

NORDIC FIs & COVERED

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and covered bond spread data

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Issue 123

Sparebanken Vest gets tight in covered, eyes more euros



Sparebanken Vest Boligkreditt on Wednesday sold the first Norwegian euro benchmark covered bond of the year, a Eu500m seven year that achieved tighter pricing than some market participants had expected, and an official at the Norwegian issuer said it may become a more frequent visitor to the euro market as its first redemptions kick in.

Leads Barclays, LBBW, Natixis and Swedbank launched the Eu500m no-grow seven year deal with initial price thoughts of the flat to mid-swaps area, before moving to guidance of 3bp through. The re-offer was then set at minus 5bp, with the leads building a final order book of Eu1.2bn and 70 accounts participating.

“This was a very good achievement,” said Egil Mokleiv, managing director at Sparebanken Vest Boligkreditt. “It went very smoothly, and according to plan.”

Mokleiv said there was a good reference point for the trade in a recent trade

from Sweden’s LF Hypotek, a Eu500m seven year priced at 4bp through mid-swaps on Thursday of last week (16 April). A syndicate official from one of Sparebanken Vest’s leads saw the LF Hypotek April 2022 paper at minus 6bp on Wednesday.

“When our deal opened at minus 3bp things still looked very positive, so we were even able to land one basis point tighter than LF,” he said. “That was very good result for us.”

“We thought and hoped that the climate would still be good for our deal, as it was for LF’s, and it certainly seemed to be.”

Robert Chambers, FIG syndicate manager at Crédit Agricole CIB, said the transaction was an encouraging example of how covered bonds were well received this week despite a slightly nervous broader market backdrop.

“The Eu500m no-grow element certainly helped, but the transaction was a success whether you consider the pricing

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Negative yields, tight spreads push investor sentiment to new lows

In the latest edition of their Covered bond Sentiment Index (CSI), Crédit Agricole CIB analysts Florian Eichert and Stephan Dorner found investor sentiment at an all-time low – although the issuer index is close to an all-time high.

After a rather short-lived recovery in sentiment in February, the headline CSI index score has dropped again in April, falling to 5.8 from 6.3 in February. We are thus back to the level of December 2014.

Just as a reminder, at that time we did not yet have the Public Sector Purchase Programme (PSPP), covered bonds were the only product being bought in size by the European Central Bank, and spread levels versus sovereign debt and SSA markets looked very unattractive for covered bonds.

The range of opinions among investors also remains remarkably wide: for almost every sector, we have answers ranging from 0 to 10.

Some investors seem to expect the CBPP3 squeeze to push valuations even further and see the bigger spread difference to sovereign debt and SSA markets positively.

(continued on page 4)

Latest Nordic FI benchmarks

Senior unsecured (z spreads mid)			
SANTAN	0.625%	04/18	48bp
POHBK	0.750%	03/22	46bp
JYBC	FRN	03/18	29bp
Covered bonds (asw spreads mid)			
SVEGNO	0.250%	04/22	-5bp
AKTIA	0.250%	03/22	-8bp
NDASS	0.625%	06/27	-7bp
<i>Source: CACIB trading 22/4/15</i>			

No Vest impact from Norwegian macro concerns

(continued from page 1)

outcome or the oversubscription level," he said. "Assuming there are no catastrophic macroeconomic events, then covered bond issuance should continue to be well absorbed by the markets."

Mokleiv agreed that the deal was helped by its fixed Eu500m size, adding that it was also boosted by it being the year's first euro benchmark covered bond from a Norwegian issuer.

"This is our sixth public euro deal, and they have all been Eu500m no-grows," he added. "That is a suitable size for an institution of our size. We have been fortunate every time to get substantial oversubscription, and a wide range of investors."

Banks took 45% of the deal, fund managers and asset managers 28%, central banks and official institutions 18%, and insurance companies and pension funds 2%. Accounts in Germany and Austria were allocated 42%, the Nordics 34%, the Benelux 14%, Asia 5%, the UK and Ireland 1%, and others 4%.

While praising Sparebanken Vest's success in pricing inside LF Hypotek, a syndicate official away from the leads on Wednesday expressed surprise that the deal appeared to be unaffected by concerns regarding the Norwegian mortgage market and falling oil prices.

"Apparently the Norwegian mortgage market is of no concern to investors," he said, "which is worrying, because it shows that fundamentals may be out of the picture in this market."

