

European Banks – Credit Update

- The BoE published its final rules on MREL requirements for UK banks, with no major surprises. In France, the regulator activated a countercyclical buffer of 0.25% to be applied from July 2018.
- Secondary markets tightened somewhat after the ECB's QE announcement and despite the Fed's interest rate lift. In the primary market, Nordea announced its inaugural SNP issuance.

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Market Developments

The **BoE** published its final rules on MREL requirements for UK banks, which were broadly in line with previous proposals and with no major surprise on the bank-by-bank requirements. The UK regulator has also confirmed it will allow debt issued under non-EEA law to be MREL eligible, different to the approach taken in the U.S. and Switzerland for instance. Related discussions for the rest of the EU are still very much ongoing. In light of Brexit, the EU and the Single Resolution Board (the resolution authority of euro area banks) are yet to decide whether debt issued under non-EEA law will be MREL eligible. As a significant amount of EUR debt by European banks is issued under English law, this could potentially trigger regulatory par calls once the UK leaves the EU. Debt issued under other jurisdictions' law (e.g. US, Japan) would also be impacted. A strict approach by the EU would be more problematic to Euro area peripheral countries, which have a higher reliance on English law for debt issuance.

In **France**, the local regulator activated a countercyclical buffer of 0.25%, to be applied from 01 July 2018 to all French banks and on EU/EEA banks on their relevant credit exposures located in France. This will increase French banks' total capital and TLAC requirements. That said, French banks are already comfortably compliant with total capital ratios, whilst additional TLAC needs should be minimal (Credit Agricole €1.3bn; BPCE: €1bn, BNPP €1.6bn and SocGen €0.9bn).

In **Switzerland**, FINMA said it found "a serious breach of supervisory law" at the local **Raiffeisen**, related to its former CEO Pierin Vincenz. The regulator also ordered the bank "to examine in detail the pros and cons of converting Raiffeisen Switzerland into a limited company" from the current cooperative structure.

Primary Market

Nordea issued today its inaugural EUR SNP issuance, with a 5Y €1bn benchmark at MS+60, 15bps below IPT. As a G-SIB, the bank has TLAC/MREL needs of at least €10bn to fill until 2022, which is likely to increase once the ECB establishes the bank's MREL requirement following the move to Helsinki from October.

Nordea's transaction comes after a busy month for **Danske**, which came to the market twice with SNP debt, for which investors required a 25-to-30 bps premium over the SP format. Danske's first SNP issuance came on 14 May with €1.25bn at MS+53 bps, followed by a \$1.75bn multi-tranche issue on 05 June. The bank's head of treasury confirmed investors were already comfortable with the "very familiar to the French" structure, so that there was no need to educate investors around credit hierarchy.

Earlier this week, **Svenska Handelsbanken** issued £500m in SP debt 4Y at UKT + 83 bps, below IPT of high 80s bps, with orders in excess of £725m, the bank is also planning an € benchmark 5Y Green bond. Finally, also in the beginning of the week, **HSBC** issued \$3bn in HoldCo format 11NC10 at T+163bps, 12bps inside IPT.

Secondary Market

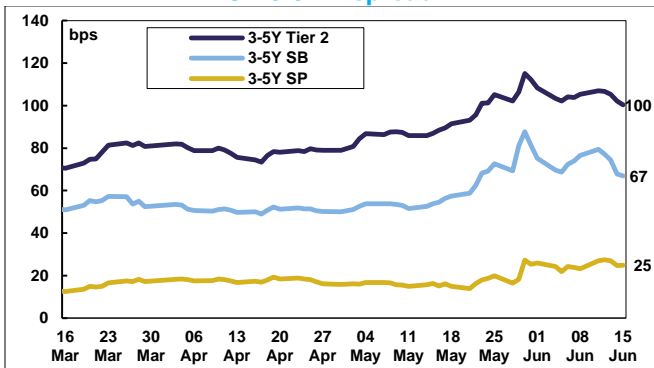
European banks' EUR spreads tightened somewhat after Draghi's announcement on QE tapering both at the long and short ends of the curve, particularly on lower ranked debt. USD spreads mirrored the EUR, despite the Fed's increase in interest rates. Senior Bail-in (SB) debt is trading precisely halfway between Senior Preferred and Tier 2 debt at the longer end of the USD curve, whilst at the longer end of the EUR curve, SB is trading 10bps closer to SP than to Tier 2. European Banks' Samurais have stabilized after a significant increase in the Senior Preferred / Senior Bail-in spread, which is now more aligned to the spread observed in the USD and EUR markets.

