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NORDIC FIs & COVERED

INSIDE:

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Swedbank reopens euro FIG with Eu750m senior success

Swedbank reopened the euro financial institutions market yesterday (Thursday) with a Eu750m seven year senior unsecured fixed rate issue that attracted Eu1.9bn of demand and was priced at the tight end of guidance, ending a two week wait for benchmark supply, and bankers said other issuers would be encouraged to come to market.

Rabobank also issued yesterday, selling a Eu1.5bn five year floating rate note. The last benchmark senior issuance had been from UBS on 7 May, while this week was the third in a row without any euro benchmark covered bond supply.

"Swedbank's deal is clearly the reopener of the euro market," said a syndicate official at one of the leads. "It is the one the market was waiting for."

Leads Deutsche, JP Morgan, Natixis, Nomura and Swedbank went out with initial price thoughts of the low 50s over mid-swaps before the leads set guidance at 47bp plus or minus 2bp, attracting more than Eu1bn of orders in the first hour of bookbuilding. The lead syndicate official said this allowed them to print at the tight end, building a final order book of Eu1.9bn.

"There was some level of uncertainty opening up the market again," said Kimberly Bauner, a member of the long term funding team at Swedbank, "but we were very pleased with how it went."

She said Swedbank issued yesterday because it was keen to come to market before a public holiday on Monday closes some jurisdictions and ahead of further Swedish holidays in June, and added that the issuer was encouraged after seeing comparable deals perform well over the last week.

"We had seen a return of stability over the prior couple of trading sessions," she said. "But we were very much aware that it is a volatile market these days, so choosing the right day to execute is key right now. We knew it was

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DNB hits US in $1.25bn covered bond, gets tight level in Skr4bn Tier 2

DNB Boligkreditt attracted strong US interest with a $1.25bn (Eu1.12bn, Nkr9.44bn) five year benchmark covered bond on Wednesday, and yesterday (Thursday) achieved tight pricing with a Skr4bn (Nkr3.61bn, Eu430m) subordinated issue that a banker said he believes to be the largest ever Tier 2 in the krona market.

The Norwegian bank has been issuing covered bonds in the dollar market with 144A documentation since 2010 alongside several of its Nordic peers as well as Australian and Canadian issuers.

However, two weeks ago Swedbank sold a $1bn five year deal without 144A, dispensing with the documentation after having used it for previous dollar benchmarks, and three German banks have sold Reg S dollar issues this year. An official at another Nordic bank that has previously used the documentation to target US accounts meanwhile said this week that the 144A format does not today offer much added value in terms of investor distribution or pricing advantage.

However, Thor Tellefsen, head of long term funding at DNB, said

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Latest Nordic FI benchmarks

Senior unsecured (z spreads mid)			
SWEDA	1.000%	06/22	40bp
CBSBKF	1.000%	05/20	64bp
SANTAN	0.625%	04/18	36bp
Covered bonds (asw spreads mid)			
SVEGNO	0.250%	04/22	-13bp
LANSBK	0.250%	04/22	-7bp
AKTIA	0.250%	03/22	-9bp

Source: CACIB trading 21/5/15

DNB sees 144A pros, Tier 2 sets krona record

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that more than half of the investors that participated in yesterday's 144A benchmark would not have participated in a euro benchmark covered bond from the Norwegian issuer, and that these investors were also among the biggest takers.

"Even if you don't sell that much into the US you can still have a good investor base in Europe today," he said, "and of course we could have done Reg S. But we decided to see what we could get out of the US and actually we sold surprisingly well into the US.

"We had close to 50% North America, which was better than anticipated. For us 144A was beneficial."

He suggested that the extended investor reach of the format probably enabled DNB to achieve a $1.25bn issue size rather than the $1bn size achieved by Swedbank on 6 May.

Leads BAML, Barclays, HSBC and RBC priced the deal at 37bp over mid-swaps after having gone out with IPTs of the high 30s. The 37bp spread was the same as that achieved by ANZ on a $1.25bn five year covered bond on Tuesday and the spread paid by Swedbank on its five year earlier this month.

