Striking trends in USD credit supply

USD supply in 2021 is low relative to previous years on a year-to-date basis. There have been some particularly interesting trends forming such as the majority of supply being concentrated on the long end of the curve. We take a look at some of these trends

Supply in USD has amounted to US$97bn thus far this year. This comes after a particularly low month of supply in January, totalling just US$32bn, compared to the US$50bn+ from the past two years. February, on the other hand, has already pencilled in US$65bn. This is up from last year's US$52bn but not yet reaching February 2019's US$72bn.

$97bn

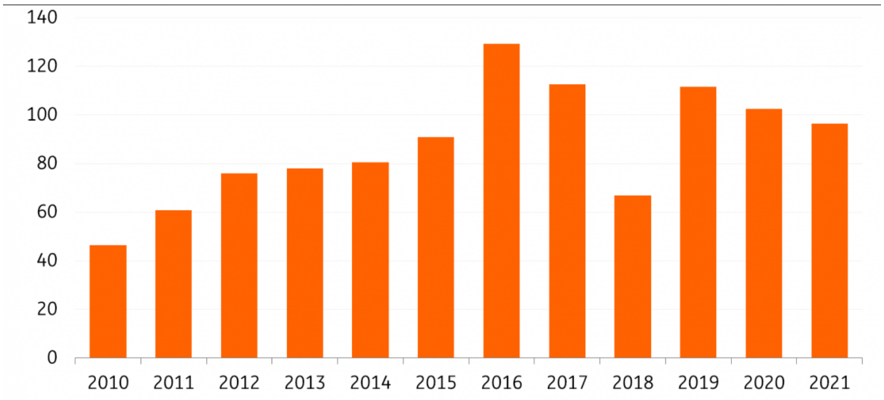
Supply 2021

Year-to-date

In line with our expectations thus far

- On a YTD basis, supply is currently running behind the past two years. 2019 supply YTD stands at US$112bn while last year YTD supply stands at US$103bn. The average percentage of supply done by this point over the past eleven years is 13%. Currently, we have supplied 12% of our US$800bn supply expectation. Therefore, we are confident we can reach our target of up to US$800bn by the end of the year.

USD supply (YTD)



Source: ING, Dealogic

Interesting trends in TMT, Utilities, Real Estate, and Healthcare

- The TMT sector has already pencilled in a substantial US$40bn. This is up considerably compared to the past two years, whereby US$12bn was supplied last year and US$19bn in 2019 on a YTD basis. However, this is still below the record amount of US$63bn in 2017 YTD.

- Utilities have supplied US$12bn thus far this year. This is a significant decrease on the US$30bn issued 2020 YTD. However, relative to 2019 and previous years, there has only been a marginal decrease from US$18bn.

- The Real Estate sector is very much in line with last year, both years supply has reached US$8bn. This is up on just US$5bn supplied in 2019 YTD, and a larger increase from 2018 & 2017 both pencilling US$2.5bn.
- The Healthcare sector has totalled just US$4bn thus far, down from the US$13bn supplied last year YTD. This is the opposite to EUR, whereby this year's supply is larger than last years on a YTD basis.

Supply concentrates on long end | USD curves steeper

- Most issuers have been pushed to issue in the longer end of the curve. Although not to the extent as seen in EUR. In 2021 thus far,69% of supply has been in the 6yr maturity bucket and longer while 61% of supply has been in the 9yr maturity and longer. In USD, curves are considerably steeper relative to EUR.

€6bn

only in Reverse Yankee supply thus far

We expect this to increase substantially

Reverse Yankee supply slow out of the gates, but we expect a late sprinter

- Reverse Yankee supply is off to a very slow start thus far, with just €6bn in supply, relative to €20bn in 2020 and €13bn in 2019. The cross-currency basis swap and 3m v 6m roll are at very tight levels at the moment which normally attracts Reverse Yankee supply. However, more important is the USD EUR spread differential, when this is wide is offers a nice cost-saving advantage to US corporates to issue in EUR.
- Over the past 6 weeks, USD spreads have been tightening at a larger rate than EUR spreads. This results in a tight spread differential. Although we do expect this to change and see USD spreads underperform against EUR. This would once more offer a very attractive cost saving for Reverse Yankee supply.

Authors

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com