

[MORNING CALL:] Prepare For Launch

By Ken Jacques | February 20 2024

IGM

Despite the second ex-SSA zero issuance day of the year and no Friday deals, high grade issuers (18) still managed to raise \$37bln last week, topping the average weekly estimate of \$34bln, and coming close to the highest estimate of \$40bln. That brought ex-SSA issuance for the month, a month that is expected to produce, on average, \$150bln in new supply, to \$85.025bln.

And, despite this week being only a four-day week, the Street is under the impression that we could see borrowers raise more than \$50bln this week. Should that come to fruition, that would bring ex-SSA issuance for the month to a staggering, for February that is, \$135bln, with four trading sessions remaining. That would easily top the decade-long February issuance average of \$103.663bln, ranking it in the middle of the pack as the sixth slowest issuance month of any year. But we have seen as much as \$156.65bln (2023) come to market in February. Coming into the month, the educated guesses ranged from a low of \$100bln I think we can kiss that one goodbye - to a high of \$175bln, which is not out of the realm of possibility.

According to the results of our weekly issuance poll, on average, we should see, as previously mentioned, \$50bln cross the tape this week, though some were not as optimistic, with the lowest estimate coming in at \$40bln, while the highest guess came in at a cool \$70bln.

There are a number of reasons to be optimistic regarding issuance this week. Not only will potential borrowers be looking to take advantage of (1) tight credit spreads (the average high grade bond is now trading 96bp over comparable Treasuries, its tightest level of the year) in case you were wondering, the tightest spreads have gotten in the last 10 years was +86bp (9/27/21) - (2) the winding down of earnings blackouts (3) voracious investor appetite (4) the Asian markets reopening after celebrating the Lunar New Year (5) and the seemingly never ending list of M&A-related transactions in the pipeline.

While we are on the subject of M&A, Capital One is buying Discover Financial Services for \$35.3bln in an all stock deal, making it one of the largest deals announced so far this year. As for the reopening of Asia, there were two ex-SSA deals announced overnight. Mizuho Financial Group is in the market with a 2-pt offering of 6.25nc5.25 and 11.25nc10.25 fixed-to-fixed notes, while Westpac New Zealand is marketing a 2-pt offering of 3yr and 5yr notes. Both deals are expected to price sometime today, along with an SSA offering from Korea Housing Finance Corp, who is looking to sell 3.5yr social bonds. Nederlandse Waterschapsbank NV also announced plans to sell 5yr social bonds, though that deal is slated to price tomorrow.

As for investor appetite, last week's average contraction from IPT/PX came in at 29.1bp, 3bp wider than the year-to-date average of 26.1bp, and nearly 5bp wider than the 2023 average of 24.5bp. Vying for a piece of last week's \$37bln pie, investors submitted \$171.7bln in orders (4.64x covered), and that wasn't even at the peak. In comparison, the 175 deals that have priced thus far this year have been oversubscribed by an average of 3.82x, while the average oversubscription rate for all of 2023 came in at 3.55x.

But the most glaring evidence of the seemingly insatiable investor appetite for corporate paper could be seen in the cost of borrowing. Whereas the 770 deals that priced last year did so with an average NIC of 7.22bp, year-to-date, that cost has been reduced to 2.45bp. Last week alone, the average NIC came in at a mere 1.09bp.

Last week also played host to the largest deal of any kind this year, and, by far, the largest ex-SSA offering of the year, topping JPMorgan's \$8.5bln deal of last month, Bristol-Myers Squibb's \$13bln 9-pt offering. It was also the largest ex-SSA deal since Pfizer raised \$31bln, the fourth largest deal on record, in May of last year to help fund its acquisition of Seagen. And investors lined up long in advance of the pricing with the books peaking at roughly \$86bln, before settling in at \$65.5bln, or 5.31x covered - the \$500m 20yr tranche was 14x covered.

As to what today's deals, including Verizon's \$1bln 30yr "green" note deal, will be contending with, futures are indicating a lower open for the three major averages, all of which closed lower on Friday, as investors question whether the Fed will be able to cut rates any time soon. Traders in the Fed Funds futures market have all but taken the possibility (8.5%) of a rate hike next month off the table, while even a cut in May is looking a little dicey (35.7%), though the odds of a rate cut in June still stand at pretty much even money (52.5%). Just a month ago, those odds stood at 46.2%, 50.9% and 52.1%, respectively. However, recent hotter-than-expected CPI and PPI data reduced the rate cut odds dramatically.

Also weighing on the minds of investors this morning is the highly anticipated earnings report from Nvidia (tomorrow), as the company, riding the AI wave, has dictated the pace of the high tech rally. The market will be eagerly waiting to see if the company can live up to all the hype.

It appears the Treasury market, which also closed out the week lower, is benefiting from the weakness in pre-market trading in equities, as yields have declined. The benchmark 10yr note, which closed at 4.30% on Friday, is now yielding 4.27%. while the long bond yield fell 1bp over the weekend to 4.44%, while the 2yr note saw its yield fall 4bp to 4.60%.

2024 HIGH GRADE ISSUANCE - 2024 VS 2023 COMPARISON

16-Feb	02/05 WK	02/12 WK	02/19 WK	02/26 WK		MTD	23 MTD	24 YTD	23 YTD	CHNG
IND	22275	22150				44425	70050	77625	94600	-18%
UTL	350	1200				1550	7975	21350	15925	34%
FIG	16350	4000				21350	9050	110700	59100	87%
Y(I)	5000	3150				8150	1200	13400	7100	89%
Y(F)	2600	6500				9550	7250	53240	67600	-21%
Y(U)	0	0				0	1500	4330	3500	24%
SSA	11500	2000				13500	0	104250	101450	3%
EX-SSA	46575	37000	0	0	0	85025	97025	280645	247825	13.2%
OVERALL	58075	39000	0	0	0	98525	124075	384895	349275	10.2%

2024 HIGH GRADE ISSUANCE - 02/19 WEEK, FEB & 2024 ESTIMATES

02/19 WK	LO EST	AVE EST	HI EST	ACTUAL	FEB	LO EST	AVE EST	HI EST	ACTUAL	2024	LO EST	AVE EST	HI EST	ACTUAL
EX-SSA	\$40.0B	\$50.0B	\$70.0B	\$0	EX-SSA	\$100.0B	\$150.0B	\$175.0B	\$85,025	EX-SSA	\$1.100T	\$1.275T	\$1.350T	\$280,645
OVERALL	\$47.5B	\$60.0B	\$77.5B	\$0	OVERALL	\$125.0B	\$165.0B	\$190.0B	\$98,525	OVERALL	1.350T	\$1.420T	\$1.550T	\$384,895

2024 HIGH GRADE ISSUANCE - 02/20 CALENDAR

AMT	ISSUER	MAT	RATINGS	MGR	TALK
TBA	MIZUHO	30	A1/A-	MIZ	+140 A
TBA	MIZUHO	35	A1/A-	MIZ	+160 A
TBA	WSTPNZ	27	A1/AA-	BOA	+100 A
TBA	WSTPNZ	29	A1/AA-	BOA	+120 A
TBA	KHFC	27	AA2/AA	SCB	+58
TBA (2/21)	NEWWBK	29	AAA/AAA	BOA	SMS+49 A
1000	VZ	54	BAA1/BBB+	MS	+140 A