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CREDIT

Euro Credit Supply: Supply is large in September, but not substantial

We are forecasting a small increase in EUR corporate supply next year but expect it will remain manageable. This year is likely to see supply approach €300bn. Both financials and covered bond supply have been substantial this year, running ahead of previous years



Executive summary

A small increase is forecasted for 2024 corporate supply

Corporate supply totalled to €31bn in September, a decent month of supply but overall, still relatively low compared to previous years. We continue to expect supply will be slower in the coming months. Corporate YTD now stands at €256bn, up from €202bn last year at this time. We forecast supply will approach €300bn by the end of the year. For next year, we expect supply may well see an increase on this year, but overall supply will remain manageable and below the record-breaking years of 2019 and 2020. The increase next year will be driven by an increase in redemptions, from €246bn to €260bn. Thus, we don't expect net supply will see a substantial change next year.

In terms of sector breakdown, Autos continues to be the leading sector in supply, accounting for €47bn in total YTD supply. This is a notable increase of €27bn compared to the same timeframe last year. We also observe Industrials and Utilities closely trailing, with each €44bn YTD issuance. However, Real Estate is very much lagging behind, at €6bn, down from €23bn last year YTD.

YTD corporate Reverse Yankee supply is now at €33bn. We forecast up to €45bn for the year. We expect relatively slow supply over the coming months, particularly now that the equation for a cost-saving advantage is becoming less favourable for US corporates as USD spreads have outperformed against EUR. We see value in Reverse Yankee bonds when they come to the market as they generally offer an attractive new issue premium.

Financial supply and covered bond supply still running ahead of previous years

Financial institutions supply reached €35bn in September, raising the total YTD supply to €267bn, which is €42.5bn over the 2022 YTD total. We expect the October supply to remain important even if potentially smaller than what we have seen in September. Last month redemptions totalled €21bn, resulting in a positive net supply of €13.5bn.

The September bank bond supply reached €25bn, an important increase compared to August levels. Issuances were split with €23bn of Senior bonds (with €14bn in preferred and €9bn in bail-in seniors) and €2bn in subordinated debt.

Covered bonds supply has been historically low in September with only €7bn printed. That's €14bn below the September 2022 supply. We explain this by the overall poorer shape of the market coupled with issuers waiting for the ECB interest rate hike announcement to bring new issues to the market. Overall, the covered bond supply is still €6bn ahead of 2022 YTD with €167bn printed in 2023 YTD.

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