AIA, Allianz put down markers as coupon records fall on back of Powell taper stance

Well-received remarks from Fed chair Jerome Powell set the stage for records to fall in the financial institutions space this week, as investors took their foot off the brake, allowing issuers from Allianz to CaixaBank to kick off September supply with exceptional subordinated trades. *Neil Day* reports, with insights from Crédit Agricole CIB syndicate in London and New York.

Financial institutions enjoyed rich pickings in the primary market this week after Fed chair Jerome Powell last Friday soothed fears around tapering, triggering a renewed wave of buying from investors keen to put their cash to work in higher yielding asset classes such as subordinated debt.

Select issuers had already returned from their summer holidays to find tight levels still achievable in the primary market, with Nordea, for example, setting a new Additional Tier 1 (AT1) coupon low on Tuesday of last week (24 August), its $1bn (€846m) perpetual non-call eight coming at 3.875% on the back of some $8bn of orders.

But in other parts of the primary and secondary markets activity was less convincing ahead of Powell's much anticipated comments at the Jackson Hole symposium.

"It was one of the first events in quite a while where, while it was going on, everyone in the market put their pencils down and was just watching the same thing to see what happened," said Connor Prochnow, US debt syndicate, Crédit Agricole CIB (CACIB).

The Federal Reserve chair's comments contained no major surprises, firming up expectations that tapering of asset purchases is set to begin before year-end, but expressing patience on the need for further action and notably clearly divorcing the timing of tapering from that of interest rate rises.

"Credit where it's due," said Prochnow. "The Fed threaded the needle perfectly. They stuck to their guns on tapering, but were very clear that interest rate rises are a separate issue.

"The market digested that fairly healthily and it supported the activity we saw this week."

Banks and insurance companies hit the market in force to raise sub debt in dollars and euros in the wake of Powell's remarks, in many cases achieving stronger outcomes than were achievable going into the summer holidays and even last week.

The Fed threaded the needle perfectly

On Tuesday, KBC priced a €750m 10 non-call five Tier 2 issue at 95bp over mid-swaps, after having tightened pricing 25bp from initial price thoughts of the 120bp area on the back of around €1.5bn of demand. The re-offer was some 22bp inside that achieved by BNP Paribas with a €1bn 12 non-call seven Tier 2 on Monday of last week (23 August) and broke through the 100bp threshold.

"There is an abundance of cash in the market," said Vincent Hoarau, head of FIG syndicate at CACIB, "and it feels like investors who had perhaps feared Powell might trigger a turnaround are now capitulating somewhat.

"Everyone wants to stay invested and we are seeing this fear-of-missing-out sentiment again: when a new issue comes in the subordinated space, investors are just putting their cash to work. In the lower beta part of the capital structure, investors believe the sector may be more vulnerable."

Deals across the capital stack shared in the strong sentiment as issuers enjoyed multiple-times oversubscribed transactions.

Senior preferred deals from Spain's Abanca in green format on Tuesday (CACIB joint bookrunner) and BBVA in social format on Wednesday, enjoyed particular success, while yesterday (Thursday) CaixaBank priced a €750m perpetual non-call 7.5 AT1 at 3.625% on the back of a €3.5bn-plus order book. The coupon is a record low for a peripheral

AT1, with the reset spread also a record low for the region, at 385.7bp.

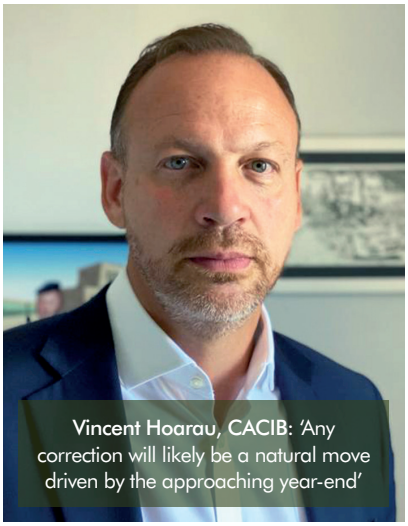
Allianz sold the biggest transaction of the week, a €2.3bn-equivalent dual tranche Restricted Tier 1 (RT1) on Wednesday split into €1.25bn and $1.25bn tranches that each achieved record low coupons. And AIA Group debuted in euros with a €750m 12 non-call five Tier 2 benchmark that attracted a peak €4.35bn of orders.

(See below for full coverage of AIA and Allianz transactions.)

