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Overall EUR Supply in Q3

Q3 saw the European primary market slow for a second straight quarter with a September surge failing to plug the shortfall created by the traditionally slow months of July and August. SSA’s drove the drop, experiencing a near EUR100bn slide in volumes compared to Q2, partly a reflection of heavy frontloading seen during a frantic H1 as sovereign issuers rushed to satisfy pandemic related needs.
Sharply lower supply appeared to help SSA issuers raise funding at lower premiums to existing curves than was seen in Q2. Conditions for issuers improved sharply as the quarter drew to a close with September seeing the average NIC hit its lowest level since Nov 2020 and the highest average cover since January, pointing to abundant levels of liquidity and boding well for the final quarter.
Corporates (ex HY) matched the broader trend with supply slowing for the second straight quarter although activity accelerated sharply in September which marked sector’s second busiest month of 2021. It remained largely remained a seller’s (issuer’s) market with cash-rich and yield starved investors willing to tolerate smaller NICs while cover ratios held broadly steady.
FIGs (Unsecured)

FIG (ex-covered) followed a similar script to corporates with supply slowing for the second straight quarter and activity surging in September, marking the highest volume month of the year. Boding well for Q4, sentiment indicators showed NICs falling and cover ratios rising in September as supply surged with investors evidently keen to embrace exposure to banks as a recovery play as underlying yields staged a sharp rise.
Covered Bonds

Covered bucked the trend with volumes rising sharply in back-loaded Q3, thanks to a blockbuster September which produced 77% of Q3’s entire supply. This went a long way in closing the gap between current volumes and those during the same period in 2020. At the end of Q2, that differential was 29%, but by the end of September it had fallen to 7%. The shortage of supply in August and the conducive issuance environments in the two months on either side of it worked in issuers’ favour overall with the average cover ratio rising in the quarter and NICs falling. Looking ahead, historical supply patterns suggest a pick-up in Q4 (they have increased ca. 3% from Q3 to Q4 over the past five years) but the September rush to pre-fund leaves some bankers expecting supply to taper off.
IGM European Credit

High Yield Corporates

After a record-breaking start to the year (Q2 and Q1 produced the highest and third highest quarterly volume for HY rated corporates since the financial crisis) Q3 was rather less headline grabbing. The quarterly total came in more or less in line with 2020 and 2019 numbers. ESG-linked paper continued to be a popular sell in primary, while M&A activity added good volumes as the HY bond market went toe to toe with TLBs. Looking into Q4, while both 2019 and 2020 saw volumes rise into the final quarter of the year, that appears to be a tall ask this year due to a blockbuster Q2. However, with rising rates and central bank tapering in focus, issuers could look to bring forward issuance before the Fed et al start to unwind supportive policies.
APAC quarterly issuance volumes remained fairly robust by historical standards in Q3 2021, totalling US$118.895bn which exceeded every quarter since the beginning of 2018 except the record breaking Q1 2021 and Q3 2020.

September saw a raft of investment grade issuers take the view that the most sensible strategy is to seize on an available window of opportunity to lock-in funding ahead of expected higher interest rates down the road.

That was compounded by heightened uncertainty as to the potential impact that China Evergrande's woes, and those of the wider Chinese property sector, could have on the real economy and broader financial markets.
IGM APAC Credit

APAC ex Japan US$ Investment Grade

Stripping out the significant contribution of Japanese issuers to the Q3 2021 total, saw investment grade issuance from other APAC headquartered borrowers total US$54.935bn.

That was down notably from the US$85.443bn and US$80.474bn of supply that materialised in Q2 2021 and Q1 2021 despite a late spurt of activity in the historically active month of September.

Those investment grade issuers which did pull the trigger in Q3 2021 were rewarded with some accommodating market conditions overall.

That is highlighted by the average cover ratio which came in at a solid 4.19x on average, broadly in line with the trend in Q1 and Q2 2021. That in turn enabled non-Japanese regional issuers to achieve some attractive funding costs as reflected by the average new issue concession of -1.91bp (negative).