Share Price Movements (%)			
Top 5 day Δ		Top YTD Δ	
FBK IM	6.7	FBK IM	6.7
BPE IM	6.4	BPE IM	6.4
ISP IM	4.9	ISP IM	4.9
UCG IM	4.5	UCG IM	4.5
BAMI IM	4.0	BAMI IM	4.0
Bottom 5 day Δ		Bottom YTD Δ	
BIRG ID	-6.6	DBK GY	-40.2
RBS LN	-3.4	CBK GY	-27.8
CBK GY	-3.1	INGA NA	-18.4
ABN NA	-2.4	BKIA SQ	-17.6
CABK SQ	-2.1	ABN NA	-16.4

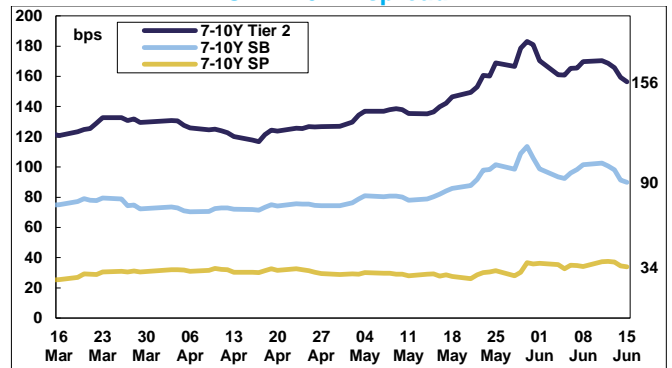
5Y Sr CDS Movements (bps)			
Top 5 day Δ		Top YTD Δ	
ISP	-45.9	SEB	0.6
BPE	-45.6	SWED	2.8
UCG	-36.7	Nordea	5.2
MB	-30.8	SHB	5.9
DB	-30.2	SCB	8.3
Bottom 5 day Δ		Bottom YTD Δ	
Erste	2.4	BPE	126.8
UBI	1.0	MB	88.6
Natixis	-	ISP	78.2
SEB	-0.1	Deutsche	70.7
Danske	-1.3	UBI	66.7