Hoarau at CACIB sees potential for the market to remain receptive through September, with, most immediately, the European Central Bank's forthcoming governing council meeting next Thursday passing without incident. Although the Fed could have more to say on tapering at its corresponding meeting on 22 September — after the latest non-farm payrolls today (Friday) and US CPI on 14 September — he expects any weakening to be prompted not so much by central bank measures, but investors reining in their buying.

"Any correction will likely be a natural move driven by the approaching year-end," said Hoarau. "This year in particular, after the significant performance we have seen in the credit market, many investors will reasonably try to protect their accumulated performance, so you will see them slowing down investment, adjusting portfolios, or taking profits. The magnitude of this behaviour will determine whether the correction will be heavy or soft, medium or long term.

"I anticipate some movement in October, November, as year-end begins to loom — coincidentally this will fit with the timing Powell is currently indicating for the start of tapering."



Vincent Hoarau, CACIB: 'Any correction will likely be a natural move driven by the approaching year-end'

AIA debuts in euros with Tier 2

AIA Group announced its inaugural euro issue on Tuesday, a 12 non-call seven Reg S Tier 2 issue. Having previously established itself in the US dollar market with subordinated and hybrid trades, the Hong Kong-based insurer was targeting the euro market in a bid to diversify its funding channels and investor base.

Fear of missing out is driving the market in general

After reaching 35 investors across Asia, Europe and the UK via eight separate group calls in the 48 hours after the announcement, books were opened yesterday (Thursday) morning with IPTs of the mid-swaps plus 140bp area. Orders were in excess of €1.5bn within an hour and 40 minutes, according to a first update, and after three and a half hours, the size was set at €750m and the spread at 110bp on the back of books above €3.75bn, pre-reconciliation.

"We had a strong response post-roadshow, allowing for very swift and smooth bookbuilding, with a granular order book including top quality accounts," said Hoarau at joint bookrunner CACIB. "This justified the single step from IPTs to the final re-offer spread, with the 30bp move being at the upper end of what we have seen recently.

"As mentioned earlier," he added, "fear of missing out is driving the market in general, but that was even more pronounced on this trade, given the idiosyncratic nature of this transaction and the yield and diversification on offer for an IG instrument: it's a rare, top notch issuer out of Asia, and a rare 12 non-call seven euro for an insurer. It ticks many boxes."

AIA's subordinated transaction — rated A2/A/A — is issued under the Hong Kong Insurance Authority regime, and elements of its structure made the new issue more comparable to bank rather than insurance Tier 2 paper, including must-pay coupons, regulatory amortisation when the residual maturity falls below five years, and the absence of a coupon step-up.

The price discovery process for the new issue therefore took in bank Tier 2, with BNP Paribas' 12 non-call seven issued at 117bp last week and trading at 120bp an appropriate reference, according to Hoarau.

"You have to take into account the scarcity versus BNP, the insurance versus bank element, and the credit metrics," he said, "and in the US dollar market where both have been active, you see a differential of 5bp-10bp in favour of AIA. The final pricing of 110bp crystallised this and was also in the context of the 110bp, 120bp numbers we received in feedback from investors during marketing."

The deal subsequently tightened to trade 10bp inside re-offer.

Allianz returns with RT1 records

Allianz tapped into the strong conditions on Wednesday, issuing a two-tranche RT1 comprising €1.25bn and $1.25bn (€1.06bn) tranches.

The transaction was announced on Tuesday, allowing Allianz to engage with investors on its decision to return with a new dual-tranche RT1 after it in November 2020 issued a similarly sized and structured deeply subordinated transaction. The insurer could also address any concerns arising from a Department of Justice investigation into Structured Alpha Funds managed by its Allianz Global Investors US LLC subsidiary.

Credit: allianz.com

According to André Bonnal, FIG syndicate at joint bookrunner CACIB, the insurer encountered strong interest from investors from the start.

"Even for a powerhouse like Allianz, it made sense to opt for a one and a half day process," he said. "And we had as many as 10 investors per small group call, which gives you an idea of the level of interaction we saw."

Allianz said the new transaction was expected to bring the contribution of RT1 to its capital structure closer to steady state.

As with its previous RT1, the dual-tranche structure allowed the issuer to concentrate its needs into a large liquid global transaction, noted Bonnal.

"It allows them to touch different investor bases, too," he added. "While there is some overlap between the investor base for the two tranches, we are talking different currencies and different tenors — one shorter, one longer — and so they can raise the desired size without having any sort of cannibalisation."

