

NORDIC FIs & COVERED

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Issue 109

FIG momentum builds as high NIPs trump uncertainty



Financial institutions issuance picked up through the first week of the year, helped by issuers offering healthy new issue premiums, and activity is expected to remain high next week, especially with uncertainty seen increasing as January progresses.

Fresh Grexit fears and uncertainty over the extent and timing of any European Central Bank sovereign QE meant that markets reopened in the new year with question marks hanging over them, although the prospect of further central bank action has kept a lid on fears of a renewed Eurozone crisis.

After a weak opening on Monday, public holidays in many parts of Europe on Tuesday meant that the reopening of the euro market faced a further delay, although that did not stop the sterling market from getting off to a strong start in covered bonds, with Barclays selling a £1bn three year FRN on Monday and Canadian banks raising a combined £800m of short dated issuance in its wake.

Euro FIG issuance took off on Wednesday, with Abbey attracting Eu5bn of demand for a Eu1.5bn seven year fixed rate senior unsecured deal at 65bp over mid-swaps and issuers including Bank of Nova Scotia, BFCM, Intesa, Lloyds, Rabobank and Société Générale also hitting the market, while activity picked up across other sectors such as corporates, insurers and SSAs in euros and dollars. The first euro covered bond of 2015 then hit the market on Thursday, with Westpac selling a Eu1.25bn seven year benchmark at 14bp over mid-swaps.

The week's supply was well bid, with one syndicate banker attributing the reception to the level of new issue premiums.

"Oversubscription levels continue to remain elevated," he said, "in part due to the NIPs that are on offer, with five to 10 year fixed rate transactions offering 20bp NIP at IPTs and landing with 10bp NIP on average."

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S&P: Swedish covereds resilient even if house prices fall by 30%

Swedish house prices could fall in 2015 against a backdrop of stricter amortisation requirements and Europe's deteriorating economic outlook, but Swedish covered bond ratings would likely prove resilient even if prices fell by 30%, Standard & Poor's said yesterday (Wednesday).

While the ongoing increase in Swedish house prices could continue this year — in Q3 2014 nominal house prices were more than 20% higher than in 2007 — S&P noted that, according to the OECD, house price-to-income ratios indicate a current overvaluation by 21.6% above the long term average price-to-income ratio. The rating agency said that the house price appreciation is "exaggerated".

The Swedish central bank has warned on the high prices and S&P said that against a backdrop of moves regarding regulatory requirements for mortgage loan amortisation and Europe's weak economy, a correction could be building up, with Swedish house prices eventually falling to align with the long term average.

"The magnitude of any reversion of
(continued on page 3)

Latest Nordic FI benchmarks

Senior unsecured (z spreads mid)

JYBC	FRN	06/17	32bp
POHBK	1.125%	06/19	18bp
DANBNK	FRN	11/18	39bp

Covered bonds (asw spreads mid)

POHBK	1.000%	11/24	5bp
NDASS	1.000%	11/24	-1bp
SHBASS	0.625%	11/21	3bp

Source: CACIB trading 7/1/15

FI to follow Danes with waiver

The Swedish FSA is implementing a partial waiver from the application of CRR covered bond requirements that could cause concentration risk after the European Banking Authority agreed that a similar move in Denmark is justified.

Under Article 129(1)(c) of the Capital Requirements Regulation (CRR), exposures to credit institutions that are used as collateral for covered bonds (which are to achieve preferential treatment) must not exceed 15% of the nominal amount of outstanding covered bonds of an issuer and be credit quality step 1 (CQS 1) — i.e. at least AA-. Competent authorities are, however, able to partially waive this requirement and allow CQS 2 (at least A-) up to 10% of the total after consulting with the EBA.

The Danish FSA, Finanstilsynet, submitted a proposal for such a partial waiver on 8 May 2014, according to the EBA, highlighting that only one credit institution in Denmark qualifies as CQS 1, Nordea Bank Danmark. On 19 December the EBA said that on the basis of Finanstilsynet's submission, there is sufficient evidence of a potential concentration problem in Denmark.

"This has the potential to result in prudential concerns and concerns related to the degree of competition in the financial

market," it said. "The EBA is therefore of the opinion that the establishment of a partial waiver is currently adequately justified."

The EBA also laid out factors it would take into account when assessing proposed partial waivers and the Swedish FSA (Finansinspektionen, or FI) announced its plan on 29 December, noting the publication of the EBA's opinion regarding the Danish proposal.

"Finansinspektionen will implement the partial waiver within its jurisdiction," it said. "This is done in order to avoid the potential concentration problem that would otherwise arise from the restriction of possible exposures.

"The implementation of the partial waiver does not result in lower requirements on issuers of Swedish covered bonds," it added, "as the partial waiver means that the current rules will continue to be in place."

According to a covered bond analyst, the German regulator, BaFin, has also moved to allow for exposures to credit institutions other than those of CQS 1.