Mokleiv agreed that such concerns did not impact the execution, but said the issue had come up in conversations with investors in recent months.

"We discussed the development in house prices and what has been driving these prices, and how things will go forward," he said. "We think it will fade off. It has come to a level where prices will be lower and we have seen that in the last month."

"What is essential is that while activity will fall, government economics will not be influenced very much," he added. "This does not depend only on the lowering oil price, because it is the revenue from Norway's oil fund that goes into public expenses."

He said that most people realise that Norway is not only about oil.

"When you explain this, people see that we also have a possibility to boost other activities that have suffered because of a lack of skilled workers," he said. "This can be an opportunity for some other sectors that have been in the shadow of the oil industry."

Sparebanken Vest Boligkreditt has



Egil Mokleiv, managing director at Sparebanken Vest Boligkreditt

been a regular issuer in the euro market since making its public debut in 2010, having launched one Eu500m deal per year. Mokleiv said it opted to come to the market now in particular as its first deal will mature in June, meaning for the first time in the euro market the issuer will have refinancing needs, whereas in the past it has only sold new deals based on purchases of portfolios from its parent bank.

"We also issued in euros now because the Norwegian market is not large enough to provide funding for a company of our size," he added. "We of course do plenty of deals in the Norwegian market, but we think it is essential to have access to the euro market, too, and to show our face regularly."

"We will definitely continue to do one public issue per year at least, maybe more now our deals are maturing," he added. "We think this deal is a good basis for continuing issuance in the euro market."

DNB Boligkreditt this week increased its debut sterling covered bond, a five year FRN initially launched on 9 February at £250m (Nkr2.96bn, Eu349m), to £500m with three privately placed taps.

The FRN, which was first increased on 3 March by £50m, was this week increased by £50m in a trade led by Credit Suisse, £80m via RBS, and £70m via JP Morgan. Each of the three deals was priced at 27bp over three month Libor, 1bp than the original outstanding was priced at 28bp over. ■

Nordic FIs & Covered Bonds

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CSI 26th edition: Issuer views mixed despite high

(continued from page 1)

At the same time, the ever lower yields and ongoing grind tighter in covered bonds' asset-swap spread levels have made many others score covered bond markets with 0s and 1s.

Issuers: close to an all-time high despite minor drop in April

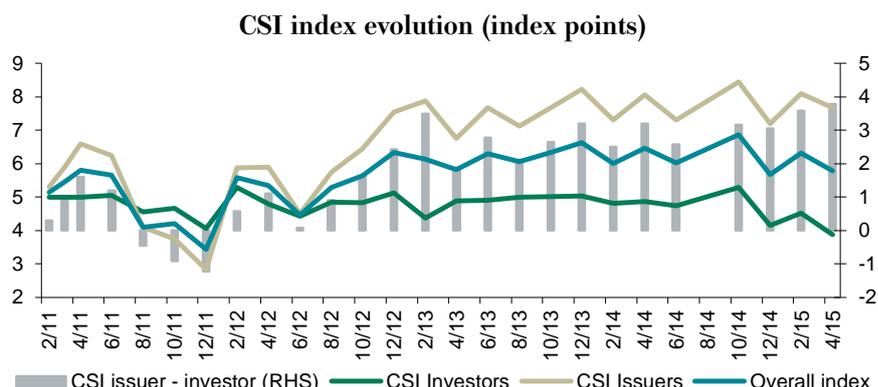
Issuer sentiment remained close to its all-time high. There was a slight drop in the index, by only 0.4 index points, from 8.1 to 7.7.

Differently to last time around, we have seen a slightly more diverse set of answers from the various regions. While the sentiment scores of peripheral issuer have increased slightly, those of issuers from core Europe have fallen. To some extent, the volatility in Austria around Heta and the unexpected split of Kommunalkredit Austria's covered bond programme will have played a role, as Austrian and German banks are affected here.

The main problem for issuers from core European countries remains the situation in private placement markets. Sentiment looks distinctly different than in public markets – and not in a good way. Thanks to the very low interest rates, issuers seem to find it much harder to find as much private placement demand as in public markets.

Issuers' sentiment from core continental European countries towards private placement markets is a full 2.3 index points below that for public markets.

Surprisingly, the difference for Nordic issuers who should be affected by



Sources: Crédit Agricole CIB

the same low yield and low spread environment as core European issuers has improved compared with last time. Sentiment in private placement markets is only slightly below the level for public markets (8.0 index points vs. 8.2 for public markets).

