

# NORDIC FIs & COVERED

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and covered bond spread data

Friday, 27 November 2015

Issue 149

## Swedbank finds window for Eu750m senior pre-funding



Swedbank used a clear window to sell a tightly priced Eu750m long five year senior unsecured bond yesterday (Thursday), with conditions proving resilient over the week and investors receptive to issuance from across the capital structure.

Some Eu5.5bn of FIG supply hit the market, from German covered bonds to peripheral capital trades, and syndicate officials said market sentiment had remained in good shape through the week.

They noted that deals had continued to be well absorbed in spite of fallout from the shooting down of a Russian military plane by Turkey on Tuesday, which was followed by a 1%-1.5% sell-off in European equity markets and a 7bp widening of the iTraxx Crossover. Some syndicate officials said they were also surprised by the overall amount of primary market activity with the year-end approaching and given Thanksgiving in the US this week.

Stefan Abrahamsson, funding officer at the long term funding desk at Swedbank, said the Swedish issuer saw the week as a good opportunity to tap the market and pre-fund for 2016.

“At the beginning of next year there is basically one week in which we would be able to issue before we go into black-out, so this was a very handy window to utilise,” he said.

“We saw that we would be quite alone in the market this week, and the feedback we got from our joint leads and our own feeling told us this was a good time to approach the market.”

Leads Barclays, Credit Suisse, JP Morgan, Natixis, Nomura and Swedbank launched the euro benchmark January 2021 issue with initial price thoughts of the high 50s over mid-swaps area. They then set guidance at 55bp plus/minus 2bp having taken orders of around Eu1.5bn, before fixing the spread at 53bp. The

(continues on page 2)

## Swedish FSA, Debt Office dispute Riksbank covered bond stance

Sweden's FSA and National Debt Office have questioned the rationale behind proposals from the Riksbank that would tighten its rules on the use of covered bonds as repo collateral, and disputed that certain structural risks and vulnerabilities are not reflected in covered bonds' ratings.

The Swedish Bankers' Association also questioned the stance of the Riksbank, after the central bank on 21 October proposed four amendments to its criteria for repo collateral that are aimed at increasing diversification of the collateral pledged to the central bank and at reducing the credit risk therein. The proposed amendments are:

- That covered bonds issued by the counterparty itself shall no longer be accepted as collateral for credit at the Riksbank. This is a return to the terms and conditions for collateral that applied before the global financial crisis hit the financial system in 2007.
- The requirement for the lowest credit rating for securities to be accepted as collateral to be raised from the current A-to AA-.

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### Latest Nordic FI benchmarks

#### Senior unsecured (z spreads mid)

SEB	FRN	09/20	52bp
SWEDA	FRN	08/20	49bp
SBAB	FRN	06/18	33bp

#### Covered bonds (asw spreads mid)

SAMBNK	0.250%	11/20	6bp
SHBASS	0.375%	02/21	11bp
POHBK	0.250%	11/20	4bp

Source: CACIB trading 26/11/15

# SEB AG hits rate low as market proves open to all

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size of the deal was fixed at Eu750m (Skr6.95bn) with the book closing at Eu1.4bn pre-reconciliation.

“We are very happy with this outcome,” said Abrahamsson. “We are aware that as an issuer today you need to pay a new issue premium, but in the end we priced the deal at a level that is very attractive for us.”

A syndicate official at one of Swedbank’s leads said fair value for the new issue was in the area of 41bp over mid-swaps, based on other issuer’s secondary curves. He cited Stadshypotek August 2020s quoted at 42bp, bid, Nordea February 2021s at 49bp, and SEB February 2021s at 54bp.

“We decided on a fairly tight starting area, putting our confidence in the strong name of Swedbank, and it worked,” said the lead syndicate official. “The books were building nicely throughout the process and in the end we priced the deal at a level that I’d say is quite aggressive in this market.”

Robert Chambers, FIG syndicate manager at Crédit Agricole CIB, said the new issue premium for the deal was not transparent, with relative value in Nordic issuer’s secondary curves being distorted.

“But it is certainly a tight print when you compare it to other deals that have come recently,” he said.

