IGM 2021 Q1 Review: Credit Issuance Trends

IGM Deals Data
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Overall EUR Supply in Q1

- The European primary market witnessed a surge in activity in the opening quarter of 2021, seeing its busiest Q1 ever.
- That came as issuers were motivated to lock in funding amid palpable concerns over a global rise in yields and bouts of higher volatility.
- Yields rose much less in Europe during Q1 (10yr GER +28bps) compared to the US (10yr UST +83bps). EU yields were better anchored with help from ECB’s pledge to ramp up the pace on bond buys and a recovery that was hobbled by a disorderly vaccine rollout.

Source: IGM
SSAs and Corporates led supply in Q1. SSAs accounted for 51% of overall supply as issuers continued to turn to the bond market to meet pandemic related needs.
IGM European Credit

Sovereigns, Supras, and Agencies (SSAs)

- While overall SSA volume surged by over 69% QoQ, voracious demand meant that the average cover ratio barely budged.
- Total SSA volume didn’t quite manage a new quarterly record, but ESG supply did with issuance of Social Bonds driving ESG SSA supply to an all-time high of EUR79.2bn in Q1.
- EU’s SURE accounted for EUR36bn or 45% of the entire quarter’s ESG paper from SSA borrowers. That lifted total issuance of paper by EU’s SURE to EUR75.5bn, an impressive feat for a programme which only began in October.
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Corporates Excluding High Yield

- Corporates increased activity sharply but the record volumes of Q2 of 2020 were never in any real danger of being challenged.
- Some signs of indigestion and increased investor resistance became apparent in Q1, evidenced by a rise in NICs.
- A big chunk (20.5%) of the quarter’s corporate paper came in ESG format and included deals from VERBUND, Tesco, H&M and Koninklijke Ahold Delhaize which tapped the fledgling, but growing, corporate Sustainability-Linked market.
- Issuance levels in Q2 are expected to remain solid, although with many corporates having already pre-funded in 2020 and Q1 2021, we aren’t expected to break any records.

Europe EUR Corporates Excl. HY
Quarterly Issuance Volumes, Average New Issuance Concessions & Average Cover Ratios

Source: IGM
IGM European Credit

FIGs (Unsecured)

- It was a solid start to 2021 where FIG volumes surpassed those seen in Q1 of 2020 before pandemic impacts were fully felt (WHO officially declared a pandemic on 11th March 2020).
- Higher supply was accompanied by a modest rise in NICs and small drop in average cover ratios. However, investors remained keen to embrace risk in a sector that stands to benefit from the combination of recovery plays and a more reflationary environment.
- Senior preferred paper was dominant, accounting for 44% of all EUR supply in Q1 while 20.8% of all debt came in ESG format as borrowers sought to tap into demand for ethical debt.
- Going forward, with high take up at the ECB’s latest TRLTO III operation keeping banks awash with liquidity, supply is not expected to materially increase from levels in Q1.
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Covered Bonds

• While volumes rose from Q4, it was a sedate start to the year by historical standards, with EUR23.2bn produced in Q1 2021, marking one the lowest ever Q1 hauls on IGM records; only Q1 2000 (EUR5.5bn) and Q1 2009 (EUR10.7bn) were slower.

• The shortfall created net negative supply of around EUR30bn with volumes running markedly behind scheduled redemptions for the period.

• January produced the brunt of the issuance (56%) with EUR13bn sold and volumes subsequently declining sharply in February (EUR2.05bn) and climbing slightly in March (EUR8.15bn).

• Historically light Q1 supply also helped keep average cover ratios at solid levels while NICs remained constrained with limited competing supply affording issuers more pricing power.

• Looking forward and supply is expected to remain depressed with some sources seeing monthly volumes in the ~EUR8bn region until summer, with EUR6-8bn projected for April.
HY corporates increased borrowing for a third straight quarter as issuers took advantage of a desire for yield.

More than twice the amount of ESG HY paper was priced in Q1 than in the whole of last year, including the first (and second) sustainability-linked HY note.

Only one HY-rated trade in Q1 priced outside IPTs, that was the 6% April 26 for Douglas, which was also the largest HY note of the quarter at EUR1.305bn.
After a fairly muted first half of the month when heightened volatility in broader markets weighed on issuance volumes, the APAC US$ investment grade and high yield primary bond market (ex-Japan) bounced back to life in the second half of March 2021 as conditions stabilized, with the month producing US$33.534bn of regional supply overall.

That comfortably exceeded the US$23.236bn which made it over the line in the previous month of February 2021 when the broader market volatility and a near two-week China Lunar New Year break served to keep issuers on the sidelines for much of the month.

However, March’s total fell well short of the record breaking US$55.504bn of APAC US$ IG and HY bonds that priced in January 2021 when a raft of regional issuers capitalized on accommodating market conditions earlier in the year to pre-empt funding needs ahead of an anticipated rise in rates.