Books for both tranches were opened Wednesday morning, Hong Kong time, with IPTs of the 3.00% area for a perpetual non-call 10.6 euro benchmark and the 3.625% area for a perpetual non-call 6.6 US dollar benchmark. Shortly before 10am UK time, the leads reported books above €2.5bn and $3.5bn, respectively, after which the euro tranche could proceed quicker ahead of the US open.

The final terms for the euro were set at 2.60% for a €1.25bn size, with more than €3.9bn of orders good at re-offer after the book peaked at €4.1bn. A $1.25bn tranche was later priced at 3.20% on the back of a $6bn book that had peaked at $7bn.

"The Asian buyer base naturally gravitates more towards the dollar tranche, but then the euro tranche started picking up steam," said Connor Prochnow, US debt syndicate, CACIB. "We nevertheless came in here in the US morning with demand at some $5bn even before the major US institutions had been able to consider the deal.

"We then saw them get punchier on the pricing in euros, which gave us the confidence to move further than might normally have been expected, to 3.20%."

The 2.60% coupon on the euro tranche represents a record low coupon for an RT1, beating the 2.625% achieved by Allianz last November, while the new dollar issue's 3.20% coupon set a low for the currency below the 3.5% previously achieved by the insurer.

"Allianz RT1 is still close to the best you can get in terms of yield/rating [Baa1/A] combination," said Bonnal. "Corporate hybrids are trading tighter than this, but are not necessarily as well rated, and nor is bank AT1.

"We saw a substantial amount of interest from accounts in spite of the ever lower coupons on both tranches," he added. "This demonstrates how receptive accounts are towards insurance sub debt

and specifically RT1, but also sub debt in general."

Bonnal noted that while Nordea had impressed with its sub-4% print in dollars last week, Allianz had priced well inside 3.5% and closer to 3%.

"That just tells you how willing investors are to invest even at what seem like absolutely low yields," he said.

Allianz could meanwhile tap the market at a time when the spread between RT1 and Tier 2 is at historic lows — Bonnal estimated the differential at only around 125bp.

The coupons of 2.60% for the non-call 10.6 and 3.20% for the non-call 6.6 represented new issue premiums of around 10bp and zero to 5bp, respectively, based on where Allianz's now non-call 4.2 and non-call 9.2 dollar and euro paper was trading, taking into account the back-end adjustment.

The 2.60% euro coupon followed Rabobank earlier this year in breaking with the European convention of pricing in increments of one-eighth, which Bonnal said allowed the pricing to better reflect investor sensitivity, given that 2.50% would have been too punchy and 2.625% too generous. Such pricing is already common in the US market.

"It's just a natural evolution in reaction to yields being so low," he said. "After all, not too long ago 2.6% was what Tier 2 was yielding, and at the time we were going to the last 2bp or 3bp on a mid-swap basis."

286 accounts participated in the dollar tranche and 252 in the euro, and Bonnal said the book included European investors not typically active in deeply subordinated transactions.

"Investors have no choice but to open the door to such asset classes if they want to get their hands on something with a better yield," he said.

Similar behaviour was evident on the dollar tranche, according to Prochnow, who also noted that the non-standard non-call 6.6 maturity had, like the non-call eight of Nordea's AT1, been better received than historically.

"The flexibility to do that speaks to two things," he said. "Firstly, the well understood technical bid for high yielding product, but secondly, the development of the junior subordinated space. Liquidity improves each time there is a new issue, and that really helps investors discern relative value and be willing to buy durations that they may have resisted in the past." ●

Selected August and September euro and US dollar financial institutions benchmarks

