CORP SNAPSHOT: Supply rebounds in 2023 as issuers navigate tricky market

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Corporate issuers are staying away from the European bond market for a third consecutive day Thursday amid the latest BoE/ECB verdicts, which follow Wednesday's FOMC meeting, and headline US CPI print the day before that.

With seasonal factors also taking a stronger hold as we get further into December, the expectation is that we are now indeed finished for the year in terms of single currency supply for the asset class.

That would leave Monday's EUR750m 2yr floater from Siemens AG as the last euro IG corporate trade of 2023 and mark the latest close for the asset class since 2014 when the last deal for the sector was also on 11th Dec.

With issuance now appearing to have ceased it gives us a chance to look back on what was another challenging year for IG corporate borrowers as external factors continued to impact issuance windows, at times requiring issuers to take a more pragmatic approach to ensure smooth execution.

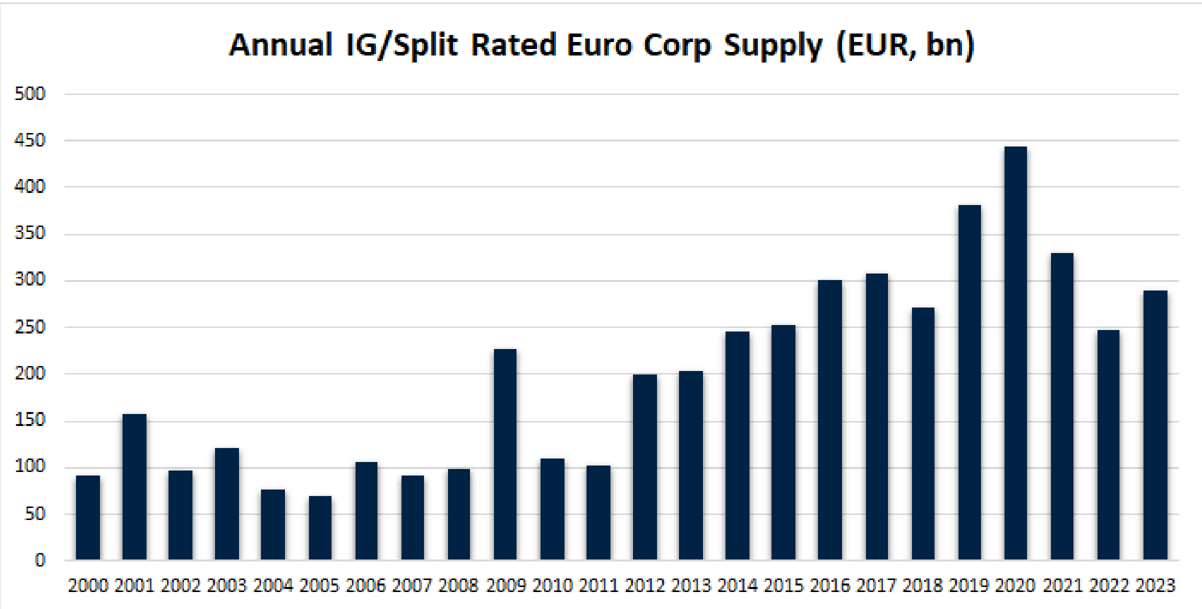
Central banks were, of course, in focus throughout the year with the ECB's run of ten consecutive hikes coming to an end in September, before the "higher for longer" narrative was subsequently displaced by a rush to price in rate cuts next year. Expectations of the latter were reinforced by the FOMC which on Wednesday delivered an unexpectedly aggressive pivot.

That despite ongoing risks to inflation including those stemming from oil markets amid the Israel-Hamas war, which alongside the conflict in the Crimea, meant at times the issuance window was slammed shut in 2023 amid volatility in underlying yields and stocks.

Despite the headwinds, we saw single currency corporate (excluding high yield) supply bounce back in 2023, ending a two-year run of slowing activity.

With that, the final corporate haul is set to finish up at **EUR289.42bn**, considerably more than 2022's EUR247.345bn (lowest annual total since 2014) but short of 2021's EUR329.988bn and the record-breaking total of EUR443.514bn recorded in 2020.

The uptick in the corporate arena contributed to what was a busier year overall for euro bond activity with EUR1.29tn priced across all asset classes in 2023 versus the EUR1.22tn in 2022 and 2020's all-time high of EUR1.48tn.



Another stop-start year

After a lacklustre 2022, issuers wasted no time in getting 2023 underway which resulted in the fastest ever start to the year in the asset class, with the January euro haul coming in at EUR38.2bn and beating the previous record of EUR35.7bn set in January 2021.

Corporates contributed to what was by far the busiest month ever recorded for single currency supply, with the overall EUR260.489bn eclipsing the previous record of EUR201.988bn set in January 2020.

The corporate asset class maintained its pace in February with the final haul finishing up at EUR26.85bn, the fourth largest February on record.

Supply continued to tick over nicely in March (EUR22.58) and April (EUR15.05bn), before a big acceleration in May to the extent that the EUR48.65bn total represented the second biggest May on record and the sixth largest month ever.

