From peaks to plateau: EUR bank bond supply in 2025

Next year's EUR bank bond supply is expected to stay high albeit less heavy than in 2024. We've identified three variables that are going to weigh on issuances level in 2025

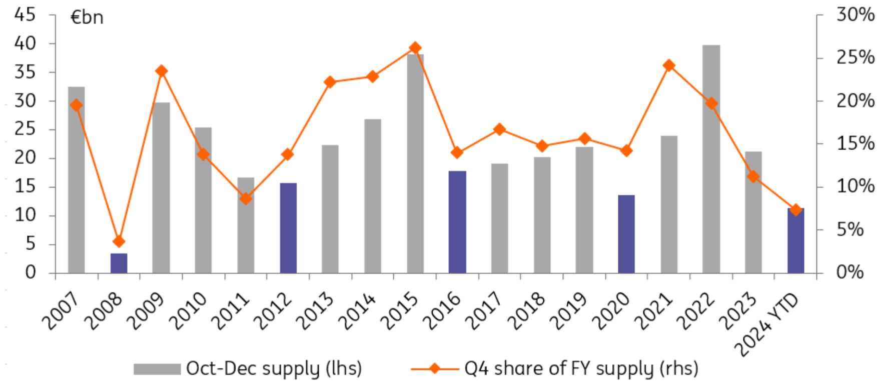
2024 bank bond supply review

EUR bank bond supply remained high in 2024 and is expected to reach €420bn at the end of the year. However, the YTD numbers are currently about €35bn short of the 2023 YTD level, with €391bn printed across the liability structure. Supply is split with just below €156bn in covered bonds, €186bn in senior unsecured instruments (with €74bn in senior preferred bonds and €112bn in senior bail-in bonds) and finally €49bn in subordinated debt issuance.

While we still expect a little below €30bn to be issued across the liability structure until the end of 2024, we foresee the overall supply levels staying below the 2023 total - despite the record-high issuances in 1Q24. We identify two reasons for that:

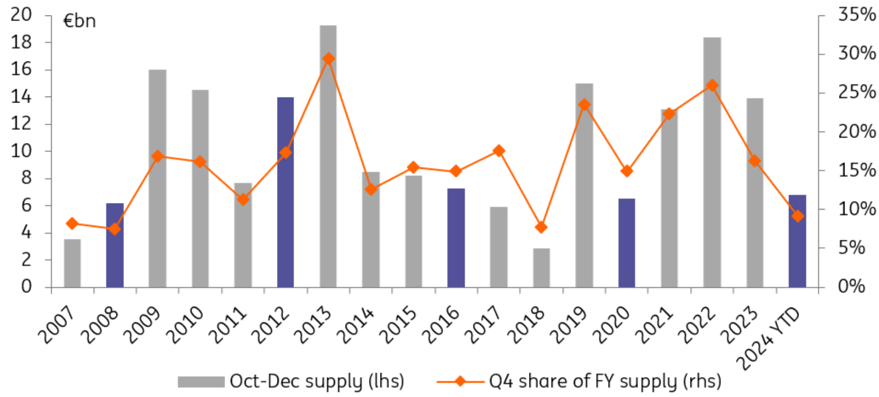
Firstly, **banks have historically been less active in the primary market during the 4th quarter of US presidential election years**. Data already points to a slowdown in issuances in the EUR market in October.

Covered bond supply history shows issuance drop in 4Q of US election years



Source: ING

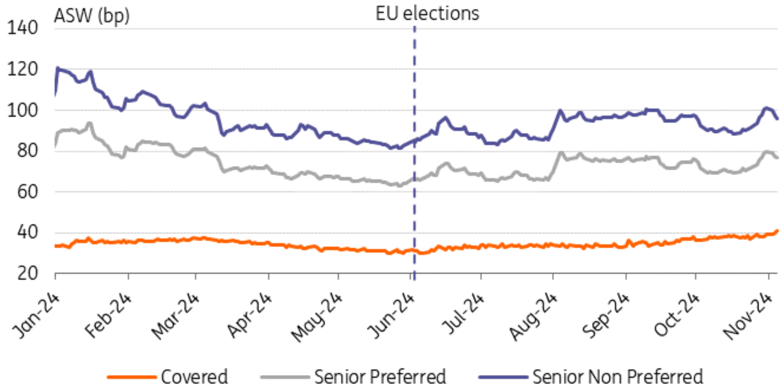
Senior preferred bond supply history also shows issuance drop in 4Q of US election years



