

Bank+InsuranceHybridCapital Briefing

Window opens as France stabilises, letting pragmatic trio through as selectivity rises

A stabilisation in the OAT-Bund spread and decoupling of credit from the French rollercoaster allowed for the successful launch of three euro benchmark covered bonds this week, with issuers prioritising certainty in execution over the best possible window. Further FIG supply will remain subject to headline risk and investor caution, but could prove timely. Neil Day reports, with insights from Crédit Agricole CIB.

The market ended the week on a stabler footing than might have been imagined last weekend, albeit with bumps along the way. And with volatility moderating, levels for investors and issuers, as well as technicals, could provide a constructive backdrop for supply.

Central to the improvement was an easing of fears around France — for now, at least. Having traded as high as 92 on Friday of last week (2 October), France CDS had recovered to 77 by this Friday, with the 10 year OAT-Bund spread closing the week shy of 140bp, around 20bp inside last Friday's intraday peak of 159bp.

"The rhetoric has changed quite dramatically," said William Rabicano, director, credit trading at Crédit Agricole CIB. "Two weeks ago, with the 10 year OAT-Bund spread at 120bp and people speculating about 150bp, there were some gasps and disbelief that we might go there, but when we reached the mid to high 140s all of a sudden last Friday, 175bp and even 200bp didn't sound so crazy.

"But the conversations I've been hearing around France now are that people are a lot more comfortable with where valuations are. They feel like a lot of the bad news is now priced in, and it definitely feels like people are much more comfortable holding risk at these levels than they were a week or so ago. And we've definitely seen France start to outperform in the last couple of sessions."

And while credit had been dragged wider by the moves in European government bond markets, this pressure, too, eased through the week.



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"It does feel like our beta to other asset classes is shrinking a little," said Rabicano. "Last Friday, when OATs were 10bp wider, credit spreads were equally 10bp wider. But at the start of this week, when OATs moved 10bp wider, credit

'A lot of the bad news is now priced in'

was 2bp, 3bp or 4bp wider. That should be positive for credit, because it gives people a little bit more confidence that the volatility is subsiding.

"Clients are being selective," he added. "They don't want to chase risk on a strong day. They're much more inclined to wait for the dust to settle before making a call one way or the other."

"Liquidity is thin and conviction is low."

Indeed, a recovery in the first two days of the week was snuffed out on Wednesday, but not before three issuers took advantage of the better tone to launch secured issues. On Tuesday, ABN Amro and Mediobanca launched the first euro FIG benchmarks of the week, three year covered bonds that proved successful.

"We had been monitoring the market for one or two sessions, wondering whether it could make sense," said André Bonnal, FIG syndicate at Crédit Agricole CIB, joint bookrunner on both trades, "and after a stable day on Monday, Tuesday opened positively, and ended up having an even stronger tone than we had expected."

The Dutch bank led the way, attracting more than €2bn of orders, excluding joint lead manager interest, to its euro benchmark, enabling a size of €1.5bn and pricing of 14bp over mid-swaps, 4bp inside guidance of the 18bp area.

"ABN Amro was the right name to test the water," said Vincent Hoarau, head of FIG syndicate at Crédit Agricole



André Bonnal,
Crédit Agricole CIB

CIB. “A core jurisdiction with an outperforming government curve, a well-established issuer and a solid investor base. When you reopen a market, you don’t want the first trade to be open to debate.”

Mediobanca hit screens shortly after ABN Amro and upsized its trade from an expected €500m to €750m on the back of a peak €1.2bn-plus book, with pricing tightened from the 35bp area to 30bp, and a final book above €1bn, excluding JLMs.

Syndicate bankers at and away from the leads were positive about the execution of both trades, which, if anything, went even better than anticipated. Lead bankers highlighted the quality of the order books, lacking fast money following the recent shake-out.

“Success has been redefined, in terms of book composition and granularity, rather than multiples of oversubscription,” added Hoarau.

The new issue premiums for the two trades were up to 5bp.

“Supply has been well absorbed, but priced with more care,” said Hoarau. “There was no panic-selling, even in the worst sessions, but this was not just a remarking exercise. We saw real selling flows in both covered and unsecured.

“In covered, accounts that sold blocks in secondary last week were buyers in primary at wider levels, capturing the extra spread and the new issue premium. In senior and sub, we suspect investors were also selling to make room for more attractive primary deals. Overall, accounts remain net sellers and cash balances are building.”

Although conditions were deteriorating the next day, Canada’s Equitable Bank, which had announced a mandate the previous Wednesday (30 September), launched a €500m no-grow December 2029 trade. Pricing was tightened from the 38bp area to 34bp on the back of orders above €1bn, with the final book reaching more than €1.2bn, including €125m of JLM interest.

