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Global SSA
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Flex appeal: SSA issuers bend to withstand blustery markets

The euro SSA market has held up well in the face of high inflation and its remedies: rising rates and quantitative tightening. To achieve that, issuers have found intricate ways to mitigate bond execution risk, writes **Georgie Lee**, and be nimbler than at any point in recent memory.

Sovereign, supranational and agency issuers made a flying start to their funding programmes this year, despite market conditions that made issuance trickier than before. They priced €292bn and $116bn in syndicated benchmarks in the first five months of the year, according to *GlobalCapital's Primary Market Monitor*, up from €266bn and $88bn, year-on-year.

Yet they issued those volumes into a market contending with high inflation, rising interest rates, the end of quantitative easing, a long-running US debt ceiling stand-off and, new for this year, a banking crisis.

Issuers have had to adapt. Bigger ones like the EIB have planned in detail their route through the market, considering not just external influences but what other issuers are doing.

"We've had to take into account supply from peers," says Sebastien Rosset, senior funding officer at the EIB, "and remain consistent in our predictability and regularity that we bring to the market. Some flexibility has been required so we can seize the best funding windows when they are available."

Such an approach has allowed the EIB to bag record order books this year, according to Rosset, without it paying significantly higher new issue concessions.

Managing deal variables within an issuer's control was fundamental in achieving best execution. "Long and careful planning of the transaction, be it in terms of maturity, timing or currency, as well as upstream work to identify demand to pre-sell the transaction, is important," he adds. "Sensible pricing to generate a win-win situation for both issuers and investors, as well as careful allocation processes skewed towards long term holders is also key to our process."

Markets have certainly changed, emphasises Mark Byrne, DCM syndicate at TD Securities, who highlights how much pricing power issuers have lost compared to the era of low interest rates and central bank bond buying.

"A lot of the control sat with the issuer," Byrne says. "When the interest rate environment changed, all sorts of risks were introduced which is what we saw, for example, with Silicon Valley Bank and regional banks in the US.

"When everyone generally agrees on the direction of rates or spreads, and risk tone is benign, execution is more straightforward," he says. "If there's a real lack of certainty then it becomes difficult."

Crowded houses

Although execution risk is higher in both euros and dollars, the reasons differ because of the different investor bases in each market. "US order books are always very lumpy," says Rosset, "with the success or failure of a transaction residing in critical investors turning up during bookbuilding. Euro books tend to be larger but with much more opportunistic investors, which can have a detrimental impact on the fate of the transaction."

Issuance in either market depends on being able to find ever shrinking windows when deals are possible. Inflation and other economic data, central bank policy announcements and issuers vying for investor intention have all made it harder to guarantee the attention of investors.

However, SSA issuers have been able to lean on their experience to ensure they meet their funding programmes, according to head of capital markets at KfW, Petra Wehlert, who says the market is deep enough and there's "enough professionalism" so that issuers don't have to all line up and come to the market separately.

Indeed, KfW and EIB caused a stir in the market in May when they both priced seven year deals in euros on the same day, a phenomenon market veterans could not recall happening at any other time. Typically, two such large issuers would avoid bringing similar deals on the same day.

"The situation is as it is, but the euro market can cope with two big transactions on one day," adds head of new issues at KfW, Sven Wabbels.

In the event, the EIB priced a €5bn 2.75% July 2030 deal, with orders of €35.5bn. KfW priced a €3bn no-grow May 2030 green bond, luring a book of €6.4bn. The EIB paid a premium of 2.5bp-3bbp, KfW paid 2bp.

When markets are stable, issuers may "get the benefit of the doubt," says Bryne. "Investors may not love the deal but they'll buy it because they need to be invested in that name, tenor or at that point in time. Issuers then need to offer something during uncertain periods."

Overall, Wehlert explains that the euro market is adapting faster than many expected to the new prevailing

SSAs priced €292bn and $116bn in syndicated benchmarks in the first five months of the year, according to GlobalCapital's Primary Market Monitor, up from €266bn and $88bn, year-on-year conditions — namely, high inflation and sensitivity to economic data.

"But even then, things stabilise very quickly," she adds. "We all expected QT to have had an impact on the market. However, traders, banks, and long-term investors all recovered relatively quickly."

The elephant in the room, at least as far as issuers are concerned, is the European Union, which as a result of the pandemic recovery support it is supplying to member states, has ballooned into an issuer that prints roughly €160bn of bonds a year — twice the size of KfW's programme, for example and bigger than many sovereigns.

Its continual issuance has influenced the rest of the market, explains Koen Westdijk, head of funding and treasury at Dutch agency BNG Bank. "That's something we have to take into account," he says. "They are a force to be reckoned with."

The EU issues in large size by both auction and syndication, according to a pre-determined calendar, meaning the market knows on what days it will be in the market with deals.

"The EU behemoth blocks off weeks with their six-month calendar and, for a long time, issuers were cautious about going head-to-head with it," says Alex Barnes, head of SSA syndicate at Citi, although he points out that, by June, issuers had learned better how to issue in and around the EU's programme.

