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CREDIT

Euro Credit Supply: Large supply to end the summer break

Demand may be faltering slightly, but supply continues to come to the market in large amounts



Executive summary

Corporate supply still running strong, but is demand faltering slightly?

As we return from the summer break, supply has begun to pick up in its usual fashion at this time of year, with €15bn in corporates coming to the market in the last week off August, pushing the August totals up to €17bn. A relatively normal figure but this followed an abnormally high €50bn in June and €20bn in July.

Supply continues to run ahead of most previous years, with corporates sitting at €293bn YTD. Real Estate, TMT and Oil & Gas are the sectors seeing growth in issuance compared to last year. In addition, increasing corporate hybrid supply (€19bn YTD) and Reverse Yankee supply (€55bn YTD) are also driving supply higher.

We are seeing the very strong demand for new issues falter slightly, with greater sensitivity to valuation. We note a slightly higher new issue premium being demanded and, while books remain healthy, there is more fallout as the price gets squeezed. The usual fallout rate would be close to 20% of the book, but this has jumped to 40-50%.

The slight heaviness in terms of spreads we are now seeing in the market is partially due to the large supply coming in. Next week might offer some relief as supply should slow

given the French vote of no confidence on 8 September, as French issuers pre-fund now.

For now, issuers are mostly insensitive towards the very cheap SSA market, with many high rated names trading through OATs for example. Schnieder Electric issued a 12yr bond that priced 15bp inside OATs last week.

Danone has opted to issue a 2yr FRN, as the FRN market is seeing very strong demand. This is illustrative of the very strong demand being seen in the short end of the curve.

Financials primary market reopened earlier than last year after summer lull

Primary market activity has picked up from the summer lull already from the second week of August. Consequently, both senior preferred and bail-in segments reached higher supply levels than in August 2024. We recorded €5.1bn printed last month in senior preferred instruments and €11bn in senior non-preferred bonds, a significant increase for the segment compared to the €7bn seen in August 2024.

This brings the 2025 YTD EUR senior unsecured supply to over €158bn, split into just over €56bn in senior unsecured bonds and €101bn in senior bail-in instruments.

This represents a €13bn increase compared to 2024 YTD levels, mainly from the increase in senior bail-in issuances, up €11bn compared to last year.

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