"The pricing was pretty much given," said Tellefsen. "It was, let's say, the established price and I felt it was a fair price.

Thor Tellefsen, head of long term funding at DNB

"Comparing the US market versus euros is not necessarily just about the last basis point," he added. "This is to a large extent about investor diversification."

DNB's last euro benchmark covered bond was a Eu1.25bn five year in September 2014 and Tellefsen said that the issuer could return with a euro benchmark this autumn.

The Norwegian bank turned to subordinated issuance yesterday, selling a Skr4bn dual tranche 10 year non-call five issue that a banker involved in the deal said he believes to be the biggest Tier 2 issue ever launched in the Swedish market. The deal was announced at the beginning of last week and a roadshow held in Stockholm this Tuesday and Wednesday.

"Right from the start interest was pretty good, with IOIs already coming in after the meetings," said a syndicate at one of the leads – DNB and Swedbank, "so we were pretty confident when we opened books this (Thursday) morning."

The leads went out with IPTs of the 140bp over mid-swaps/Stibor area and maintained this through guidance to final pricing of 140bp. The lead syndicate official said that a clear view was taken early on that this was the tightest level that would be achievable, but noted that it represented funding equivalent to 110bp over mid-swaps in euros.

"That is extremely tight," he added.

DNB's Tellefsen said that the pricing was very favourable and that the issuer was very happy with the diversification achieved through the Swedish krona issue, which attracted Skr6bn of demand to its Skr3bn FRN and Skr1bn fixed rate tranches. According to the lead syndicate official, demand was heavily skewed towards the FRN tranche, which he attributed to the interest rate outlook in Sweden.

"We have never seen a sub deal attract this amount of demand in krona before," he added. "We have had a severe lack of supply as it has been a long time since we saw a quality name in sub debt format."

He said that he believes it to be the biggest ever Tier 2 in the Swedish market with local banks having typically issued Skr500m-Skr1bn deals and only up to Skr2bn. He noted that outstandings with three to four years remaining until their calls were trading at around 100bp over.

Swedish accounts were allocated 80% of the paper, Norway 17%, Denmark 1%, Finland 1%, and a very small amount went to Luxembourg, according to the lead syndicate official. ■

Nordic FIs & Covered Bonds

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Swedbank reopens euros, dollars tricky for SEB

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a fairly clear day economic data-wise, and the news regarding ECB front-loading of purchases was a further positive for issuance."

The lead syndicate official said other issuers will now be looking closely at the market, noting that Swedbank's execution showed they will not necessarily need to pay a significant premium. Citing NAB January 2022s and Pohjola March 2022s quoted at 40bp-41bp, bid, he estimated fair value for the new issue to be 41bp-42bp.

"This clearly demonstrates that despite the recent uncertainty if you're a strong name and a core issuer you don't need a huge new issue premium to complete a successful deal because the demand is still there," he said.

"There is a lot of cash out there that needs to be put to work, so you can put together a well oversubscribed deal with a minimum premium."

The deal also tightened 2bp on the break.

Germany was allocated 23% of the bonds, France 22%, the UK 17%, the Nordic 15%, the Benelux 13%, Asia 7%, and others 3%. Asset managers 60%, banks 25%, pension funds and insurance companies 10%, central banks 3%, hedge funds 1%, and others 1%.

With the new issue, Swedbank has completed each of the benchmark trades scheduled under its funding plan for the year, said Bauner. She added that the issuer does not anticipate launching further benchmarks in the short term, and will likely continue with private placements.

"This means we can be more nimble and opportunistic," she said. "As we look at the year ahead we see some benefit to pre-funding our requirements as opposed to waiting. Given the market is fairly volatile, we are unsure as to where credit spreads will go over the second half of the year. We felt it was right to go ahead when we saw a good opportunity."

While noting that the euro senior unsecured pipeline remained slim, Robert Chambers, FIG syndicate manager at Crédit Agricole CIB, said Swedbank's outcome shows demand is there for euro deals.