Source: ING

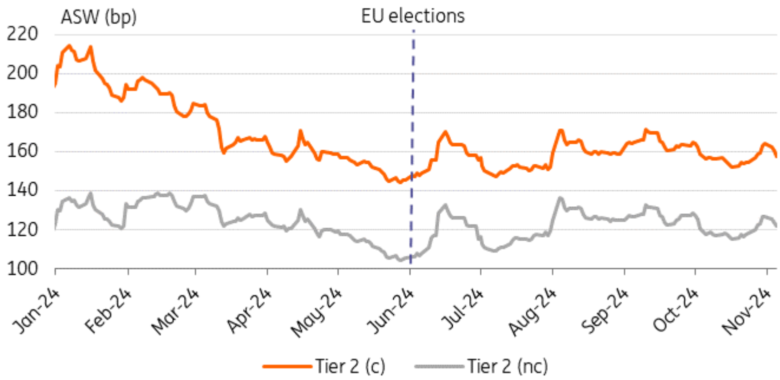
Secondly, the early summer volatility recorded following the European Parliamentary elections negatively impacted the bond primary market. The political turmoil was especially significant in France following Macron's dissolution of the National Parliament. The consequent volatility affected bank bond spreads with a widening in all segments but more significantly in the higher beta part of the liability structure. Tier 2 bonds widened by about 20bps in June, while senior unsecured bonds underperformed by 10bps. Nonetheless, the EUR bank bond market recovered rather swiftly (at an aggregated level) with spreads back at their May levels as early as July, just a month after the election results.

Covered and Senior bonds Iboxx index performance over 2024



Source: IHS Markit, ING

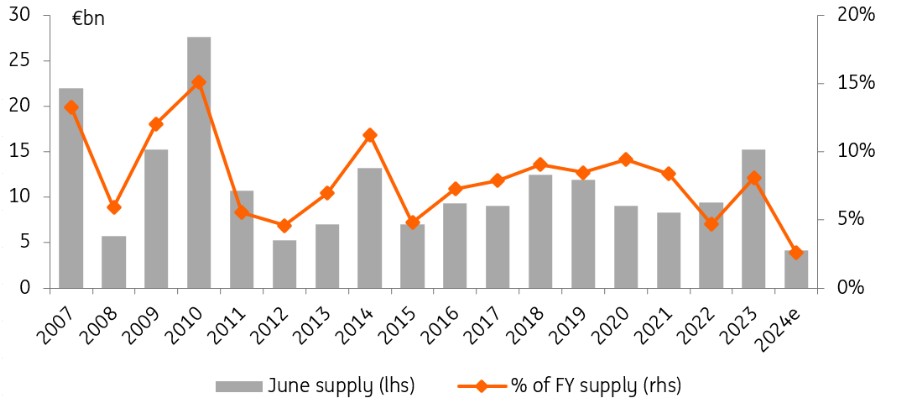
Tier 2 bonds Iboxx index performance over 2024



Source: IHS Markit, ING

Despite being short-lived, the volatility episode affected bank bonds' supply as issuers opted for a delay in their issuance rather than enter a volatile market associated with wider spreads. While May issuances were well on track with our estimates, June's total supply reached a historically low level, especially in the covered bond segment, as you can see in the graph below. Indeed, covered bonds issued in June represent only 3% of full-year expected supply versus an average of 8% over the last decade.

June covered supply reached historically low levels



Source: ING

Three variables affecting bank bond supply in 2025

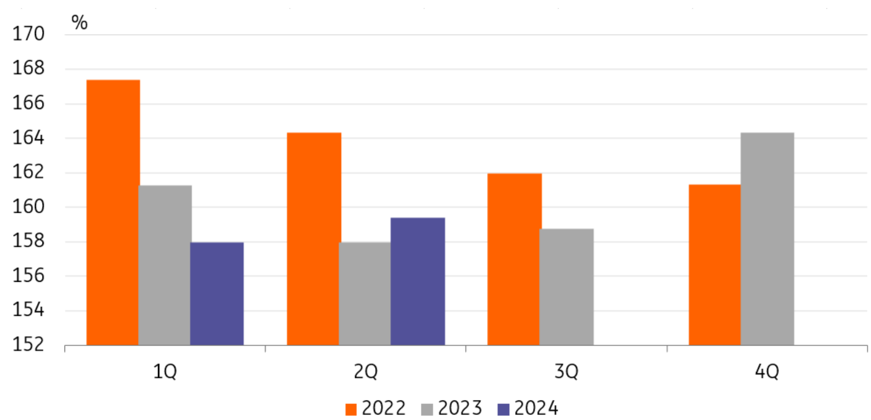
Those two points explain the 2024 supply levels, but what can we expect for 2025? We foresee the market remaining active despite banks issuing a slightly lower amount of bonds than in 2024, with a total supply of €400bn. The following section explores the three main variables affecting next year's EUR bank bond supply.