Looking at peripheral issuers, the still slightly higher yields seem to put them in a better position for now. Similar to Nordic issuers, their sentiment towards private placement markets is at the same level as it is for public markets, only at a higher absolute level.

Investors: all-time low in April

The CSI investor sub-index has dropped to a record low. We had the investor sub-index at 4.1 twice before – in December 2011 when sentiment towards peripheral markets was below 2 and then again in December 2014. This time around sentiment has dropped by 0.6 index points to 3.9, the lowest reading of the index since we started it in 2011.

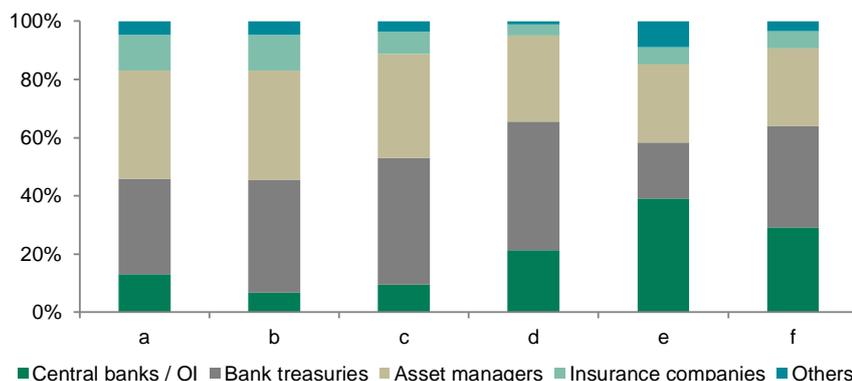
Even more than on the issuer side, Austrian volatility has led to lower scores for core European sectors. The overall lower yield environment, with even 10 year Bunds approaching negative yield territory, and the grinding tighter of asset-swap spreads of covered bonds has been another big factor driving sentiment lower.

The main theme in almost every investor meeting these days continues to be the cash that is tied to the market/product being put to work in new issues as they come even if spread levels are extremely tight. After all, getting bonds in secondary markets is a very tough challenge with the CBPP3 buying around Eu500m every single day, and holding cash has started to cost as non-bank investors are starting to be charged negative interest rates, too. Also, the wider covered-govvie and covered-SSA spreads lead to a natural demand from bank treasuries who continue to buy despite showing fairly low sentiment scores.

In the current low yield environment, it has been all about carry, and peripheral markets were also able to profit from this in the past in our sentiment index. Considering how far they have come, however, the carry argument pro periphery has become decreasingly valid.

Consequently, sentiment towards peripheral markets is a good 2 index points below the level where it was in October 2014. It is still the highest out there, but non-CBPP3 eligible sectors such as Australia or New Zealand that by now trade at similar levels to some of the strong Spanish names, for example, has held up the best in the past months.

Investor distribution by investor type for Eurozone euro benchmark covered bond issues (%)*



*A: 2012; B: 2013; C: 2014 pre-CBPP3; D: post-CBPP3 announcement; E: since CBPP3 start, F: 2015
Sources: Bloomberg, IFR, The Cover, The Covered Bond Report, Crédit Agricole CIB

Bottom line

The drop in our CSI index matches the feeling we get when talking to investors: there is a lot of frustration about the impact QE in general has on yield levels as well as more specifically CBPP3 on the covered bond market.

However, there are still investors buying. Deutsche Hyp's latest Eu500m mortgage Pfandbrief is the best example. Books were closed in a matter of a few minutes at Eu1.85bn and with 70 investors.

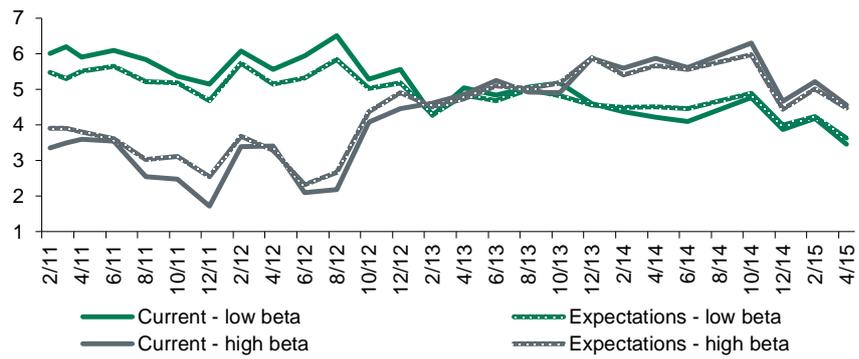
As we have written above, the range of answers we received is still very wide and despite a lot of investors giving us low scores there were also others with high figures. In an overall illiquid market with one big buyer and net negative issuance, it doesn't need a large army of buyers to absorb new issues.