Chambers noted that recent Eu500m no-grow deals from ING, Société Générale and HSBC France had all been priced at between 58bp and 60bp over mid-swaps.

“Those issuers are all a couple of notches lower rated than Swedbank and the comparisons aren’t clear cut, but given Swedbank printed a larger size 5bp-7bp tighter it’s certainly a good pricing outcome,” he said.

Syndicate officials said the deal was trading around 2.5bp tighter at yesterday’s (Thursday’s) close.

Abrahamsson added that the relative value in issuing in the euro senior market currently looks better for Swedish issuers than it did earlier in the year.

“At this point we see that the premium we pay to make a euro senior issue equivalent to Swedish kronor is somewhere around 30bp over domestic covered bonds, which is tight, on a relative basis,” he said. “It was much wider earlier this year.”

Fund managers bought 52% of the deal, banks 26%, insurance companies and pension funds 13%, and central banks 9%. Accounts from Germany and

Austria took 31%, the UK and Ireland 27%, France 11%, Switzerland 8%, the Benelux 7%, the Nordics 5%, other Europe 5%, and Asia 6%.

Chambers said that other issuers could not extract much new information from the deal, other than that senior unsecured issues are continuing to work well.

“There hasn’t been much senior supply so there is cash to put to work, and we’ve seen that in all recent deals,” he said. “The ones that have been brought to market were all heavily oversubscribed and performing well on secondary markets.”

The deal is the first euro benchmark senior unsecured bond from a Nordic issuer since SEB sold a five year FRN on 8 September.

SEB’s German subsidiary on Tuesday sold a Eu250m three year covered bond that was priced with a coupon of 0.01% and a yield of 0.006%, which the issuer said is the lowest ever coupon and yield on any German Pfandbrief sold in the primary market.

SEB AG leads Commerzbank, NordLB and SEB launched the sub-benchmark public sector Pfandbrief with initial price thoughts of the 8bp over mid-swaps area, then moved to guidance of 7bp plus/minus 1bp before setting the re-offer at 7bp. The book closed at around Eu400m, with around 90% of the deal going to German accounts.

A syndicate official at one of the leads said the deal had to be priced at 7bp to avoid printing it with a negative yield, with many accounts therefore limiting their orders at 7bp.

Bankers said they expect market conditions to remain supportive for new issuance next week, but questioned whether supply will continue in current volumes, with many issuers now done for the year.

“The first half of the week should be a good window, but after that everyone’s attention is going to turn to the ECB and non-farm payrolls,” said Chambers. “From an investor point of view, you can see that demand is still there for the majority of transactions, as everything from covered bonds to AT1s have been well received this week.

“The question is more whether issuers still have funding to do.” ■

## Nordic FIs & Covered Bonds

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# Bankföreningen shares FI, Riksgälden concerns

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- The introduction of a concentration-limit rule under which covered bonds, as a share of a counterparty’s total collateral value, may amount to a maximum of 60%.
- The introduction of a concentration-limit rule under which a maximum of 50% of the share of a counterparty’s collateral value that comprises covered bonds may consist of covered bonds from the same issuer.

In a joint letter published on Friday of last week (20 November), the Swedish FSA (Finansinspektionen, or FI) and the Swedish National Debt Office (Riksgälden) criticised the proposals and said they must be investigated further and discussed in the Financial Stability Council.

An analyst at SEB said the letter questioned the motives behind the Riksbank’s proposals more than the content of the proposals themselves.

“The FSA and the debt office are not against changing the rules,” she said. “But they think that if the Riksbank tries to force banks to hold less covered bonds and more government bonds in the interest of financial stability then that is something that must be discussed in the Stability Board.”

The Riksbank noted in its proposals that Swedish covered bonds currently receive the highest possible ratings, but said it believes there are certain structural risks and vulnerabilities associated with covered bonds that are not reflected in the ratings.

According to the SEB analyst, the FSA and the debt office do not share the Riksbank’s view on this matter and they do



not think the Riksbank explains clearly enough how it comes to this conclusion.

The Swedish Bankers’ Association (Svenska Bankföreningen) also published a response to the Riksbank proposals, in which it shared the concerns of the FSA and debt office, and said the proposals had concerned investors and market participants.

