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CREDIT

Euro Credit Supply: Big start to the year with record-breaking supply

A record-breaking January for EUR credit supply. Corporate supply totalled €41bn, financials supply saw a substantial €68bn and covered bonds supply amounted to €39bn



Executive summary

Record-breaking corporate supply has started the year strong with €41bn

A big start to the year for corporate supply, with a record-breaking €40.5bn issued in January. Supply is now sitting ahead of all previous YTD figures. The fall in rates and the squeezing credit spreads have opened up a decent funding opportunity these past few weeks. In addition, with the tapering of CSPP beginning in March, the attraction to front load some supply needs have also played its role in the heavy supply. Redemptions in January amounted to just €21bn, leaving €19bn on net supply. Despite the influx of supply, spreads saw no weakness from indigestion. In fact, new issues were absorbed well by the market, with decent demand, oversubscription and rather low new issue premiums.

The Utility sector was the real driver of supply last month accounting for €17bn of the monthly supply. TMT and Industrials followed with both amounting to €8bn each. Supply was generally focused on the longer end, with €16bn issued with maturities longer than 12 years. This is followed by €11bn in the 6-9yr bucket. Interestingly, corporate hybrid supply surprised to the larger side with €6bn issued in January, already penciling half of

last year's total amount.

Very substantial start for financial supply and covered bonds supply

Record-breaking financial supply amounted to a very substantial €68bn in January. This is a very large start to the year, nearly doubling the norm in previous years. Net supply came in at €49bn after just €19bn redemptions. Supply was certainly well absorbed, as spreads continue to tighten over the past number of weeks, due to significant inflows. Bank senior supply totalled €50bn last month, while bank capital was pencilled in at €11bn. Financial supply, conversely to corporates, was concentrated around the shorter end to the belly of the curve, with €53bn issued with a maturity between 0-9yrs.

Covered bonds have also seen significant supply levels amounting to €39bn, up on last year's €29bn. We expect EUR benchmark covered bond supply to stay high in 2023 at €170bn, but not exceed last year's €212bn. We think there are ample reasons for banks to front-load their covered bond supply to the start of the year, for instance the heaviest repayments under the TLTRO-III operations are still due in the first half of the year. French covered bonds will benefit most from redemption payments in February.

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