"If this stable backdrop continues then more issuers will look at following Swedbank back into the market," he said.

Chambers said that although the news of the ECB's front-loading boosted sentiment this week, its long term approach has not changed and hence the impact will likely be shorter-lived.

"The risk now is maybe that we experience another similar correction to the one we have just seen," he said. "This supports the idea that you should be looking to do issues sooner rather than later, especially on the back of these deals."

"You should be looking to do issues sooner rather than later"

Nordic issuers would also be supported by a lack of recent supply from the region, Chambers added.

Meanwhile, Skandinaviska Enskilda Banken (SEB) priced a $1bn (Eu899m, Skr8.36bn) five year senior unsecured issue wider than initial price thoughts on Wednesday after an unanticipated slew of supply hit the US high grade market, although the Swedish issuer was able to achieve an oversubscribed book at the wider level.

On what they expected to be a light day in the dollar market, leads BAML, Barclays, Deutsche, Morgan Stanley and SEB announced IPTs of the high 80s over Treasuries with a view to pricing the new issue in the low 80s, according to a banker involved in the deal, who noted that secondaries had been performing strongly.

However, a deluge of higher yielding financial institutions and corporate issuance that was opportunistically announced that morning, such as a $5bn Goldman Sachs issue, as well as some interest rate volatility on the back of US figures, put paid to these plans, and the May 2020 deal was ultimately priced at 90bp over.

"Early investor reaction was slow but responsive, then once competing supply fully hit the market investors became increasingly price sensitive," said the banker, noting that SEB's issue was the tightest amid the glut of issuance, much of which was offering chunky new issue premiums.

At the 90bp level the book totalled some $1.2bn comprising around 60 accounts.

"We decided not to downsize but to be responsible to the investors and pay what was necessary to print a $1bn transaction," said John Arne Wang, head of treasury management at SEB.

He noted that although not as attractive as expected, the pricing was competitive versus levels available in Europe.

SEB has not issued a benchmark covered bond outside its home krona market since October 2013, when it sold a Eu1bn seven year, but Wang said that the issuer expects to return to euros this year. ■

Record RD FRN reflects mortgage, coupon moves

Realkredit Danmark (RD) sold a Dkr42.4bn (Eu5.68bn) 18 month floating rate note – the largest ever FRN in the Danish covered bond market – in auctions from Monday to yesterday (Thursday), with the size reflecting changes in the type of mortgage being taken out and the maturity a debate over negative coupons in Denmark.

The sales of the FRN were ahead of the 1 July refinancing date and coincide with Nykredit Realkredit ARM refinancing auctions this week.

RD auctioned Dkr10.6bn each day and, according to Jan Weber Østergaard, senior analyst at Danske Bank (RD's parent), only once has a larger amount of an FRN been sold on a single day, while the Dkr42.4bn total makes it the largest ever floating rate note in the Danish covered bond market.

"The volume of this bond that needs to be refinanced was built up over several years," said Klaus Kristiansen, executive vice president at Realkredit Danmark. "These borrowers are all corporate borrowers and they have gone from interest reset loans, which are reset every year, into these floating rate bonds, because – for one reason – it is a better match for swap hedging.

"Also, we have tried to build in incentives to go for longer term funding and usually these floating rate bonds are three year funding instead of just one year funding, so we have on top of this put a price incentive to go for this product instead of the interest reset with one year funding. So those two factors explain why this has seen such great demand."

Kristiansen said that the refinancing is on this occasion being done via an 18 month FRN rather than a three year or longer FRN because of the issue of how to cope with negative coupon rates.

"We have been in negative territory in terms of yields in Denmark, and that has sparked a debate on whether we should issue bonds which could have negative coupon rates," said Kristiansen. "We can see a need for issuing bonds with no floor so that the coupon could become negative, but right now we do not feel that the investor base is there to absorb these bonds.

Klaus Kristiansen, executive vice president at Realkredit Danmark

"For that reason we decided this time around to issue bonds which are floored at zero percent, but with a shorter term to maturity – 18 months instead of three years – and then in 18 months' time we expect to be able to refinance the bonds with no coupon floor provided that has become standard by then."