"We expect other European countries' banking regulators to take up this option to lower the credit standards required of bank assets," he said, "since generally very few European commercial banks now have issuer ratings compatible with CQS 1." ■

Covered set to pick up after subdued start

(continued from page 1)

The new issue premium on Westpac's covered bond, which was put at between 3bp and 5bp, was noted as being an increase on the flat to negative pricing versus secondaries seen on many issues sold in late 2014 on the back of the ECB's third covered bond purchase programme.

The primary market is expected to be busy again next week.

"The FIG market is red hot and there will be an advantage to be the first mover next week as supply will continue to be heavy, particularly in the senior unsecured market," said Vincent Hoarau, head of FIG syndicate at Crédit Agricole CIB.

"Even if the liquidity situation remains exceptional there are some risk factors at back end of this month, and for the time being only positive news is priced in, starting with an imminent launch of QE.

"Front-loading is therefore the name of the game. At some point supply could weigh a bit on spreads in primary, particularly if fresh supply stops performing off the break."

The ECB has a governing council meeting on 22 January when a QE announcement could be made, while Greek elections are on 25 January.

Covered bond issuance in particular is expected to pick up in euros after only the one deal this week.

"There will be a lot of activity next week, from the usual suspects in France and Germany," said a syndicate banker. "We had the holiday on Tuesday so the second week is the first full one and the only week before the ECB makes its new announcements and before the elections in Greece.

"So I think a lot of issuers will decide to come to the market next week and to use the window, which is now pretty wide open."

However, expectations of supply from the Nordic region are low given that many issuers are in or soon entering blackout periods. Nordea, SEB, Svenska Handelsbanken and Swedbank are going into blackout tomorrow (Friday) and other Nordic banks will follow them next week. ■

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Covered cushion protects against house price fall

house prices to a stable level in the long term will depend on the pace of interest rate increases, housing supply, as well as changes in amortization patterns, tax laws, consumer expectations, or unemployment,” said the rating agency.

However, having tested the impacts of various house price decline scenarios on the covered bond programmes of three Swedish banks — Swedbank Hypotek, Nordea Hypotek and Länsförsäkringar Hypotek — S&P said its Swedish covered bond ratings would likely remain stable.

Without changing any other elements of its rating analysis, the agency reduced the most recent property valuations of the residential pools backing the three programmes by 10%, 20%, and 30%.

The lower valuation scenarios increase weighted-average LTV ratios and, in turn, weighted-average foreclosure frequency and weighted-average loss severity, according to S&P.

The impact on potential losses on the pools would result in higher target enhancement levels, with target overcollat-



eralisation commensurate with a triple-A rating in the most severe scenario increasing by an average of 13.4 percentage points to 29.7%, for example. But S&P said that even in this case nominal overcollateralisation remains sufficient for all the programmes it tested.

The rating agency noted that available eligible assets for overcollateralisation could be below that necessary to support current ratings, but said it believes that issuers would replace in-

eligible assets with eligible assets if available, or that the ineligible assets would remain in the cover pool for the benefit of covered bond investors.

“We therefore consider that there is sufficient cushion between the cover pools’ available and target overcollateralisation levels to allow the Swedish covered bond programs that we rate to withstand a decline of up to 30% in house prices without suffering a downgrade,” said S&P. ■

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Nykredit finds strong demand in opening ARMs offering

Nykredit Realcredit kicked off autumn refinancing auctions in Denmark today (Thursday), with “extraordinarily high” interest coming in for its offering of one year ARM bonds, according to an official at the issuer, although an analyst said the outcome was not surprising.

FROM CRÉDIT AGRICOLE CIB

ECB changes repo haircuts: What’s the impact on Nordic names?

Updating its collateral framework is something the ECB does on a regular basis. The central bank adjusts the parameters to reflect current market conditions and sometimes also to achieve a certain policy objective.

Covered Bond Purchase Programmes: Should the ECB sell to ease the squeeze? “Squeeze-time” is probably the “it” word of the covered bond world so far in 2013. Issuance has

SWEDEN

Swedish debt office bail-in proposal seen as credit negative by Moody’s

A Swedish National Debt Office (Riksgälden) proposal on how to implement the EU bank recovery and resolution framework in Sweden is credit negative for senior unsecured debt of the country’s banks, particularly of the four largest, Moody’s said today (Thursday).

