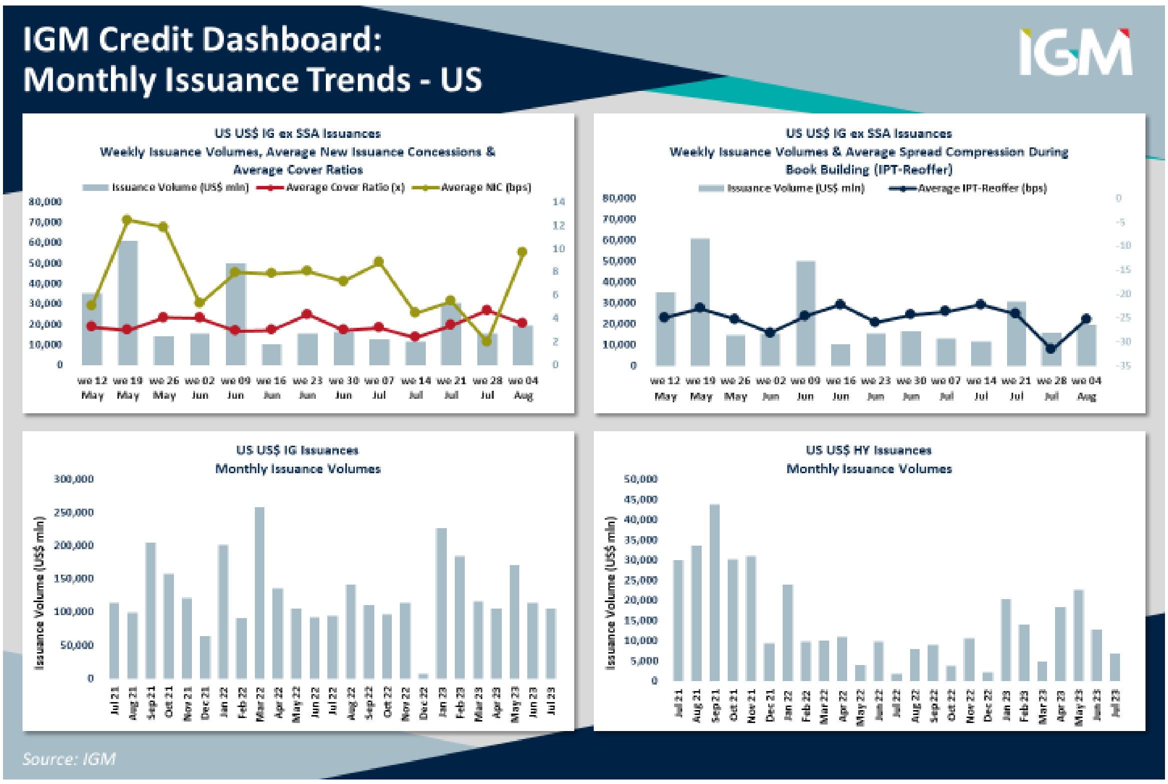
** Stripping out the contribution of Japanese issuers saw regional USD supply fall to just USD6.684bn in July 2023, the vast majority of which was made up of IG issues at USD5.875bn (88% of the total). That marked a notable fall from the USD13.85bn that the ratings class contributed the previous month and marks the lowest volume of non-Japanese APAC USD IG supply in any month so far this year, with the prior lowest month being April at USD7.57bn.

** Those issuers that did dip their toe were forced to pay up for the privilege despite the modest issuance volumes, as illustrated by the average new issue concession of 7.3bp, the largest since March 2023, while the average cover ratio for those non-Japanese IG issuers came in at a healthy 4.61x.

** Aside from the dominance of Japanese issuers in July 2023, South Korean borrowers also enjoyed an active month in a continuation of a trend that started in the latter part of June. Nine new IG-rated Korean issuers raised a combined USD4.05bn of paper in July 2023 equating to close to 25% of the overall monthly total. The prolonged run of Korean supply which totalled USD8.75bn over the two-month period (June and July) did show some signs of fatigue though, with order books showing a mixed performance (although still averaging 4.32x) along with some disparate concessions on offer (average of 8bp).

** The regional high yield market was devoid of supply in July for the second month this year, as the ongoing fallout from the beleaguered Chinese property sector and high borrowing costs continued to keep a lid on supply. That means just USD2.735bn of APAC high yield USD issuance has surfaced in the past 14 months. The remaining balance of USD809m was priced by a trio of Chinese LGFVs representing unrated transactions.

US CREDIT ISSUANCE TRENDS



** July issuance surpassed the Street's average expectation of USD75bn in ex-SSA volume with USD90.125bn; this total topped all monthly estimates, including the highest of USD90bn. This final tally stands out as it had appeared impossible with one week to go. However, USD19.5bn was raised via 10 deals on July 31st making it the eighth busiest issuance day of 2023 and helped supply push through the July issuance average (over last 10yrs) of USD86.724bn. That makes July 2023 the fifth busiest ex-SSA issuance July on record.

** Overall (SSA-inclusive) issuance was USD105.325bn which also topped the highest estimate of USD100bn. Interestingly, SSA-inclusive issuance is running at a 3.4% faster pace than last year, while ex-SSA issuance is lagging by 3.9%.

** FIG issuance of USD40.325bn made it the busiest sector in July at almost 45% of ex-SSA issuance. In second place Yankee FIG issuance (USD25.4bn) made up 28% of July's ex-SSA total whilst Corporate/industrial issuance (USD15.5bn) contributed 17%. Year-to-date, corporate/industrial issuance (USD287.72bn) continues to lead the pack with 36% share of 2023 volumes followed by FIG issuance (28%), Yankee issuance (27%) and utilities (9%).

** Turning attention to August, the Street is looking for USD95bn (on average) to come to the market, although estimates range from USD75bn to USD115bn. Over the past decade, the month of August has averaged USD86.131bn, with as little as USD42.02bn coming in August of 2014, while USD139.984bn priced in August of 2020, no surprise there. August issuance has surpassed July issuance five times in the last 10 years.

** High yield markets moved higher and ended July 2023 higher by + 1.424%. July 2023 showed 12 tranches priced (3x vs 2022) totalling USD6.75bn, an increase of 369% vs 2022 issuance volume. The average spread tightened by 26bp within the month.