“The important thing to note is that there is a lack of research behind the Riksbank’s opinion,” said Jonny Sylvé, senior advisor at the Swedish Bankers’ Association. “We can’t understand why they have changed their view on the instrument.”

“If they think that saying negative things about covered bonds will have an impact on the indebtedness of households, then that is very farfetched.”

The Swedish Bankers’ Association also disputed that certain structural risks and vulnerabilities are not reflected in covered bonds’ ratings.

“Rating agencies can of course be wrong,” said Sylvé, “but they have a method that considers systemic risk in

the banking sector.”

When explaining its proposals, the Riksbank said the extent to which Swedish banks rely on covered bonds in their liquidity reserves is unsatisfactory, noting that covered bonds compose almost two-thirds of major banks’ liquid securities denominated in Swedish kronor, while round 70% of the total collateral pledged to the Riksbank consists of covered bonds.

It said that if a large proportion of these bonds are owned by a small number of banks, there is a risk that the bonds will be difficult to sell in a crisis, and that this “cross-ownership” of covered bonds also gives rise to spillover effects within the banking system if banks need to sell others’ covered bonds to secure liquidity. It added that access to wholesale funding at low interest rates, including covered bonds, has also contributed to a considerable increase in Swedish households’ indebtedness in the last 10 years.

The Riksbank proposed that the amended terms and conditions would be introduced in stages in 2016, with the timeframe to be announced at a later date. ■

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Moody's is negative on NBSB...  
Not planned to be in...  
NBSB in corporate...  
Nordic sees FI spread...

The European Commission will take...  
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...to be as...  
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Nykredit has received...  
...to be as...  
...to be as...  
...to be as...

**Swedish debt office bail in proposal seen as credit negative by Moody's**

Swedish debt office bail in proposal seen as credit negative by Moody's...  
...to be as...  
...to be as...  
...to be as...

## Euro Nordic covered bond & senior unsecured secondary spreads

*Covered versus ASW, senior unsecured (shaded) versus Z spreads, 26/11/15. See disclaimer on page 5. Source: CACIB Trading*