CBPP3 will in any case not stop buying at the current pace and will thus continue to squeeze the market. The only way settled volumes can come down is if the ECB stops finding investors willing to sell. Surprisingly, this does not seem to have happened yet, but it will at some point in the coming months. Rather than lead to more normal market, a lower CBPP3 number will in our view cause the opposite effect.

For us, the bottom line on covered bond markets at this point is, with sovereign and SSA markets being equally distorted, spread valuations of covered bonds vs. these two markets in fact look fair.

When it comes to sector allocations, our take is roughly unchanged to what we said in our covered bond outlook. CBPP3 is buying, but as Austria showed

CSI investor index – low beta vs. high beta



Sources: Crédit Agricole CIB

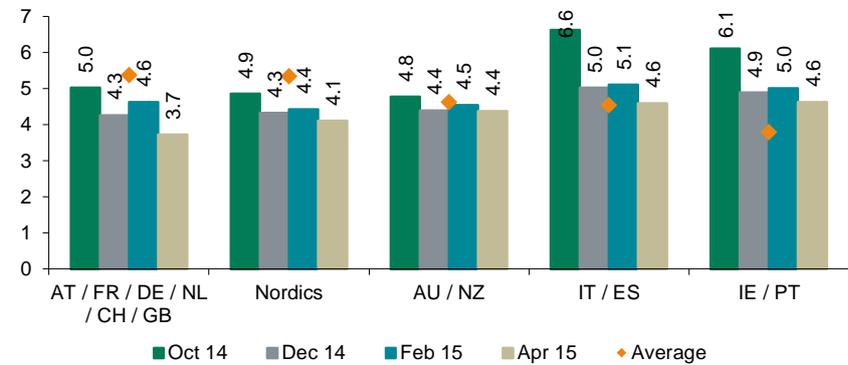
there can still be volatility in individual cases. It thus does not pay to chase the last basis point of carry by going into weaker qualities in CBPP3-land.

Focus on quality and then add risk by buying on dips, as a number of investors did in the case of Austria. The ongoing buying by CBPP3 will squeeze markets tighter again after a widening phase. We also still like the CBPP3-ineligible markets such as Australia or New Zealand, which at this

point trade at similar levels to some of the stronger peripheral issuers. There are only a few exceptions to this where we feel noticeable further compression can still happen.

Last, but not least, keep an eye on other currencies. Depending on how the basis swaps to US dollars and sterling trade, they can be interesting. Besides, these markets have seen more issuance than in the past and have also grown in net terms. ■

CSI investors' current situation index per sector



Sources: Crédit Agricole CIB

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Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 22/4/15.