From a quarterly perspective, APAC US$ investment grade and high yield supply Q1 2021 closed out at an impressive US$112.274bn (ex-Japan), once again boosted by the record-breaking month of January, smashing the US$55.172bn that hit the screens in Q4 2020.
US$-denominated ESG/SRI issuance from APAC borrowers skyrocketed in Q1 2021, spearheaded by Green bonds which totaled US$13.699bn during the quarter, equivalent to 57.45% of the overall total of ESG/SRI issuance which came in at US$23.844bn.

Total Q1 APAC US$ ESG issuance in Q1 2021 also comfortably surpassed the US$19.33bn of supply that materialized during the whole of 2020.

That was underpinned by a record first month of 2021 which produced US$8.74bn of Green bonds and US$10.64bn of ESG/SRI supply in total.

That was closely followed by the month of March 2021 when US$5.25bn of Sustainability bonds spearheaded total monthly APAC US$ ESG/SRI issuance of US$9.363bn.
**IGM APAC Credit**

**China US$ Monthly Supply**

- Offshore bonds from Chinese high and investment grade companies slumped to their lowest percentage of overall APAC US$-denominated supply in March 2021, as a combination of high profile domestic and offshore defaults, rating downgrades and increased regulatory scrutiny on Chinese property developers in particular, weighed on investor sentiment in the second half of Q1 2021 which kept many potential issuers on the sidelines.

- That also coincided with heightened volatility in broader markets where a prolonged rise of US Treasury yields, most pronounced in the period following the Chinese Lunar New Year holiday in February through to mid-March, hurt stock market valuations.

- The US$14.651bn or 44% of overall APAC US$ supply contributed by Chinese issuers in March 2021 was the lowest of any month in percentage terms since April 2020 when mainland borrowers made up 25% of the overall total at US$5.685bn, although that was at the peak of the impact from Covid-19 when the primary market was effectively closed for higher beta issuers in particular.

- March 2021’s percentage contribution from Chinese issuers was also in stark contrast to just a couple of months earlier in the record-breaking month of January 2021 when the jurisdiction made up 67% of total APAC US$ issuance with a contribution of US$39.684bn when the primary market was still firing on all cylinders in the new year.
IGM APAC Credit

China Property Developer US$ High Yield

- Offshore bonds from Chinese high yield property developers, often affectionately deemed the darling of the APAC US$ bond market in the past, have struggled to live up to that label in recent months.

- US$ issuance from Chinese high yield developers plunged to just US$3.603bn combined in the months of February and March 2021, as a default by China Fortune Land Development weighed on already fragile investor sentiment triggered by ratings downgrades and mounting regulatory control from Beijing.

- The US$1.876bn of offshore issuance from high yield property developers that made it over the line in March 2021 equated to just 15% of all APAC US$ high yield issuance in the month, comfortably short of any other month since before the start of 2020.

- That was also in sharp contrast to January 2021 when high yield mainland property companies burst out of the blocks to sell US$9.722bn of offshore paper when market conditions were in much better shape.

- Meanwhile, the small handful of Chinese high yield property developers which did manage to navigate their way through challenging market conditions were forced to pay up for the privilege in the latter part of Q1 2021, as illustrated by the average new issue concession which spiked to ca. 25bp in March.

Source: IGM
**IGM APAC Credit**

**A$-Denominated Issuance**

- A$ issuance slipped slightly in Q1 2021 which produced A$27.225bn of issuance in total, down from A$32.067bn in Q4 2020 but marginally ahead of the A$26.36bn which printed in the same quarter in 2020.
- SSAs led the charge in Q1 2021, spearheaded by international Supranational issuers lured by favourable arbitrage opportunities, although the A$15.51bn priced by the sector was the lowest since Q1 2020 and was substantially down on the A$101.097bn that SSAs raised in Q3 2020.
- The Financial sector took second place in Q1 2021 with a contribution of A$8.415bn, in line with the previous quarter although still the lowest total from the industry in any quarter since before the start of 2020.
- The balance of A$3.3bn in Q1 2021 was provided by the corporate sector, its lowest total of any quarter since Q1 2020 as the sector was slow to get out of the blocks for a second successive year.
IAM US Credit

Overall Investment Grade Supply in Q1

• The pace of issuance to date has been nothing short of impressive in the US, with the first three months of the year exceeding all expectations.

• However, the deluge of issuance that we saw last March, at the onset of the Covid-19 pandemic, prevented this year from setting a new first quarter issuance record, but only by a marginal amount.

• What made the first quarter even more impressive is the market backdrop of heightened volatility and rising US Treasury yields, which borrowers had to work with or around.

