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CREDIT

US Dollar Credit Supply: Revising our forecasts marginally higher

We revise our USD corporate supply forecast upwards to US$650bn for 2023. In addition, we increase our corporate Reverse Yankee supply to €45bn on the back of heavier supply than anticipated in the first half of this year

We revise our corporate supply forecast slightly higher to US$650bn and don't expect any further USD spread outperformance.

Net supply this year will still be low, but we revise our forecast modestly higher to US$650bn on the back of slightly heavier supply seen in the first six months of this year. Year-to-date supply is currently sitting at US$452bn but we still expect supply to slow down in the second half of this year as significant prefinancing has been done and many issuers will be looking forwards to potential rate cuts in 2024.

In terms of spread levels, we don't expect any further USD spread outperformance in the coming months. USD spreads have already tightened to the low end of the trading range and the spread differential between USD and EUR on an asset swap basis is now at average levels historically. Furthermore, we believe EUR spreads have more potential tightening relative to low levels seen through the years. Lastly, on a G-spread basis, the differential has actually inverted.

The equation was advantageous for a cost saving for Reverse Yankee supply in March, April and May, which led to heavier supply of more than €12bn in May. As such, YTD Reverse Yankee supply is now sitting at €32bn. We therefore increase our forecast to €45bn, as we still expect relatively slow supply to come.

Corporate supply has followed June's pattern, decreasing by 48.72% to US$19.5bn in July to its lowest level in 2023 so far. This represents a US$5.5bn decrease compared to the same month in 2022.

Overall, corporate supply decreases in most sectors. Utilities saw a decline from US$11bn in June to US$4bn in July this year, with similar developments seen for TMT as well as oil and gas. Both of those sectors saw no supply in all of July, the lowest level seen in all of 2023. This is surprising as supply in the TMT sector was solid this year, with US$77.3bn YTD.

Low financial supply as the YTD total continues to be much lower than previous years

Financials supply was more substantial compared to corporates, totalling US$41bn in July. This is similar to the US$43bn issued in June, and above levels seen earlier this year. YTD supply is now at US$254bn, which remains below issuance in the same period of previous years. Redemptions stood at US$25bn, yielding a net supply of US$16bn. This is the highest monthly net issuance in 2023 so far, second only to the US$20bn seen in June.

Author

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com