"Right now we do not feel that the investor base is there"

Because it was selling the FRN over four days, RD did so on a price basis rather than – as it would normally do – a spread basis. The spread was fixed at 20bp and on the first day of sales, on Monday, the price was fixed at 100.30 with a bid-to-cover ratio of 2.41.

Danske's Østergaard said that the sale appeared to have started OK, with the price very close to what he had forecast (a range of 100.25-100.35). He said that the level reflected a premium versus one year ARM bonds of 12bp-13bp, in line with what he had expected to reflect the floating rate format of the paper and the large volume on offer. He also noted that the concession was consistent with a Dkr7.8bn one year FRN auctioned by Nykredit on Monday of last week (11 May), which he said came with a relatively high premium.

Anders Aalund, chief analyst at Nordea Markets, said the premium initially offered by RD's FRN versus ARMs – at some 20bp on Monday when compared with a January 2017 ARM – was higher than he had expected, and that he had forecast a price of 100.45-100.50 that incorporated a premium to reflect the floating rate format, with 100.60 being the level at which the FRN pricing would be at fair value versus an equivalent maturity ARM. He also noted that the size worked in the FRN's favour to an extent since it made it LCR-eligible as a Level 1B asset.

The differential, however, declined after the first day, with the FRN price rising from 100.30 to 100.33 Tuesday, then 100.36 and 100.39 on subsequent days, while bid-to-covers from Tuesday to Thursday ranged from 2.93-2.95, giving an overall bid-to-cover of 2.81.

Nykredit meanwhile sold Dkr16.4bn of a one year bullet across the first four days of the week, with sales of Dkr1.35bn and Dkr1.8bn of three and five year paper, respectively, due today (Friday), constituting its latest quarterly ARMs refinancing.

Analysts said that the initial pricing on the sales, on Monday, was a few basis points cheaper than expected and implied by secondaries and Lars Mossing Madsen, chief dealer at Nykredit, said that the level was a couple of basis points wider, even if a reduction in tap issuance on the back of lower ARMs supply meant that secondary levels were less useful guides than previously. He put the spread over Cita on Monday at Cita plus 22.7bp, while the yield was 0.04%, and levels improved through the week by around 3bp against Cita and to a yield of minus 0.01%. The bid-to-cover on Monday was 2.33 and 2.42 on Tuesday, before rising to 3.57 on Wednesday and 2.94 yesterday.

The bid to covers and relatively low movement in spreads represented a return to stability after lower than expected demand and dramatic moves witnessed in the last two quarters' auctions.

"There are no big headlines this time," said Madsen. ■

Ålandsbanken Eu250m covered its biggest yet

Finland's Ålandsbanken launched its largest ever covered bond on Tuesday, a Eu250m no-grow five year issue that the issuer's head of group treasury said represented successful pricing and diversification, even if it had to pay up for the sub-benchmark size.

The deal was priced at 9bp over mid-swaps, in line with guidance, after leads Commerzbank and Nordea had gone out with initial price thoughts of the 10bp area.

Heli Huhtala, head of group treasury at Ålandsbanken, said the level was a great success considering where the issuer's earlier deals had priced.

"If we look back a few years, at the levels where we printed our first transactions when we opened the Finnish pool, then we have come down more than 100bp, so that is amazing," she said.

However, Huhtala acknowledged that Ålandsbanken had been forced to pay a premium due to its smaller size and the sub-benchmark size of the deal, and suggested that the issuer may change its approach in future.

"At the moment we are compromising with an extremely cautious and risk averse view on liquidity risk," she said. "We don't want to issue transactions that are too big, or have transactions maturing that are too big, in any single quarter. The fact that we are not in the benchmark size makes us pay so much more compared with our peers in Finland, who do not have such high quality cover pools.

"Because of this we will perhaps review our funding strategies in the future. That is something that we need to work on."

