

The January supply surge and its impact on rates

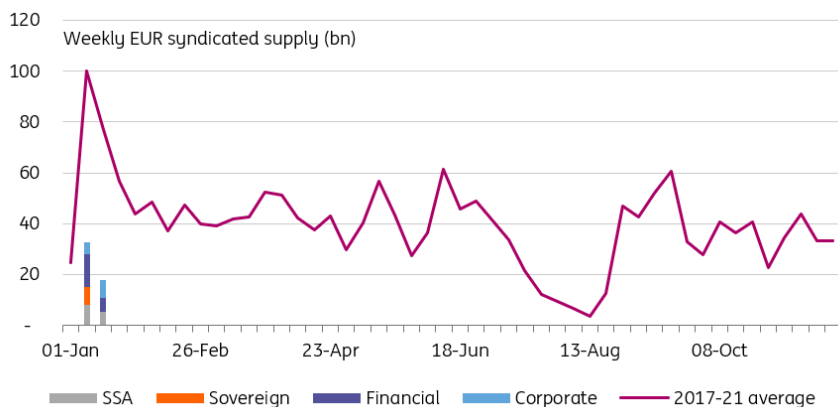
January is the busiest month of the year for syndicated bond sales. The market impact of borrowers lining up to raise funds should not be underestimated. We expect a change in rates hedging behaviour as central bank normalisation approaches, and Bund yields to settle above 0%



It's that time of year again

Looking at the average of the past five years, from 2017 to 2021, we find that the two busiest weeks when it comes to euro syndicated supply are in January, the second and third weeks respectively. The third spot is a disputed one, but the fourth week of January is a contender, alongside spikes in May, June, and September. So, primary markets will be brimming with activity this month.

Euro syndicated supply is set to sky rocket in January

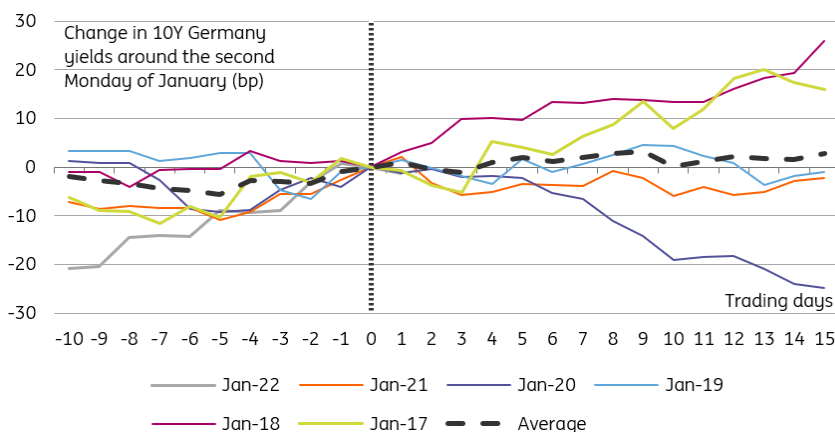


Source: Bond Radar, ING

We find a stronger tendency for yields to rise ahead of the supply surge than during it

So far, activity has been beneath that of 2020 and 2021 but, as past years have shown, it is set to sky-rocket in the coming days. This warrants a look at yield changes in January, taking 10Y German Bund as a reference. Here, we find it difficult to generalise. Even if intuition suggests that yields trade with an upward bias as borrowers compete for investor demand, price action has played out very differently from one year to the next. If anything, we find a stronger tendency for yields to rise ahead of the supply surge than during it.

Yields have tended to rise ahead of supply in recent years; there is more to come



Source: Refinitiv, ING

Fixed rates receivers proved a popular trade

One reason for this may be issuers' interest rate hedging behaviour. It is an understatement to say that the past decade has seared a strong downward bias into market participants' minds. In that context, we expect that fixed rates receivers proved a popular trade: in order to pay the rock-bottom floating overnight interest rates, rather than the more elevated fixed one. Another reason might be that given how widely anticipated this supply spike is, market participants have an opportunity to adjust their exposure well in advance.

Why 2022 is special

We think 2022 stands a greater chance of a change in interest rate hedging behaviour than any other year in the past decade, save perhaps for 2018 when the ECB also embarked on a tapering of its asset purchases. The imminent start of the Fed's tightening cycle should help focus minds on the potential upside for EUR rates, and thus reduce appetite for switching liabilities from the safety of fixed-rate into floating ones. And indeed, floating rates will start rising with the ECB's base rates, as early as March 2023 according to our economics team.

This should bring more upside to outright EUR rates than in previous years in our view, even if the rise into this January supply window has already been remarkable (approximately +20bp). Markets should get used to a world of positive Bund yields.