DENMARK

Jyske drops Moody’s, citing methodology and negative Danish view

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Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 7/1/15.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
AKTIA (*AKTIA REMB)				POHKBK			
XS0640889803*	3.125	22/06/2016	-2	XS0785351213	1.625	23/05/2017	-11
XS0946639381	1.125	25/06/2018	-5	XS0646202407	3.500	11/07/2018	-9
XS1056447797	1.000	15/04/2019	-6	XS1076088001	0.750	11/06/2019	-7
BRF				XS1045726699	1.500	17/03/2021	-3
XS0882166282	2.500	31/01/2018	54	XS1144844583	1.000	28/11/2024	5
DANBNK				XS0758309396	2.625	20/03/2017	6
XS1113212721	0.375	26/08/2019	-1	XS0540216669	3.000	08/09/2017	5
XS0469000144	4.125	26/11/2019	-3	XS0931144009	1.250	14/05/2018	14
XS1071388117	1.250	11/06/2021	4	XS1077588017	1.125	17/06/2019	18
XS0519458755	3.750	23/06/2022	5	XS1040272533	2.000	03/03/2021	23
XS0802067636	2.500	09/07/2015	-3	SAMBANK			
XS0627692204	3.875	18/05/2016	1	XS0693226978	2.750	19/10/2016	-9
XS0751166835	3.875	28/02/2017	10	XS0834714254	1.625	27/09/2019	-5
XS1139303736	3mE+35	19/11/2018	39	XS0640463062	3.875	21/06/2021	3
DNBNO				SBAB			
XS0728790402	2.375	11/04/2017	-8	XS1117542412	0.625	07/10/2021	2
XS0877571884	1.000	22/01/2018	-6	XS0968885623	2.375	04/09/2020	40
XS0992304369	1.125	12/11/2018	-5	SEB			
XS0794233865	1.875	18/06/2019	-3	XS0548881555	2.625	16/10/2017	-10
XS1117515871	0.375	07/10/2019	-1	XS0894500981	1.500	25/02/2020	-4
XS1137512742	3mE+10bp	17/11/2021	12	XS0988357090	1.625	04/11/2020	-3
XS0637846725	3.875	16/06/2021	2	XS0614401197	4.125	07/04/2021	0
XS0759310930	2.750	21/03/2022	5	XS0628653007	3.750	19/05/2016	1
XS0856976682	1.875	21/11/2022	5	XS0730498143	3.875	12/04/2017	8
XS0522030310	3.875	29/06/2020	12	XS0592695000	4.250	21/02/2018	12
XS0595092098	4.375	24/02/2021	24	XS0972089568	2.000	18/03/2019	15
XS0732513972	4.25	18/01/2022	27	XS0854425625	1.875	14/11/2019	14
EIKBOL				XS1033940740	2.000	19/02/2021	24
XS0736417642	2.250	25/01/2017	-5	SHBASS			
XS0851683473	1.250	06/11/2017	-4	XS0760243328	1.875	21/03/2017	-13
XS0794570944	2.000	19/06/2019	2	XS0906516256	1.000	19/06/2018	-7
XS1044766191	1.500	12/03/2021	5	XS1050552006	1.000	04/01/2019	-5
JYBC				XS1135318431	0.625	10/11/2021	3
XS0856532618	3mE+110bp	20/05/2015	15	XS0490111563	3.750	24/02/2017	4
XS1078186001	3mE+50bp	19/06/2017	32	XS0732016596	3.375	17/07/2017	4
LANSBK				XS0794225176	2.250	14/06/2018	4
XS0926822189	1.125	07/05/2020	1	XS0965050197	2.250	27/08/2020	11
MINGNO				XS0693812355	4.375	20/10/2021	16
XS0893363258	2.125	21/02/2018	29	XS0819759571	2.625	23/08/2022	19
XS1069518451	1.500	20/05/2019	37	SPABOL			
NDASS				XS0495145657	3.250	17/03/2017	-9
XS0478492415	3.500	18/01/2017	-13	XS0820929437	1.250	28/02/2018	-5
XS0731649660	2.375	17/07/2017	-13	XS0738895373	2.750	01/02/2019	-5
XS0965104978	1.375	20/08/2018	-11	XS0995022661	1.500	20/01/2020	-1
XS1014673849	1.250	14/01/2019	-9	XS0942804351	1.500	12/06/2020	1
XS0778465228	2.250	03/05/2019	-7	XS0587952085	4.000	03/02/2021	2
XS0874351728	1.375	15/01/2020	-5	XS0674396782	3.375	07/09/2021	3
XS0591428445	4.000	10/02/2021	-3	SPAROG			
XS1132790442	1.000	05/11/2024	-1	XS0853250271	2.000	14/05/2018	36
XS0801636571	2.250	05/10/2017	14	XS0965489239	2.125	27/02/2019	41
XS0916242497	1.375	12/04/2018	18	XS0876758664	2.125	03/02/2020	44
XS0728763938	4.000	11/07/2019	17	XS1055536251	2.125	14/04/2021	63
XS0520755488	4.000	29/06/2020	16	SWEDA			
XS1032997568	2.000	17/02/2021	22	XS0496542787	3.375	22/03/2017	-12
XS0801636902	3.250	05/07/2022	11	XS0925525510	1.125	07/05/2020	-1
NYKRE (*senior secured)				XS1069674825	1.125	21/05/2021	-1
LU0787776052*	3.250	01/06/2017	30	XS0768453101	2.375	04/04/2016	-6
LU0921853205*	1.750	02/05/2018	30	XS0740788699	3.375	09/02/2017	13
LU0996352158*	1.750	28/01/2019	37	XS1045283766	1.500	18/03/2019	9

Source: Crédit Agricole CIB Trading, Bloomberg – See disclaimer on page 5

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