ISIN	Coupon	Maturity	Mid Spd	ISIN	Coupon	Maturity	Mid Spd
<b>AKTIA (*AKTIA REMB)</b>				<b>POHKBK</b>			
XS0946639381*	1.125	25/06/2018	-4	XS1076088001	0.750	11/06/2019	0
XS1056447797	1.000	15/04/2019	-1	XS1324085569	0.250	23/11/2020	4
XS1210338015	0.250	31/03/2022	2	XS1045726699	1.500	17/03/2021	2
<b>BRF</b>				XS1285892870	0.625	09/04/2022	4
XS0882166282	2.500	31/01/2018	33	XS1144844583	1.000	28/11/2024	2
<b>CBSBKF</b>				XS1077588017	1.125	17/06/2019	39
XS1227609879	1.000	06/05/2020	87	XS1040272533	2.000	03/03/2021	62
<b>DANBNK</b>				XS1196759010	0.750	03/03/2022	64
XS1113212721	0.375	26/08/2019	3	<b>SANTAN (Norway)</b>			
XS0469000144	4.125	26/11/2019	3	XS1218217377	0.625	04/20/2018	61
XS1197037515	0.250	06/04/2020	6	<b>SBAB</b>			
XS1287931601	0.375	08/09/2020	6	XS1300812077	0.375	05/10/2020	7
XS1071388117	1.250	11/06/2021	6	XS1117542412	0.625	07/10/2021	9
XS0519458755	3.750	23/06/2022	8	XS1248348721	0.750	17/06/2022	11
XS1139303736	3mE+35	19/11/2018	28	XS1241559910	3mE+30bp	27/06/2018	33
XS1241229704	0.750	04/05/2020	41	XS0968885623	2.375	04/09/2020	72
<b>Danske Bank Finland (SAMBKN)</b>				<b>SEB</b>			
XS0834714254	1.625	27/09/2019	1	XS0988357090	1.625	04/11/2020	8
XS1325648761	0.250	26/11/2020	6	XS0614401197	4.125	07/04/2021	8
XS0640463062	3.875	21/06/2021	2	XS1246782269	0.750	16/06/2022	10
<b>DNBNO</b>				XS1314150878	0.625	30/01/2023	13
XS0794233865	1.875	18/06/2019	6	XS0592695000	4.250	21/02/2018	17
XS1117515871	0.375	07/10/2019	7	XS0972089568	2.000	18/03/2019	34
XS1308759718	0.375	20/10/2020	8	XS0854425625	1.875	14/11/2019	42
XS1137512742	3mE+10bp	17/11/2021	20	XS1291152624	3mE+47	15/09/2020	52
XS0637846725	3.875	16/06/2021	11	XS1033940740	2.000	19/02/2021	52
XS0759310930	2.750	21/03/2022	14	<b>SHBASS</b>			
XS0856976682	1.875	21/11/2022	15	XS1050552006	1.000	04/01/2019	2
XS0522030310	3.875	29/06/2020	40	XS1324397964	0.375	24/02/2021	11
XS0595092098	4.375	24/02/2021	56	XS1135318431	0.625	10/11/2021	11
XS0732513972	4.250	18/01/2022	59	XS0794225176	2.250	14/06/2018	25
<b>EIKBOL</b>				XS0965050197	2.250	27/08/2020	37
XS0794570944	2.000	19/06/2019	11	XS0693812355	4.375	20/10/2021	53
XS1044766191	1.500	12/03/2021	13	XS0819759571	2.625	23/08/2022	53
XS1312011684	0.625	28/10/2021	17	<b>SPABOL</b>			
<b>JYBC</b>				XS1320110791	0.125	11/12/2018	9
XS1078186001	3mE+50bp	19/06/2017	28	XS0738895373	2.750	01/02/2019	7
XS1207605210	3mE+35bp	23/03/2018	44	XS0995022661	1.500	20/01/2020	9
<b>LANSBK</b>				XS0942804351	1.500	12/06/2020	9
XS0926822189	1.125	07/05/2020	9	XS0587952085	4.000	03/02/2021	8
XS1222454032	0.25	22/04/2022	9	XS0674396782	3.375	07/09/2021	6
<b>MINGNO</b>				XS1285867419	0.750	05/09/2022	11
XS0893363258	2.125	21/02/2018	54	<b>SRBANK</b>			
XS1069518451	1.500	20/05/2019	73	XS0853250271	2.000	14/05/2018	49
<b>NDASS</b>				XS0965489239	2.125	27/02/2019	73
XS0874351728	1.375	15/01/2020	1	XS0876758664	2.125	03/02/2020	75
XS1204134909	0.125	17/06/2020	-1	XS1055536251	2.125	14/04/2021	89
XS0591428445	4.000	10/02/2021	0	<b>SRBOL</b>			
XS1308350237	0.625	19/10/2022	5	XS1297977115	500.000	28/09/2020	8
XS1132790442	1.000	05/11/2024	1	<b>SVEGNO</b>			
XS1204140971	0.625	17/06/2027	6	XS0969571065	1.500	11/09/2018	5
XS0916242497	1.375	12/04/2018	26	XS1015552836	1.250	16/01/2019	7
XS0728763938	4.000	11/07/2019	26	XS1294537458	0.375	08/09/2020	13
XS1242968979	3mE+30bp	05/06/2020	43	XS1225004115	0.250	29/04/2022	12
XS0520755488	4.000	29/06/2020	33	<b>SWEDA</b>			
XS1032997568	2.000	17/02/2021	46	XS1296948588	0.375	29/09/2020	6
XS0801636902	3.250	05/07/2022	45	XS1069674825	1.125	21/05/2021	6
XS1189263400	1.125	12/02/2025	55	XS1200837836	0.375	11/03/2022	7
<b>NYKRE (*senior secured)</b>				XS1045283766	1.500	18/03/2019	33
LU0921853205*	1.750	02/05/2018	33	XS1277337678	3mE+50bp	18/08/2020	49
LU0996352158*	1.750	28/01/2019	39	XS1239401216	1.000	01/06/2022	46

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