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Euro Credit Supply: Supply set to slow in the second half of the year

We expect supply in the second half of the year to be slower. Substantial pre-financing has been done over the past six months, and we expect supply in the second half of the year to total close to €85-100bn

Investors continue to shop for real estate bonds

We forecast just €85-100bn of supply in the second half of the year

Corporate supply remained decent in June, totalling €24bn, but significantly below that of May (€48bn). The market is beginning to cool off after the heavy supply seen in May specifically. Year-to-date supply is at €188bn, currently up by 18.9% vs the previous year, and comparable with levels seen in 2021 and 2019. We expect supply in the second half of the year to be slower. Substantial pre-financing has been done over the past six months, and we expect supply in the second half of the year to total close to €85-100bn, pencilling in €275-285bn for the full year.

The main event in June in terms of supply was when real estate firm Unibail took an uncommon step in offering hybrid bondholders a debt swap. We see this as somewhat positive for hybrid markets and highlighting issuers' willingness to adapt to market conditions and please investors. It also illustrates the large extension risk for some issuers, particularly in distressed sectors.

We initially saw three options for Unibail with the upcoming call on its hybrid bond (ULFP2.125 PERP): call the bond, not call the bond, and call and tender the rest of the curve and remove itself from the hybrid market. The company instead decided to take the uncommon approach of offering hybrid bondholders a debt swap, exchanging the current bond paying a coupon of 2.125% with a new standard structure corporate hybrid bond (Deeply Subordinated Perpetual Fixed Rate Resettable Perp-NC 5.25) with a coupon of 7.25%.

There is also a small tender of the rest of the bond that is not getting exchanged, totalling no more than €200m. The firm will exchange 84% (€1.05bn) of the original size and tender up to 16% (max €200m). The deal was completed with a 92% participation rate.

Reverse Yankee saw a decline as well, at €2.7bn, down from €12.2bn in May. Total supply in 2023 so far is now at €30.4bn, close to the total of €32.9bn issued in 2022.

Financial supply set to remain at elevated levels in June

Financials supply was more substantial than corporate supply in June, totalling €30bn, and down only -21% compared to May. At €198bn, the YTD supply for financials is at its highest level on record.

Similarly, covered bond supply is significant at €142bn on a YTD basis, also the highest on record and running ahead of last year's €128bn.

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