• Verizon proved to be a major borrower yet again with its jumbo USD 25bn public offering of senior notes across nine tranches on 11th March, the largest deal of 2021 and sixth largest deal on record. The 2nd largest deal of 2021 was Oracle's USD15bn six-part offering on 22nd of March.
The US$456.4bn priced over the first three months of 2021 made the first quarter of 2021 the third busiest ex-SSA issuance quarter of all time, trailing only the second quarter of 2020 and the first quarter of last year. It also ranks second among first quarters of any year.

A flurry of jumbo deals resulted in March being the busiest month of the quarter, where for only the fourth time in history, ex-SSA monthly issuance topped the US$200bn mark, making it the second most prolific ex-SSA issuance March on record behind last March’s $258.7bn, and the fourth busiest ex-SSA issuance month on record.

Whist issuance volumes impressed, it was not so much for sentiment statistics, with perhaps a touch of supply overload seeing average new issue concessions (NICs) trending progressively higher on a monthly basis and turning positive for three consecutive weeks ending March 26. This corresponded with reduced average spread tightening during book building on a weekly basis. New Issue Concessions on tranches varied widely and ranged from +30 (Pacific Gas & Electric’s $1.5bn 2y tranche to -45 on Aviation Capital Group’s $750m 5yr note).
IGM US Credit
US Investment Grade Excl. SSA Issuances

US US$ IG ex SSA Non-Yankee Issuances
Weekly Issuance Volumes & Average New Issuance Concessions

Source: IGM

US US$ IG ex SSA Yankee Issuances
Weekly Issuance Volumes & Average New Issuance Concessions

Source: IGM
Milestones were made not only in the high-grade issuance market, but the US high yield market where the first quarter of 2021 ended with record high yield issuance for the month of March, as well as for volume in a quarter.

In the wake of rising US treasury rates, high yield investors were seen adding to their risk tolerance. New issues were consistently oversubscribed by three to five times, whilst there were twenty-eight tranches rated Caa/CCC or lower totaling $22.76bn.
• With rates, spreads, and investor interest all being accommodative, the use of proceeds was largely for repaying debt and refinancing purposes, with issuers taking advantage to pay off debt incurred early in the Covid-19 cycle.

• M&A financing was also active, and often used with cash on hand and term loans. Energy firms were otherwise welcomed back to the market with oil (WTI) hovering rising to and above US$60 per barrel.
IGM Q1 Review: Global ESG Trends

IGM Deals Data
IGM Global ESG Trends

Global ESG bond issuance hits a record high in Q1

- Global issuance of green, social and sustainability bonds tracked by IGM leapt above USD 250bn to USD 252.30bn on 286 tranches in Q1 2021, compared to USD 155.56bn in Q4 2020 (up 62%) – in the largest ever quarter of issuance.

- ESG issuance represented 15% of total global issuance, down slightly from Q4 2020’s 17% proportion.

- Green bonds regained their favoritism, comprising 40% of total ESG issuance over Q1 at USD 102.11bn versus 28% or USD43.15bn in Q4.

- However, all major ESG deal types grew over the quarter, with issuance of social bonds up at USD88.39 bn (Q4: 71.78bn), Sustainability USD51.71bn (34.88bn) and ESG/SRI Others (incl Sustainability-Linked) USD 10.09bn (Q4:5.75bn).

- 10 largest tranches were from Europe or cross border (cross border includes EU) issuers of which 55% of the volume came from EU’s SURE program.

- Consequently Euros, SSAs and Investment Grade proved once again to be the predominant currency, sector and rating categories of ESG issuances. ESG volumes from North American issuers also leapt to USD 19.40bn (Q4: 9.9bn).

- Largest book size was for EIB’s Jan 11 0.01% 15 May 2041 (20.33yr) Sustainability Awareness Bond, which was upsized from EUR1.0bn at launch to EUR1.5bn after receiving peak books at EUR 22.5bn+ (incl JLM) and final order book of USD 22bn (14.67x).
IGM Global ESG Trends

Global ESG bond issuance boom ensues into Q1

Global ESG Issuance
Quarterly Issuance Volumes by ESG Bond Type

Global ESG Issuance
Quarterly Issuance Volumes as % of Global Issuance

Source: IGM
IGM Global ESG Trends

SSAs and Euro denominated issues dominate

Global ESG Issuance
Quarterly Issuance Volumes by Currency

- Other
- USD
- EUR

Global ESG Issuance
Quarterly Issuance Volumes by Industry

- Corporates
- Finance
- Sovereigns Supras and Agencies

Source: IGM
IGM Global ESG Trends

EU and European issuers once again are leading the way

* Cross border includes EU

Source: IGM
IGM Global ESG Trends

Global Q1 ESG Sentiment Metrics
IGM Global ESG Trends

Global Q1 ESG Sentiment Metrics

Global ESG Issuance
Weekly Issuance Volumes, Average New Issuance Concessions & Average Cover Ratios

- Issuance Volume (US$ mln)
- Average Cover Ratio (x)
- Average NIC (bps)

Source: IGM