The pricing was deemed pragmatic — key for anyone considering the market today, according to Hoarau.

‘Success has been redefined’

“We have come to a point where issuers mandate not to capture the best window,” he said, “but to print an ‘okay’ trade when a window opens. They know things could deteriorate further. The priority is execution certainty.”

Unsecured European bank issuance did not dry up completely — Deutsche Bank on Wednesday turned to the sterling market with a £500m (£590m)



William Rabicano,
Crédit Agricole CIB

short six year non-call five green senior non-preferred issue. After attracting peak demand above £1.65bn, pricing was tightened some 20bp to Gilts plus 115bp, or 131bp over mid-swaps, for a new issue premium of 7bp-8bp. This put it some 5bp inside what a comparable euro issue for the German bank might have achieved, although in tandem with this the book fell by around a third to some £1.07bn.

The sterling trade was a quick follow-up by Deutsche to a \$1bn (£892m) four non-call three senior non-preferred issue on Tuesday.

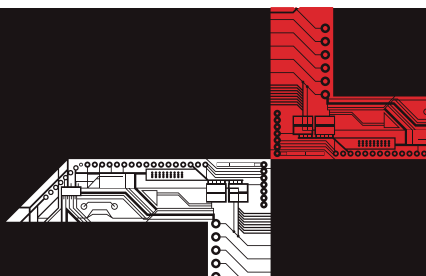
Ultimately, the week ended on a constructive note after some consolidation on Thursday, with equities up on Friday, rates down, oil lower, and OATs recovering modestly against Bunds.

“It’s good to finish the week on a bit more of a positive note after the past couple of days, which were more difficult,” said Bonnal. “Wednesday was particularly damaging for investors’ mindset, completely erasing Tuesday’s



MAN CANNOT DISCOVER NEW OCEANS UNLESS
HE HAS THE COURAGE TO LOSE SIGHT OF THE SHORE

Bloomberg: € = BGCS2 Global Directory = BGCP





Vincent Hoarau,
Crédit Agricole CIB

gains when they might have hoped for stability.

"I think the market is starting to learn to live with the overall volatility, but it's naturally helpful to have the OAT-Bund spread moving within plus or minus 3bp rather than 10bp!"

Meanwhile, the market setbacks have left the entry point for investors looking potentially more interesting.

"In terms of i-spreads, and how they look versus two or three weeks ago, some value has returned for investors," said Bonnal. "And since we've had Bunds outperforming swaps, the overall spread complex versus Bunds is even better."

Senior preferred bonds ended the week on average 3bp-5bp wider than in the week commencing 21 September, with senior non-preferred some 5bp-8bp wider, and Tier 2 around 10bp wider. French credits underperformed significantly.

"I'm not saying that there's a massive scope for performance," he added, "but investors may feel they are being a little more compensated for risk versus, say, mid-August, when everything was super-tight. So we could see credit being relatively well supported in terms of overall tone and bid in the next couple of weeks."

As well as the wider levels, technicals could prove supportive, according to Bonnal. This week's limited euro FIG is-

suance came after similarly scant supply the preceding week, when La Banque Postale provided the only unsecured supply, a €750m four non-call three senior non-preferred deal, and only one benchmark covered bond emerged, a €500m seven year green Spuerkeess (BCEE) debut.

"I don't expect much in the coming week," he said. "Most issuers are entering blackout periods, so we're naturally heading into the typical quiet period in the second half of October. But don't confuse quiet with lack of appetite. Banks have largely completed their 2026 funding plans, yet many want to get a headstart on 2027, and anyone outside blackout will look at the market if the tone allows."

"Combine that with having had very limited supply in the past two weeks, and the lack of supply may start feeding into a more constructive secondary market in the meantime. The question will then be, how much pre-funding do we see in the November calendar?"

'Yields are very attractive for investors'

And while spreads — notably to Bunds — have become more tempting for investors, issuers — looking on an i-spread basis — will still see levels that are relatively attractive versus where they have been over the course of the year, noted Bonnal.

"On an i-spread basis, we are still within touching distance of where things were getting done in, say, mid-September," he added. "Once results are out of the way, we may even see too many issuers rushing in at the same time, particularly after the US mid-terms."

Hoarau, however, cautioned that the constructive technical backdrop rests on fragile foundations.

"A backlog is building. Many issuers are waiting for stability before pulling the trigger on 2027 pre-funding, and corporates have their own pipeline to

Key dates for OATs:

French budget votes, Assemblée nationale (first reading)

PLFSS 2027 (social security budget)

Vote: Tuesday 27 October 2026

PLF 2027 (State budget)

First part (revenue) debate:
Mon 12 to Mon 19 October 2026

Vote on full text:
Tuesday 17 November 2026
(may slip to Wed 18 November)

Then Senate reading; final adoption needed before 31 December 2026.