Source: IGM
IGM APAC Credit

APAC ex Japan US$ High Yield

While APAC high grade issuers managed to lock-in some competitive funding costs in Q3 2021, their high yield counterparts found the funding landscape considerably trickier to navigate, as ongoing contagion from Evergrande weighed on sentiment.

High yield issuers did manage to raise a collective US$18.417bn in the quarter, although that doesn’t really tell the whole story as around a third of that was made up of a jumbo US$6.16bn Subordinated AT1 note from Industrial and Commercial Bank of China. Removing that from the equation and the remaining US$12.257bn was the lowest total of APAC US$ high yield issuance in any quarter since Q2 2020 when the market was still struggling to find its feet post-covid.
Its of little surprise that liquidity starved Chinese property developers struggled more than most throughout Q3 2021, as illustrated by the measly US$4.24bn of offshore paper priced by high yield developers in the quarter.

That was not only down from the similarly underwhelming US$6.852bn that priced in Q2 2021, but also stands out as the lowest quarter for offshore Chinese high yield property developer issuance since before Q4 2018.

Moreover, the small number of Chinese high yield developers which did manage to get deals over the line in Q3 2021, were forced to pay inflated premiums to cushion execution risk amid the challenging market back drop. That saw the average new issue concession jump to over 25bp in the quarter, the highest it's been in any quarter since Q1 2019.
US IG issuance in Q3 topped US$400bn to total US$416.16bn, making it the fourth busiest third quarter on record. Whilst volumes were 13% lower than last year’s record Q3 pace, activity was 2% higher than Q3 2019. YTD volume currently sits at US$1.47tln, 33% lower than 2020’s extraordinary volume but 7% higher than all of 2019.

US IG ex SSA issuance exceeded average estimates coming into the quarter. Otherwise, whilst SSAs represented a mere 9% of total IG volumes in August, which is traditional of the Summer holiday lull, in July as well as September they represented a decent 20-22% of the monthly volumes respectively.

The fact that volumes exceeded expectations was through no fault of the Street, who underestimated the resolve of corporate borrowers, despite rather adverse conditions, to forge ahead with their debt financing, be they out of necessity or simply opportunistic.
US IG ex-SSA issuance for Q3 came in at US$340.3bn, topping all but the highest Street estimate and making it the fourth busiest third quarter on record, even if lower than Q1 and Q2’s pace. Whilst primary activity slowed considerably in the months of July and August, September issuance soared back into life, topping US$160bn in the 2nd busiest month this year.

Solid investor demand continues to be a driving force, even though there were some clear signs of investor fatigue in the earlier part of the quarter, which resulted in the average compression from IPT/PX over the quarter being slightly tighter at -23.45 and the average oversubscription rate slipping under 3.00x to the lowest since Q4 2018. Average NICs also turned positive for the 1st time in four quarters.
US high yield issuance exceeded US$100bn for the third straight quarter to total US$107.328bn in Q3. Whilst volumes were lower than the frenetic record pace of Q1 and Q2, the activity was impressive in the face of heightened market volatility.

For Q3, Treasury yields were higher by about seven basis points in the 5y, higher by about three basis points in the 10y, and lower by about three basis points in 30y yields. A graph of yields in these benchmarks looks saw toothed, as yields swung both ways over the quarter.

The CDX HY Index began the quarter at 110.235, and closed the quarter at 109.199. The two largest high yield bond ETF’s, the HYG & JNK, were lower by about -0.5%, on average, in the quarter. However, net fund flows for managed funds showed an inflow of about +$4.5bn for the quarter, as investors reached for better yield and returns than they could get from high grade corporates.

Over Q3, there were thirty seven (37) US$ debut issuers in forty three (43) tranches totaling US$37.74bn in volume. There were thirty (30) secured deals in thirty one (31) tranches totaling US$30.64bn. Otherwise the paper that was on offer was well received, with almost every September deal priced inside or at the tight end of guidance.
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