The deal attracted around Eu300m of orders from 20 accounts. Investors from the Nordics were allocated 60%, Germany and Austria 36%, and Italy 4%. Central Banks took 32%, banks 31%, agencies 26%, and fund managers 11%.

Heli Huhtala, head of group treasury at Ålandsbanken

"I think it went really well," said Huhtala. "Our previous largest deal was Eu150m. With this issue we were able to grow the size and reach many new investors, so in that sense it is a success for us. That diversification is really welcome."

The deal followed an investor roadshow that ran from 5 May to 12 May, visiting Helsinki, Frankfurt and Hamburg. Huhtala said one of the priorities of the roadshow had been explaining the business concept of the bank to new investors.

"We explained that we are a niche bank, targeting high net worth individuals and their companies, and we wanted to present the extremely high credit quality in our portfolio," she said. "We had to explain the different nature of our bank from other Finnish banks."

The new deal was issued from Ålandsbanken's Finnish cover pool. These covered bonds and also those backed by a Swedish pool of the bank were upgraded from AA to AAA by S&P over the past month.

Tuesday's issue may be followed by another covered bond, which could be issued from either the Finnish or Swedish cover pools and will most likely launch in the third quarter, Huhtala added.

"But we will see how it goes," she said. "I must say that the extremely good liquidity situation in the market shows also in the banks finances. So our funding needs aren't on the level that we had anticipated at the beginning of the year, even though we have been able to grow lending according to the business plan."

Ålandsbanken opted to come to market now to refinance two covered bonds that will mature in September, Huhtala said, stating that the timing had nothing to do with market developments.

"We also wanted to wait to be able to present our really positive Q1 results before we went on the road," she said.

While the deal came during a lull in euro primary market activity, following a back-up in rates, Huhtala said this wider volatility did not have an impact on the outcome.

"On one hand we heard some investors say that they would remain on the sidelines because of the volatility in rates," she said, "but on the other there were investors who were really happy to see our deal, with its higher coupon and higher yield.

"For us the most important thing was to be able to place our transaction at the anticipated level, and we were able to do that." ■

Euro Nordic covered bond & senior unsecured secondary spreads

Nordic benchmarks: covered versus ASW, senior unsecured (shaded) versus Z spreads, 21/5/15.

ISIN	Coupon	Maturity	Mid Spd
AKTIA (*AKTIA REMB)			
XS0946639381*	1.125	25/06/2018	-11
XS1056447797	1.000	15/04/2019	-12
XS1210338015	0.250	31/03/2022	-9
BRF			
XS0882166282	2.500	31/01/2018	50
CBSBKF			
XS1227609879	1.000	06/05/2020	64
DANBNK			
XS1113212721	0.375	26/08/2019	-8
XS0469000144	4.125	26/11/2019	-9
XS1197037515	0.250	06/04/2020	-6
XS1071388117	1.250	11/06/2021	-7
XS0519458755	3.750	23/06/2022	-8
XS0751166835	3.875	28/02/2017	6
XS1139303736	3mE+35	19/11/2018	25
Danske Bank Finland (SAMBNK)			
XS0834714254	1.625	27/09/2019	-14
XS0640463062	3.875	21/06/2021	-12
DNBNO			
XS0877571884	1.000	22/01/2018	-12
XS0992304369	1.125	12/11/2018	-7
XS0794233865	1.875	18/06/2019	-7
XS1117515871	0.375	07/10/2019	-8
XS1137512742	3mE+10bp	17/11/2021	8
XS0637846725	3.875	16/06/2021	-7
XS0759310930	2.750	21/03/2022	-6
XS0856976682	1.875	21/11/2022	-6
XS0522030310	3.875	29/06/2020	18
XS0595092098	4.375	24/02/2021	42
XS0732513972	4.25	18/01/2022	42
EIKBOL			
XS0851683473	1.250	06/11/2017	-7
XS0794570944	2.000	19/06/2019	-6
XS1044766191	1.500	12/03/2021	-8
JYBC			
XS1078186001	3mE+50bp	19/06/2017	23
XS1207605210	3mE+35bp	23/03/2018	28
LANSBK			
XS0926822189	1.125	07/05/2020	-7
XS1222454032	0.25	22/04/2022	-7
MINGNO			
XS0893363258	2.125	21/02/2018	28
XS1069518451	1.500	20/05/2019	35
NDASS			
XS0731649660	2.375	17/07/2017	-9
XS0965104978	1.375	20/08/2018	-15
XS1014673849	1.250	14/01/2019	-13
XS0778465228	2.250	03/05/2019	-15
XS0874351728	1.375	15/01/2020	-15
XS1204134909	0.125	17/06/2020	-14
XS0591428445	4.000	10/02/2021	-13
XS1132790442	1.000	05/11/2024	-13
XS1204140971	0.625	17/06/2027	-6
XS0916242497	1.375	12/04/2018	8
XS0728763938	4.000	11/07/2019	21
XS0520755488	4.000	29/06/2020	25
XS1032997568	2.000	17/02/2021	30
XS0801636902	3.250	05/07/2022	34
XS1189263400	1.125	12/02/2025	36