1 The end of the TLTRO III era

The ECB Targeted Long-Term Refinancing Operations III (TLTRO III) last reimbursement leg is set for December 2024. Banks' heavy activity on bond primary markets over the last two years partly reflects the switch from the ECB to other funding types.

Data also shows that some European banks reduced their Liquidity Coverage Ratio (LCR) instead of fully replacing the repaid TLTRO and increased their MRO and LTRO drawings. Despite some national variations, LCR ratios remain well above the 100% minimum threshold.

Aggregated LCR ratio dropped in 1Q24 YoY but remained stable in 2Q24



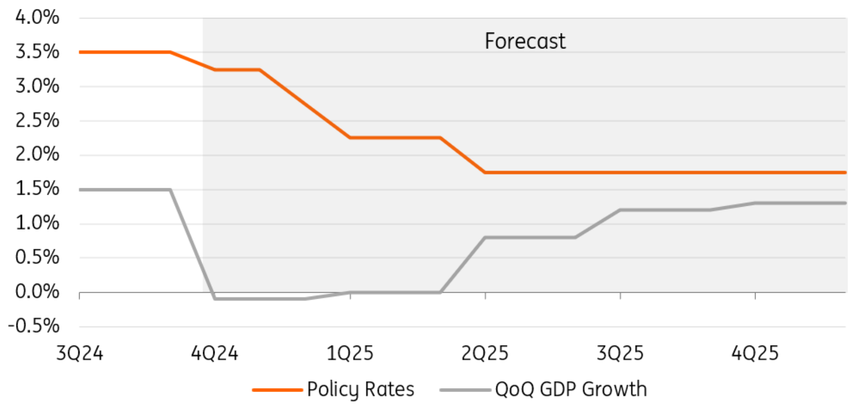
Source: ECB, ING

All in all, **the end of TLTRO repayments is expected to negatively impact European bank bond supply** as issuers have already substituted their expiring TLTRO fundings on the primary market over the last few years and won't need to replace expiring ECB funding as of 2025.

2 No growth miracle

The ECB announced an additional 25bp rate cut in mid-October. This marked the third cut in 2024 in response to the decrease in inflation and a slowing economy. Our economists are pencilling in several additional rate cuts for 2025, bringing interest rates down from 3.25% to 1.75% at the end of the year. The EU GDP growth forecast is expected to remain sluggish next year, below 2%.

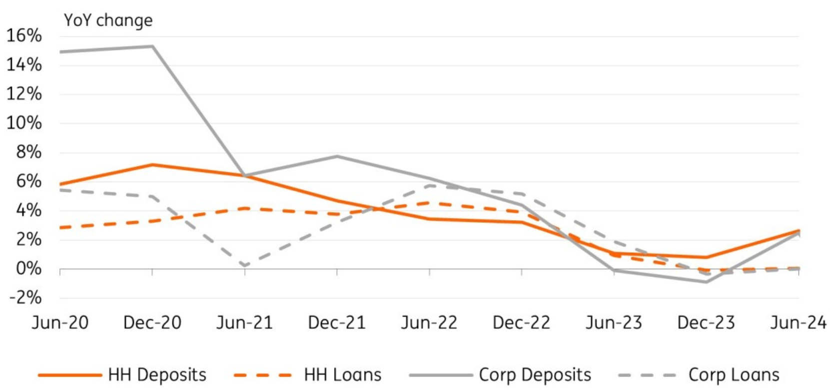
Policy rates and GDP growth projections



Source: ING

In that environment, we expect lending to also remain subdued. Furthermore, over the first half of 2024, the ECB recorded an increase in banks' lending and deposits for both households and corporates. However, the progression was about 2.5pp higher for deposits than it was for loans. In our view, **lending growth will, therefore, not become a firm driver for bank bond supply in 2025.**