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
AKTIA (*AKTIA REMB)				NYKRE (*senior secured)			
XS0946639381*	1.125	25/06/2018	-11	LU0787776052*	3.250	01/06/2017	25
XS1056447797	1.000	15/04/2019	-11	LU0921853205*	1.750	02/05/2018	25
XS1210338015	0.250	31/03/2022	-8	LU0996352158*	1.750	28/01/2019	25
BRF				POHBK			
XS0882166282	2.500	31/01/2018	35	XS0646202407	3.500	11/07/2018	-13
DANBNK				XS1076088001	0.750	11/06/2019	-13
XS1113212721	0.375	26/08/2019	-9	XS1045726699	1.500	17/03/2021	-13
XS0469000144	4.125	26/11/2019	-10	XS1144844583	1.000	28/11/2024	-11
XS1197037515	0.250	06/04/2020	-7	XS0540216669	3.000	08/09/2017	9
XS1071388117	1.250	11/06/2021	-6	XS0931144009	1.250	14/05/2018	20
XS0519458755	3.750	23/06/2022	-9	XS1077588017	1.125	17/06/2019	29
XS0751166835	3.875	28/02/2017	9	XS1040272533	2.000	03/03/2021	36
XS1139303736	3mE+35	19/11/2018	27	XS1196759010	0.750	03/03/2022	46
Danske Bank Finland (SAMBK)				SANTAN (Norway)			
XS0834714254	1.625	27/09/2019	-14	XS1218217377	0.625	04/20/2018	48
XS0640463062	3.875	21/06/2021	-12	SBAB			
DNBNO				XS1117542412	0.625	07/10/2021	-9
XS0877571884	1.000	22/01/2018	-13	XS0968885623	2.375	04/09/2020	37
XS0992304369	1.125	12/11/2018	-8	SEB			
XS0794233865	1.875	18/06/2019	-8	XS0548881555	2.625	16/10/2017	-11
XS1117515871	0.375	07/10/2019	-9	XS0894500981	1.500	25/02/2020	-11
XS1137512742	3mE+10bp	17/11/2021	9	XS0988357090	1.625	04/11/2020	-11
XS0637846725	3.875	16/06/2021	-7	XS0614401197	4.125	07/04/2021	-9
XS0759310930	2.750	21/03/2022	-6	XS0730498143	3.875	12/04/2017	10
XS0856976682	1.875	21/11/2022	-5	XS0592695000	4.250	21/02/2018	18
XS0522030310	3.875	29/06/2020	24	XS0972089568	2.000	18/03/2019	23
XS0595092098	4.375	24/02/2021	44	XS0854425625	1.875	14/11/2019	27
XS0732513972	4.25	18/01/2022	44	XS1033940740	2.000	19/02/2021	35
EIKBOL				SHBASS			
XS0851683473	1.250	06/11/2017	-7	XS0906516256	1.000	19/06/2018	-12
XS0794570944	2.000	19/06/2019	-7	XS1050552006	1.000	04/01/2019	-13
XS1044766191	1.500	12/03/2021	-7	XS1135318431	0.625	10/11/2021	-10
JYBC				XS0732016596	3.375	17/07/2017	7
XS1078186001	3mE+50bp	19/06/2017	26	XS0794225176	2.250	14/06/2018	11
XS1207605210	3mE+35bp	23/03/2018	29	XS0965050197	2.250	27/08/2020	28
LANSBK				XS0693812355	4.375	20/10/2021	36
XS0926822189	1.125	07/05/2020	-8	XS0819759571	2.625	23/08/2022	31
MINGNO				SPABOL			
XS0893363258	2.125	21/02/2018	29	XS0820929437	1.250	28/02/2018	-13
XS1069518451	1.500	20/05/2019	39	XS0738895373	2.750	01/02/2019	-11
NDASS				XS0995022661	1.500	20/01/2020	-9
XS0731649660	2.375	17/07/2017	-9	XS0942804351	1.500	12/06/2020	-8
XS0965104978	1.375	20/08/2018	-13	XS0587952085	4.000	03/02/2021	-9
XS1014673849	1.250	14/01/2019	-13	XS0674396782	3.375	07/09/2021	-9
XS0778465228	2.250	03/05/2019	-15	SPAROG			
XS0874351728	1.375	15/01/2020	-15	XS0853250271	2.000	14/05/2018	35
XS1204134909	0.125	17/06/2020	-14	XS0965489239	2.125	27/02/2019	42
XS0591428445	4.000	10/02/2021	-13	XS0876758664	2.125	03/02/2020	40
XS1132790442	1.000	05/11/2024	-11	XS1055536251	2.125	14/04/2021	59
XS1204140971	0.625	17/06/2027	-6	SVEGNO (Boligkreditt)			
XS0916242497	1.375	12/04/2018	17	XS0969571065	1.500	11/09/2018	-7
XS0728763938	4.000	11/07/2019	23	XS1015552836	1.250	16/01/2019	-10
XS0520755488	4.000	29/06/2020	31	XS1225004115	0.250	29/04/2022	-5
XS1032997568	2.000	17/02/2021	39	SWEDA			
XS0801636902	3.250	05/07/2022	37	XS0925525510	1.125	07/05/2020	-9
XS1189263400	1.125	12/02/2025	53	XS1069674825	1.125	21/05/2021	-10
<p>Source: Crédit Agricole CIB Trading, Bloomberg. See disclaimer on page 5.</p>				XS1200837836	0.375	11/03/2022	-11
				XS0740788699	3.375	09/02/2017	11
				XS1045283766	1.500	18/03/2019	18

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