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US Dollar Credit Supply: Slow corporate supply but high financial supply

Corporate supply was very low in July, however, due to an increase in redemptions in August, we may see corporate supply pick up slightly next month. Financial supply, on the other hand, was significant in July

Executive summary

Slow corporate supply in July, expect more in August

Corporate supply was very slow in July, amounting to just US$16.4bn. This is considerably low when compared to July in previous years, averaging around US$40bn. In fact, this is the lowest month of supply in the past two years, except for December last year. Redemptions were also very low in July, pencilling in just US$18.3bn. However, this still results in negative net supply of -US$2.1bn. Redemptions are higher in August, expected to be US$31.5bn, which may come alongside an increase in supply. In any case, supply is running ahead of 2019, currently sitting at US$430bn, although this is still half of what had been supplied by this time last year.

TMT and Utilities were again the sectors with the most supply, pencilling in US$6bn and US$4bn respectively. On a YTD basis, TMT supply is sitting at a substantial US$164bn. Utilities supply on a YTD basis has accumulated to US$84bn. Both sectors are indeed seeing lower supply compared to last year but are still substantial amounts relative to previous years.

Corporate Reverse Yankee supply was also zero in July. On a YTD basis, Reverse Yankee supply is sitting at €26bn. USD spreads have widened out notably. This is mainly due to the comparative lack of direct support from the Fed relative to the ECB's corporate bond purchases under CSPP and PEPP. Furthermore, the tapering talk is coming to the forefront in the US. Widening was rather notable in HY, driven by the Energy sector. The USD EUR spread differential widens in both the 5yr and 10yr areas of the curve. This opens up more cost-saving advantages for US corporates to issue in Euro. If this continues post summer, we will likely see an increase in Reverse Yankee supply.

Financial supply sees US$36.4bn in July, up on last year

In contrast to corporate supply, financial supply was not low in July. Supply totalled US$36.4bn in July. This is still lower than the US$40bn+ seen in 2017 and 2018, but it is however more than seen in 2019 and 2020. In addition, redemptions were also on the high side in July at US$31.6bn, as net supply remains positive at US$4.8bn. Financial supply on a YTD basis is pencilled in at US$356bn, very much in line with last year's US$354bn YTD. This is significantly ahead of previous years.

Bank debt was the main driver for financial supply, with bank senior preferred most significant at US$15bn, followed by bank senior bail-in pencilling in US$8bn and US$7bn supplied for bank capital.

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