Source: Crédit Agricole CIB Trading, Bloomberg. See disclaimer on page 7.

ISIN	Coupon	Maturity	Mid Spd
NYKRE (*senior secured)			
LU0787776052*	3.250	01/06/2017	19
LU0921853205*	1.750	02/05/2018	21
LU0996352158*	1.750	28/01/2019	23
POHBK			
XS0646202407	3.500	11/07/2018	-13
XS1076088001	0.750	11/06/2019	-13
XS1045726699	1.500	17/03/2021	-13
XS1144844583	1.000	28/11/2024	-11
XS0540216669	3.000	08/09/2017	7
XS0931144009	1.250	14/05/2018	14
XS1077588017	1.125	17/06/2019	18
XS1040272533	2.000	03/03/2021	30
XS1196759010	0.750	03/03/2022	40
SANTAN (Norway)			
XS1218217377	0.625	04/20/2018	36
SBAB			
XS1117542412	0.625	07/10/2021	-10
XS0968885623	2.375	04/09/2020	35
SEB			
XS0548881555	2.625	16/10/2017	-9
XS0894500981	1.500	25/02/2020	-10
XS0988357090	1.625	04/11/2020	-10
XS0614401197	4.125	07/04/2021	-9
XS0730498143	3.875	12/04/2017	6
XS0592695000	4.250	21/02/2018	16
XS0972089568	2.000	18/03/2019	19
XS0854425625	1.875	14/11/2019	20
XS1033940740	2.000	19/02/2021	32
SHBASS			
XS0906516256	1.000	19/06/2018	-11
XS1050552006	1.000	04/01/2019	-12
XS1135318431	0.625	10/11/2021	-10
XS0732016596	3.375	17/07/2017	6
XS0794225176	2.250	14/06/2018	10
XS0965050197	2.250	27/08/2020	26
XS0693812355	4.375	20/10/2021	35
XS0819759571	2.625	23/08/2022	31
SPABOL			
XS0820929437	1.250	28/02/2018	-11
XS0738895373	2.750	01/02/2019	-10
XS0995022661	1.500	20/01/2020	-8
XS0942804351	1.500	12/06/2020	-7
XS0587952085	4.000	03/02/2021	-8
XS0674396782	3.375	07/09/2021	-9
SPAROG			
XS0853250271	2.000	14/05/2018	25
XS0965489239	2.125	27/02/2019	35
XS0876758664	2.125	03/02/2020	34
XS1055536251	2.125	14/04/2021	50
SVEGNO			
XS0969571065	1.500	11/09/2018	-6
XS1015552836	1.250	16/01/2019	-9
XS1225004115	0.250	29/04/2022	-13
SWEDA			
XS0925525510	1.125	07/05/2020	-8
XS1069674825	1.125	21/05/2021	-10
XS1200837836	0.375	11/03/2022	-10
XS0740788699	3.375	09/02/2017	9
XS1045283766	1.500	18/03/2019	18
XS1239401216	1.000	01/06/2022	40

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