Households & Corporates deposits increase over 1H24



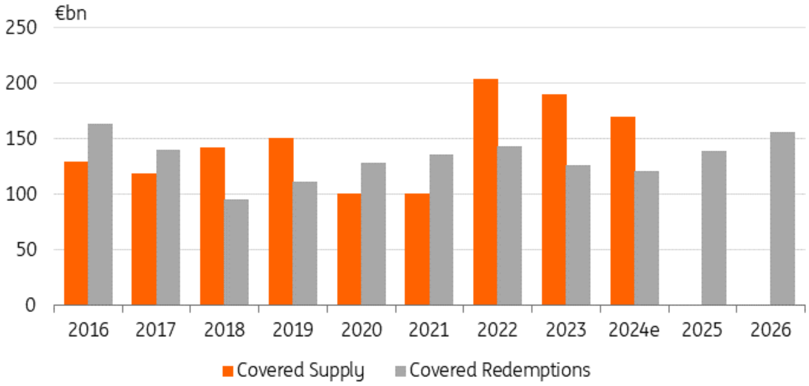
Source: ECB, ING

3 Higher bond redemptions

While the two points mentioned above suggest a lower bond supply in 2025, the higher redemptions level will be the main driver pushing new issuance levels upwards. Indeed, redemptions for 2025 will surpass levels seen since 2022 in all segments of the liability structure.

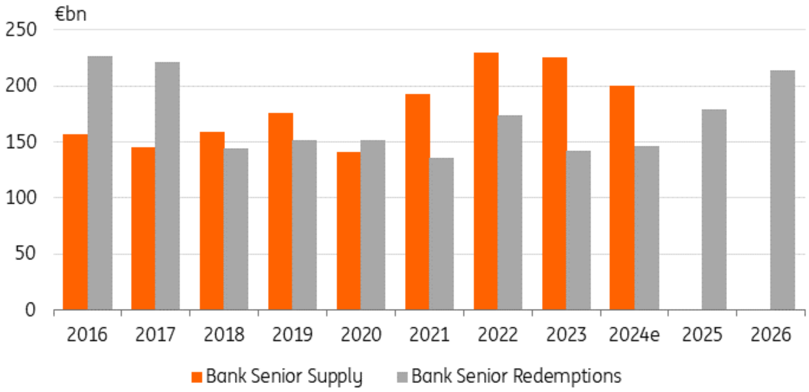
Covered bond redemptions will reach €139bn in 2025 and €156bn in 2026 versus €121bn this year. The increase is also seen in the senior unsecured segment with an aggregated redemptions increase of €33bn. Finally, bank capital redemptions will also surge in 2025 to reach €43bn (with €28bn in Tier 2 bonds and €15bn in AT1 segments). That's €18bn higher than in 2024. However, contrary to the covered and senior segment, redemptions of both Tier 2 and AT1 bonds will stagnate as of 2026.

Covered bond redemptions will increase in 2025



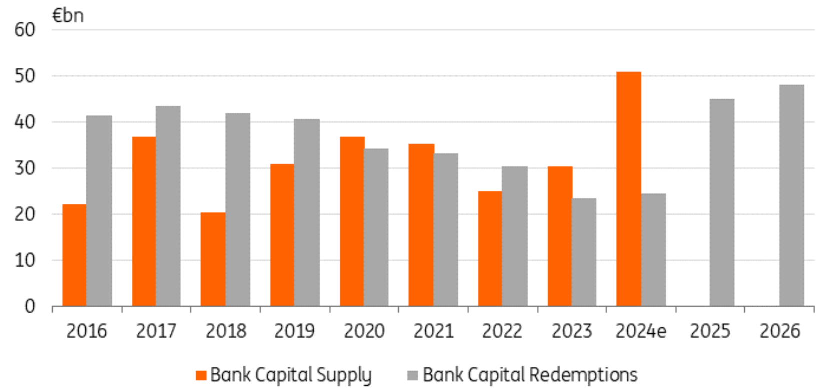
Source: ING

A similar increase can be seen for senior unsecured bonds



Source: ING

Increase even more significant for bank capital issuances



Source: ING

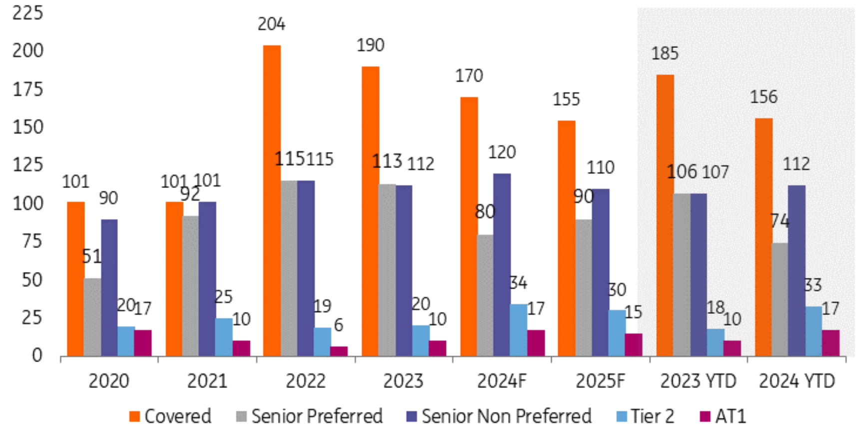
We expect banks to remain active in the EUR bond market next year and refinance the vast majority of maturing instruments in the next two years.