A slower summer period then came before a rebound at the end of August when a flurry came as issuers made the most of strong issuance conditions.

The EUR21.5bn to price was the highest on record for the month of August having surpassed August 2019's EUR20.7bn.

That was given a big boost by the biggest weekly total of the year in the w/e 1-Sep where EUR18.8bn priced.

That ate into September's usual bumper issuance total with the final number finishing at EUR33.05bn. That was beyond the previous September total of EUR24.245bn but was slightly below the EUR34.5bn average seen across the euro corporate market in the last ten Septembers.

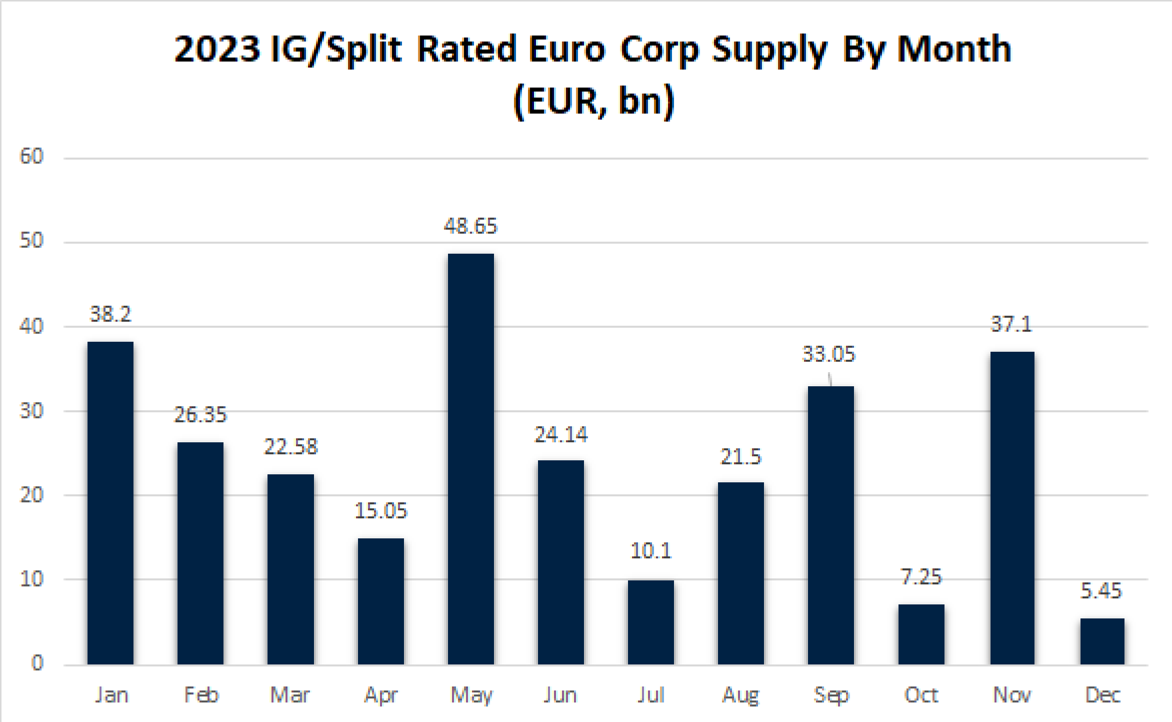
October ended up being a damp squib with the monthly corporate single currency supply total ending at a paltry EUR7.25bn, as attention fell on the conflict in the Middle East.

That not only marked the second lowest monthly total of the year for the asset class, but was also the smallest Oct corporate haul since way back in 2008 when just EUR3.65bn was issued.

Given the geopolitical factors impacting sentiment, as well as higher underlying yields and the usual Oct earnings cycle, it is not hard to see why issuance was low, but even given those factors the final total fell well short of expectations.

With sentiment subsequently improving amid hopes that the "higher-for-longer" phase was coming to an end, corporates saw their third busiest November on record with the EUR37.4bn only beaten by the November 2014 and November 2019 hauls of EUR38.03bn and EUR39.95bn respectively.

December marked the slowest month of the year, as is usually the case, but the EUR5.45bn was still the highest total for the month in three years.



Higher yields entice investors

One thing that was obvious this year was that despite various headwinds, investors were keen to add corporate paper to their inventories if the price was right.

Issuers at times were forced to dangle a larger carrot to ensure smooth execution but investors were receptive to new paper and keen to lock in higher returns amid the elevated absolute yields that were on offer amid ongoing central bank tightening measures.

That was evidenced by the average cover ratio across this year's euro corporate bonds which once again was above 3x (3.08x). That was, however, below the 3.25x average in 2022.

What remained strong investor interest allowed issuers to squeeze in pricing by an average 21.4bps from IPTs to reoffer, in turn resulting in a final average NIC of 12bps.

That was lower than 2022's final 13.72bps average which came after the figure had been under 10bps for the three years prior to that.

We will aim to put more meat on the bones in another yearly review piece due in the near future where we will look at which deals saw the largest cover ratios and smallest NICs, whilst also delving deeper into which countries dominated supply and take a close look at ESG/hybrid activity.