Source: Bloomberg

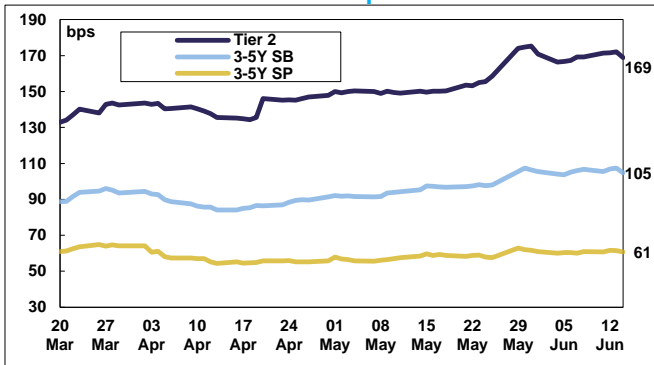
EUR 3-5Y Z spread^{1,2}



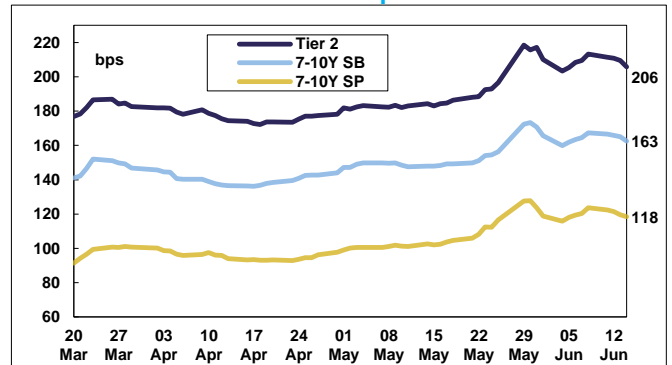
EUR 7-10Y Z spread^{1,2}



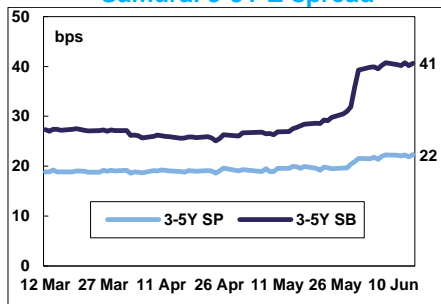
USD 3-5Y Z spread^{1,2}



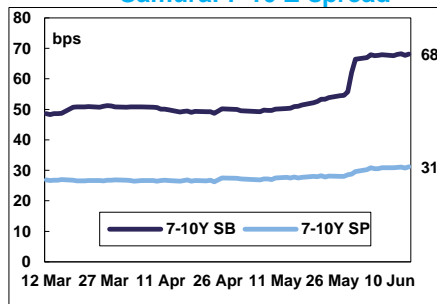
USD 7-10Y Z spread^{1,2}



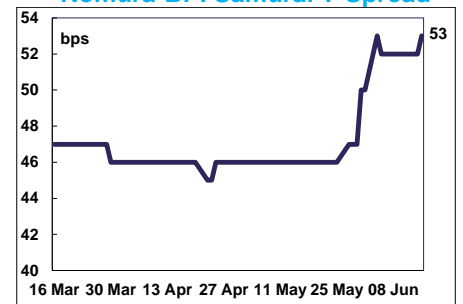
Samurai 3-5Y Z-spread^{1,2,3}



Samurai 7-10 Z-spread^{1,2,3}



Nomura-BPI Samurai T-Spread⁴



Spread Movements

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
EUR 3-5 years Z Spread (bps)					
T2	100	-2	-8	9	28
SB	67	-1	-8	10	14
SP	25	0	-1	10	14
EUR 7-10 years Z Spread (bps)					
T2	156	-3	-14	10	33
SB	90	-1	-9	4	13
SP	34	-1	-2	6	7

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
USD 3-5 years Z Spread (bps)					
T2	169	-3	-7	19	36
SB	105	-3	-2	8	16
SP	61	-1	-1	2	0
USD 7-10 years Z Spread (bps)					
T2	206	-4	-11	21	29
SB	163	-3	-8	14	21
SP	118	-1	-5	16	27

	Today	Δ 1d	Δ 14d	Δ 1M	Δ 3M
Samurai (JPY) 3-5Y Z-Spread (bps)					
SB	41	0	1	12	13
SP	22	0	1	3	3
Samurai (JPY) 7-10Y Z Spread (bps)					
SB	68	0	2	15	17
SP	31	0	2	3	4
Nomura-BPI Samurai Index (bps)					
Index	53	1	3	7	6

Source: DCME Research, Bloomberg. SP= Senior Preferred; SB=Senior Bail-in.

¹ Average of the largest European banks' debt securities. Herein included figures may not be reflective of the whole market. ² Mid Z Spread to maturity/call. ³ Liquidity and transparency of the samurai secondary market is significantly lower than that of the EUR and USD markets. Average formed by a lower number of bank's given reduced number of European banks issuing in JPY when compared to EUR and USD issuers. ⁴ Weighted average of OAS versus the JGB yield of JPY denominated foreign bonds.

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