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CREDIT

# Euro Credit Supply: Pre-funding before CSPP & CBPP3 tapering

Corporate supply amounted to €27bn in February, up on last year's €14bn, while covered bond supply remains on record-breaking track



## Decent supply in February as pre-funding comes before CSPP tapering

Corporate supply amounted to €27bn in February, up on last year's €14bn but in line with February 2021. Supply on a year-to-date basis is still decent, following the heavy supply in January, currently pencilled in at €68bn. This is running ahead of last year's €52bn and is more in line with, or slightly ahead of, previous years. The funding environment has been more conducive for issuance, as spreads are stuck around these arguably tight levels.

The ECB was still purchasing under its reinvestments, which we expected would push some issuers to pre-fund in the past two months – the central bank will begin tapering its reinvestments now in March, resulting in much less CSPP purchasing. Furthermore, the ECB will put focus on the secondary market, only purchasing green bonds and high ESG-scoring corporates in the primary market. Therefore, we could see supply slow slightly in the coming months. We forecast a small increase on last year's €258bn, up to closer to €275bn this year. This is still a historically low yearly supply level.

Reverse Yankee supply totalled another €5.5bn in February, now €11bn for the year so far. The cross-currency basis swap has tightened since October – by about 15bp in the 5yr and 8bp in the 10yr. The cross-currency basis swap is also not historically that wide. At the same time, the USD EUR spread differential has widened, particularly on the 5yr, albeit marginally tighter on the past week. As a result, the 10yr area has opened up an even larger cost-saving advantage for US issuers to issue in Euro and swap back to USD. This is now the case for 5yr too. This creates an attractive cost-saving advantage for Reverse Yankee supply

### Record-breaking covered bond supply

Covered bond supply remains on record-breaking track with €27bn covered bonds printed in February, resulting in YTD supply reaching a substantial €65bn thus far. Unsurprisingly, this month's supply is heavily dominated by eurozone banks taking the opportunity to come to the market before the ECB ends its reinvestments of redemptions through the primary market, starting in March. This probably also explains why supply this month is focusing mostly on covered bonds and not so much on unsecured deals, with only €18bn issued in senior unsecured and just €4bn in bank capital.

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