Euro Credit Supply: Expect a small increase in supply in 2023

We expect 2023 to see a small increase in corporate supply . We forecast a 10% increase YoY, totalling €270bn. For 2023 financials, bond supply is likely to face another strong year. For the banking sector covered bonds remain the main funding alternative with higher interest rates and as a substitute for collateralised central bank funding.

Corporate supply now at €224bn YTD

Corporate supply amounted to €23bn in October, in line with September's figure. We don't expect much more supply to come in the ensuing months as much higher funding costs, combined with a volatile market, are leaving a rather unattractive environment for issuers. For the coming months, there might be brief windows of opportunity when the markets offer periods of stability. We expect supply will struggle to reach €250bn.

We expect 2023 to see a small increase in supply compared to this year. We are forecasting a 10% increase, totalling €270bn. This is still well below the historical average. Redemptions are up in 2023, pencilled in at €246bn, the highest year on record. As such, we are predicting another low net supply figure of just €24bn. The technical picture for corporates remains very strong, particularly when coupon payments, CSPP reinvestments and fund flows are taken into account.

As outlined in call 2 of our Credit Outlook: 23 calls for 2023 - A kind of magic, we expect a small increase in supply but overall low supply next year due to: much higher funding cost, significant levels of cash on the balance sheet, substantial pre-funding done, lower Reverse Yankee supply expected, low corporate hybrid supply expected, an insignificant volume of assets and liabilities management exercises, the disintermediation trend that is expected to return, and deleveraging.

Financials supply slowed in October to just €17bn

Financials supply amounted to just €17bn in October, lower than the €25bn seen in both August and September. Banks senior supply accounted for €12bn of last month's supply. Financial supply is now sitting at €237bn YTD, still slightly ahead of previous years.

Looking into 2023 financials, bond supply is likely to face another strong year. For the banking sector covered bonds remain the main funding alternative - with higher interest rates and as a substitute for collateralised central bank funding. We expect also unsecured bank bond funding to edge up. In volatile market conditions, the funding split is likely to remain geared towards tighter spread funding alternatives including covered and preferred senior. Once market conditions improve, loss absorption eligible paper will likely see more activity.

Author

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com