Moody's review falls in between:
Friday 23 October 2026.

clear. If the macro backdrop stays fragile, that backlog means pressure on pricing parameters, not relief.

"We need a strong positive catalyst to offset the challenge France poses to primary execution and spread stability. And part of the value investors see today could evaporate: if Bunds cheapen back against swaps, the pick-up over Bunds that makes FIG look attractive goes with it.

"More and more accounts fear outflows, so they will be more disciplined on cash balances," added Hoarau. "Even at attractive levels, their inclination to deploy in full will be limited. Meanwhile, equities look fragile even at new highs. It's all about AI promises, and any disappointment could derail recovery attempts."

The upside scenario is meanwhile relatively straightforward.

"A resolution in the Strait of Hormuz and relief on oil prices would feed through into inflation and the ECB narrative, and that is the catalyst this market needs," said Hoarau. "Without it, the run into year-end could prove challenging, and January more measured than the usual rush."

"Issuers would therefore be well advised to take every opportunity that presents itself. All else being equal, spreads remain very competitive on a historical basis, particularly versus Bunds, while re-offer yields are very attractive for investors." ●

OATs reel from blows but no quick fix in sight

How can we expect news on French finances to develop? And what do ECB policy and US mid-terms have in store for the market? Crédit Agricole CIB's Louis Harreau, head of developed markets macro and strategy, and Valentin Giust, global macro strategist, share their views.

Neil Day, Bank+Insurance Hybrid Capital: How do you explain the situation in OATs?

Louis Harreau, Crédit Agricole CIB: Let's start with what happened over the past four weeks. In our view, sentiment around France has been hit by three blows.

The first is clearly the increase in political uncertainty. If you look at the polls, they are increasingly showing a second round run-off between Jean-Luc Mélenchon and Marine Le Pen, and evidently that is not something that is especially market-supportive. The relatively high level of support enjoyed by Mélenchon in recent weeks suggests he is running a very efficient campaign. Meanwhile, the campaigns of mainstream candidates — Édouard Philippe, Gabriel Attal, and even Bruno Retailleau — do not seem to be going particularly well. This evolution in polls, with the far right and extreme left performing so strongly, was a wake-up call for markets.

The second element that could have increased worries in the market is the fact that France's economic outlook is deteriorating. Firstly, the Q2 GDP number was relatively bad. And secondly, the 2026 deficit will be worse than expected: compared to a deficit of 5% that had been expected by the government, Sébastien Lecornu announced that it will be 5.4%. So you have deteriorating growth, and on top of that a larger than expected deficit. This is something that began worrying the market during the summer.

And the third blow is the fact that France — like every country in the developed world — is currently facing higher rates. For France, with relatively high public debt, this higher rate will imply a higher cost of debt, and consequently, a higher risk of refinancing in the market for the future, and furthermore, this higher cost of debt could naturally increase the public deficit and consequently public debt.

The combination of those three elements has triggered the recent worries on the French market.

Day, BIHC: How might the situation worsen or stabilise in the coming months?

Valentin Giust, Crédit Agricole CIB: We have been worried about the public finances, and we remain worried. What is



Louis Harreau,
Crédit Agricole CIB

worrisome is that we currently do not see a clear way out. If you look at the public finances, two years ago, it was a far from perfect situation: successive governments tried to implement measures, but these were almost always rejected by the National Assembly. Now this problem is compounding, and that's why if you look at the fiscal outlook, you have a deficit currently which is between 5% and 5.5%. If fiscal policy is not adjusted, it will be higher and higher, which implies an upward trajectory for your debt-to-GDP ratio. Moreover, this upward trajectory is likely to accelerate. That's why it's so worrying. We lost around two years, since 2024, and now the market environment is more adverse, there is a compounding effect with spreads, and at

the same time, this refinancing issue and this deficit issue is far from being tackled. The government is willing to address it, but it has absolutely no political leeway to change course. So that is the negative inertia that we expect, which is why we are not positive over the medium term.

Day, BIHC: Going back to Le Pen, she announced RN plans aimed at addressing this on Tuesday. Are they helpful?

Giust, Crédit Agricole CIB: The good thing is that they have now acknowledged the current market situation. They clearly believe that it needs to be resolved and are addressing it — that is welcome. And the numbers they are targeting regarding deficit reduction are appropriate: a reduction of something like €140bn per year, which is more or less in line with our figures — this was €120bn before the sell-off, but currently more like €150bn.