All in all, we foresee next year's bank bond supply remaining high but below levels seen since 2022 as a consequence of both the end of TLTRO III repayments and sluggish lending growth. The main supply driver will be the high redemption levels across the board, issuers looking to refinance those expiring bonds, and potentially pre-funding the heavy 2026 redemption flow.

Our 2025 bank bond supply expectations

Taking into account all those variables we've just discussed, we estimate gross bank bond supply to reach €400bn in 2025. We expect issuances to be split, with €155bn in covered bonds, €200bn in senior instruments and €45bn in bank capital. Overall, that's €21bn lower than our current forecast for the full year 2024. Nonetheless, it still implies a positive net supply of €37bn for next year.

Forecast bank bond supply for 2025



Source: ING

Covered bonds supply pressured downward due to the end of TLTRO III reimbursements

We forecast that covered bond supply will reach €155bn, including sub-benchmark and floating-rate notes. This is a €15bn decline compared to our expected levels for 2024, mostly stemming from the end of TLTRO refinancings. In addition, we believe that banks have already turned to the primary market to pre-finance the high redemptions of 2025. This limits the impact of maturing bonds on the overall supply for next year.

Stagnant senior unsecured supply to compensate the bulk of redemptions

We see senior unsecured issuances stabilising over 2025 and thus offsetting part of the decline in covered bond prints. We forecast a solid senior preferred supply, reaching €90bn, and senior bail-in bond issuances at €110bn. The share of senior bail-in bonds over total senior unsecured instruments is expected to decline a tad (5pp) compared to 2024, as this year's senior preferred issuances were exceptionally low (lowest levels since 2019). We thus expect the share of senior preferred bond issuance to increase closer to historical averages over 2025.

The aggregated stabilisation of the senior unsecured supply versus 2024 stems from the significant increase in redemptions for both 2025 and 2026. Thus, despite some of the refinancing already taking place over 2024, banks are expected to take the opportunity to refinance their bonds maturing in 2026 upfront, avoiding the bulk of supply the following year. However, this will be dependent on adequate market and economic conditions.

Another strong year for bank capital supply

Primary issuances in euro-denominated regulatory bank capital debt have been very strong in 2024, and we expect another substantial supply year ahead despite pencilling in an aggregated €6bn decrease in Tier 2 and AT1 supply next year. This brings our capital supply forecast to €30bn in Tier 2 instruments and €15bn in AT1 bonds.

In the AT1 segment, our baseline is that most banks seek to refinance upcoming calls instead of extending their outstanding deals. Furthermore, we also expect banks to continue to take a cautious approach to refinancing approaching calls next year. In the end, the decision to call will be driven by the market backdrop heading closer to the call date and in particular by issuer (and in some cases bond) specifics.

As for Tier 2 bonds, despite relatively high redemptions in 2025, we don't expect all redeeming bullets to be refinanced in the same format due to the loss of their regulatory capital eligibility. Thus, we expect part of these bonds to be refinanced as senior instrument instead and therefore account for MREL eligibility. Read more on banks' regulatory capital here.

ING's bank bond issuance estimates (€bn)

	FY19	FY20	FY21	FY22	FY23	FY24F	FY25F	2023 YTD	2024 YTD
Covered bonds	**151**	**101**	**101**	**206**	**191**	**170**	**155**	**185**	**156**
Covered redemptions	*118*	*134*	*143*	*143*	*126*	*121*	*139*		
Bank senior unsecured bonds	**176**	**141**	**193**	**230**	**227**	**200**	**200**	**213**	**186**
Preferred senior unsecured	81	51	92	115	115	80	90	106	74
Bail-in senior unsecured	95	90	101	115	112	120	110	107	112
Senior unsecured redemptions	*155*	*154*	*138*	*175*	*144*	*144*	*179*		
Bank subordinated bonds	**31**	**37**	**35**	**25**	**30**	**51**	**45**	**28**	**49**
Tier 2 debt	21	20	25	19	20	34	30	18	33
Additional Tier 1 debt	10	17	10	6	10	17	15	10	17
Bank capital redemptions	*41*	*34*	*33*	*31*	*24*	*27*	*43*		
Total bank supply	**358**	**278**	**329**	**461**	**448**	**421**	**400**	**426**	**391**

Source: ING

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