Issue Date	Issuer	Country	Currency	Format	Rating (M/S/F)	Size (m)	Coupon	Maturity	Re-offer Spread	IPT*	NIP	Books
02-Aug-21	Barclays plc	UK	EUR	SNP/HoldCo	Baa2/BBB/A	1500	0.577%	08/29NC08/28	85	105/110	7.5	3300
04-Aug-21	Barclays plc	UK	USD	AT1	Ba2/B+/BBB-	1500	4.375%	PNC09/28	-	5%a	6	9000
10-Aug-21	Standard Chartered	UK	USD	AT1	Ba1/BB-/BBB-	1500	4.300%	PNC02/29	-	4.75%a	5	5100
10-Aug-21	HSBC Holdings Plc	UK	USD	SNP/HoldCo	A3/A-/A+	1500	0.732%	08/24NC08/23	50	T+70a	1	2900
10-Aug-21	HSBC Holdings Plc	UK	USD	SNP/HoldCo	A3/A-/A+	2000	2.206%	08/29NC08/28	108	T+130a	1	4500
18-Aug-21	Swedbank	Sweden	USD	AT1	Baa1/BBB-/BBB	500	4.000%	PNC09/29	-	4.5%a	0	3500
23-Aug-21	BNP Paribas	France	EUR	T2	Baa2/BBB+/A-	1000	0.875%	Aug-33	117	135/140	0	1500
23-Aug-21	Aareal Bank AG	Germany	EUR	SP/OpCo	-/-/-	500	0.050%	Sep-26	45	60/65	6	600
24-Aug-21	Credit Suisse (London)	Switzerland	EUR	SP/OpCo	A1/A+/A	1750	FRN	Sep-23	3mE+30	E+40a	10	2350
24-Aug-21	Credit Suisse (London)	Switzerland	EUR	SP/OpCo	A1/A+/A	1250	0.250%	Sep-28	65	80a	12	1750
24-Aug-21	Nordea Bank Abp	Finland	USD	AT1	-/BBB/BBB+	1000	3.750%	PNC09/29	-	4.375%a	-6	8000
25-Aug-21	Bank of Nova Scotia	Canada	EUR	SNP/HoldCo	A2/A-/AA-(EXP)	750	0.250%	Nov-28	50	65a	8	860
25-Aug-21	Munich Re	Germany	EUR	Green T2	-/-/A	1000	1.000%	05/42NC02/42	110	120/125	10	1300
24-Aug-21	RBI	Austria	EUR	SP/OpCo	A3/-/-	500	0.050%	Sep-27	40	55/60	5	1000
25-Aug-21	Jyske Bank A/S	Denmark	EUR	Green SNP/HoldCo	-/BBB+/-	500	0.050%	09/26NC09/25	50	65a	5	825
26-Aug-21	Handelsbanken	Sweden	EUR	SP/OpCo	-/-/-	1000	0.050%	Sep-28	33	50/55	6	1600
31-Aug-21	Leaseplan Corp	Netherlands	EUR	Green SP/OpCo	-/-/-	1000	0.250%	Sep-26	65	80a	5	1700
31-Aug-21	KBC Group NV	Belgium	EUR	T2	-/-/BBB+	750	0.625%	12/31NC12/26	95	120a	2.5	1500
31-Aug-21	ASB Finance Ltd	New Zealand	EUR	SP/OpCo	-/-/-	750	0.250%	Sep-28	50	65/70	7	1100
31-Aug-21	Abanca Corp	Spain	EUR	Green SP/OpCo	-/-/BBB+(EXP)	500	0.500%	09/27NC09/26	85	105/110	0	1300
31-Aug-21	SEB	Sweden	USD	SP/OpCo	Baa2/-/BBB+	750	0.650%	Sep-24	30	T+50a	0	1600
31-Aug-21	SEB	Sweden	USD	SP/OpCo	Baa2/-/BBB+	750	1.200%	Sep-26	45	T+65a	-1	1300
31-Aug-21	Allianz SE	Germany	EUR	RT1	Baa1/A/-	1250	2.600%	PNC04/32	-	3%a	10	3900
31-Aug-21	Allianz SE	Germany	USD	RT1	Baa1/A/-	1250	3.200%	PNC04/28	-	3.625%a	0	6400
01-Sep-21	BBVA	Spain	EUR	Social SP/OpCo	-/-/-	1000	FRN	Sep-23	3mE+15	3mE+35a	-5	3600
01-Sep-21	Mizuho Financial	Japan	EUR	SNP/HoldCo	A1/-/A-	1000	0.470%	09/29NC09/28	68	90a	8	1100
01-Sep-21	OP Corporate Bank	Finland	EUR	SNP/HoldCo	-/-/-	500	0.375%	Dec-28	60	80a	3	1100
02-Sep-21	AIA Group	Hong Kong	EUR	Tier 2	A2/A/A	750	0.88%	09/33NC09/28	110	140a	-2.5	4350
02-Sep-21	Athene Global Funding	US	EUR	FABS	-/A+/A	600	0.37%	Sep-26	70	80/85	10	900
02-Sep-21	Grupo Cajamar	Spain	EUR	SP/OpCo	-/BB/-	500	1.75%	03/28NC03/27	215	250a	5	1500
02-Sep-21	CaixaBank	Spain	EUR	AT1	-/BB/-	750	3.63%	PNC03/29	-	4.125%a	6	3500
02-Sep-21	NIBC Bank NV	Netherlands	EUR	Green SP/OpCo	-/BBB+/BBB+	750	0.25%	Sep-26	60	75a	8	1300

**IPT: over mid-swaps unless otherwise specified; Source: Crédit Agricole CIB*

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