However, if you look at the measures they are proposing, these are far from a package that could achieve that. With those measures, it's very difficult to foresee an adjustment of even a third of what is necessary. So basically, they are aware of the destination that needs to be reached, but the path to get there remains quite uncertain — although it's worth noting that none of the other parties have outlined plans that clearly address the current French weakness, either.

Day, BIHC: How do you expect the ECB to react to current economic developments and the French situation?

Harreau, Crédit Agricole CIB: In terms of monetary policy, we expect the ECB to remain on the hawkish side. Granted, there is this particular French aspect, but at the same time, you still have core inflation that is increasing, and consequently, it is still necessary for the ECB to hike its rate. That's why, whatever hap-

pens in France, good or bad, we still expect the ECB to hike again, at least once in December, and possibly another time later on. The ECB should continue its monetary tightening; it should not look only at France when implementing monetary policy. On this front, we would not anticipate any dramatic change in our view.

We *can* agree that in a scenario where France triggers a kind of financial crisis, the ECB would have to be more accommodative. But that's not at all the scenario currently. We are not talking about a full-blown crisis for France. So that's on the on the monetary stance.

Now, if I look at the other aspect that is heavily discussed in the market, whether the ECB would have to intervene on the market to protect French OATs: first of all — and this is very important — we are not there yet at all, because the French spread is currently not that large. Markets are still relatively confident in France's credibility. But in an adverse scenario, the ECB could intervene in the market, like it did in the past for Greece, for example, or to a lesser extent for Italy and Spain. The ECB could intervene, but only under two conditions, in our view. The first is that tensions are sufficiently large to threaten the implementation of monetary policy. That would be reflected in a significantly larger spread of OATs over private assets, corporate bonds, covered bonds, etc. You would need a larger spread to trigger such an intervention. The second point is that the ECB would only intervene if it is in front of a government that is ready to implement adequate policies. There is no universe in which the ECB just unilaterally saves a government that does not have sound public finances. So the conditions for the ECB to intervene are by no means met here: financial tensions are relatively limited for now, and we are not in a situation where the French government has shown that it is ready improve public finances sufficiently.

Day, BIHC: Putting France aside, how might the ECB be reacting to wider geopolitical and macro developments?

Harreau, Crédit Agricole CIB: The ECB has to take into account the volatility in energy commodity prices in its inflation forecast, and what we have seen is that prices, especially of gas, have dramatically increased since the beginning of August, the beginning of July, even, and this has an impact on its core inflation outlook. The ECB revised upward its inflation outlook in September, and it will probably revise it marginally upward again in December. As a consequence, the ECB has to remain on the hawkish side, because core inflation will remain relatively high in the year ahead.

Unfortunately for the ECB, it is still super-dependent on the



Valentin Giust,
Crédit Agricole CIB

evolution of energy commodity prices, so it's very hard for it to have a clear view on the outlook for its monetary policy. That also explains the volatility in the rates market: as the ECB faces a lot of uncertainty, it cannot provide clear communication, and without clear communication from the central bank, it's very hard for markets to adequately price monetary policy steps.

Day, BIHC: Inflation is apparently high on the agenda of American voters, too. Do you expect the mid-terms in the US to have an impact on economic and financial developments?

Giust, Crédit Agricole CIB: We don't expect a major impact, for two reasons. First, the backdrop is very uncertain, so it's really difficult to see a resolution to that, and the mid-terms are a relatively minor event amid all that uncertainty. And second, we do not see how practically a significant change in the House and the Senate in the US can reverberate toward something really changing in the variable that really counts: if you look at US inflation, there is very little probability of seeing something significant unfold. OK, Trump is willing to send cheques to the American people if he gets a full majority in both chambers, and yes, that would probably be inflationary and change the outlook. But this is far from the central scenario. The opposite outcome — which is probably the most likely scenario — of the Democrats gaining the Senate and the House, we do not believe that will change the situation in the Middle East. If you look at the Strait of Hormuz, for instance, yes, there is no outright conflict — more of a proxy war — but the Strait is completely blocked and we do not see how the Democrats can unblock it. There may be some kind of negotiation, but it would take months, while Trump remains at the helm. So we do not expect a major impact from the mid-terms in most central scenarios.

Day, BIHC: Overall, it doesn't sound like a pretty picture. Are there any glimmers of hope on the horizon?

Giust, Crédit Agricole CIB: The good thing — although not necessarily good for the rates environment — is that if you look at growth, it has been outstandingly robust since the start of the year. This is not the case in France, but if you look at growth more generally, in the US, there's a slight deceleration but it remains super-constructive, and you have very positive surprises in other countries, like in Germany, like in the UK recently. That's probably paving the way for more restrictive monetary policy, on the one hand, but clearly, at the same time, it means that the economy is not currently underwater, and this is more like an upside of the cycle, which is good news. ●

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