Where it has been appropriate to take a more cautious approach, issuers have often taken the pragmatic option, Barnes explains, particularly at the beginning of the year. "The reality is: if issuers are offering a fair-to-generous starting point [on price], the market is pretty efficient at reflecting that in order book demand," he says.

Westdijk says that getting pricing right has been even more crucial. "It's important we get the right price for our customers and for our investors as well because we're in it for the long run so if we try to squeeze every basis point out of the market, this will affect our issuance and performance in the long term."

"When everyone generally agrees on the direction of rates or spreads, and risk tone is benign, execution is more straightforward. If there's a real lack of certainty then it becomes difficult"

Mark Byrne, TD Securities

▼ Ebba Wexler, head of SSA DCM at Citi

Paying the cost

For issuers like the EIB and KfW, the dollar and euro markets are twin, strategic pillars of their funding programmes and they will print in both to maintain their presence even if pricing is not always at its cheapest. While smaller SSAs in both markets consider them equally strategic, the expense of issuing drives how often they visit each.

"While the relative cost of funding in either market is always a consideration, it is not its prime motivator," says Rosset. "With an established track record of regularly spaced benchmark issues in both currencies, we take the perspective that most relative cost differences between euros and US markets effectively average out."

The EIB has also been issuing less, meaning there is net negative supply of its bonds. This has helped it to issue in dollars at tight spreads to US Treasuries, Rosset says.

Meanwhile, KfW's Wehlert explains that the dollar market has always been a "win-win market" for the German policy bank, in terms of funding advantage, strong investor bases and depth.

But, as she explains, in dollars KfW trades 10bp or so wider than Treasuries. "That's already a stretch for investors," she says.

Nonetheless, dollar investors remain interested in the issuer's programme, Wabbels emphasises. "The market is quite tight at the moment but there's no lack of demand," he says. "Our US roadshows have proved that."

That will encourage SSA issuers that look to keep a foot in the door of the dollar market at all times. "We want to maintain a dollar curve as part of our strategic funding," says Westdijk, "so even when it's a little bit more costly, we still want to be active there."

BNG was the first to issue a dollar benchmark after the initial throes of the banking crisis, pricing a $1.5bn 3.5% May 2028 social bond in May. Picking the window to do the trade in was no easy task.

"For us, it was mainly the euro-dollar basis that was unfavourable," says Westdijk. "We also need to work around black-out periods, when we release our annual results at the end of March and with the annual update of our debt issuance program at the end of May.

"We try to be as nimble as possible and act fast to go to the market when the moment is right. I can't speak for other issuers but situations like Silicon Valley Bank, like First Republic Bank, like the US debt ceiling, these have not helped finding the right window for issuers like us."

The dollar market is also less readily available than euros and pricing takes longer. "We don't have that much flexibility in the execution timetable when it comes to dollars," says Ebba Wexler, head of SSA DCM at Citi. "The 24-hour new issue cycle is tried and tested. Issuers don't tend to go for intra-day and we very rarely recommend this approach."

Although issuers insist the level of demand in dollars is high, a key constituent of the SSA investor base — Asian central banks — is in retreat. The speed of interest rates rises in the US caused the yield curve to invert, meaning they could buy shorter dated assets rather than longer dated SSA bonds for similar yields.

"If we move into the next phase and we see the yield curve normalise, I think we'll start to see the central bank demand come back," says Byrne. GC

Supras adapt to new world with new tricks

As the financial world adapts to a radically different paradigm, in which central banks are putting quantitative easing into reverse and cranking up interest rates, supranational institutions sit atop the pile of global bond issuers.

But that does not mean life is easy for them. Hyper-sensitive to pricing, they have had to play markets in a very different way, particularly as the rate fluctuations are constantly changing the relative attractiveness of different currencies.

In late May *GlobalCapital* convened a group of supranational borrowers to discuss their approaches to international bond markets in this new environment.

As well as macroeconomic change, they have had to get used to a new neighbour in their market — the European Union, with a vast funding programme that has quickly come to dominate issuance windows and force others to adapt their habits.

Meanwhile, many issuers are still feeling their way back from the Covid years. On one hand they are keen to keep the benefits of conducting investor relations work remotely, which was such a successful feature of lockdown. On the other, they are anxious to renew face-to-face meetings, to press home strategic messages to core investors and develop new accounts and lines — all the while worrying about the impact their travel has on the environment.

ESG, and how investors evaluate it, remains of core importance to these issuers, as does the role of technology in helping them sell bonds and achieve the all-important liquidity investors crave.

Roundtable participants

Ali Nauman, executive director - SSA debt capital markets, Santander	**Jens Hellerup**, head of funding and investor relations, Nordic Investment Bank	**Ankit Jain**, portfolio manager/trader – chief investment office, State Street	**Ignacio Bas**, European head of SSA debt capital markets, Santander	**Andrea Dore**, global head of funding, World Bank	**Richard Van Blerk**, deputy head of bench-mark funding, European Investment Bank	**Felix Grote**, head of long-term funding operations, Council of Europe Development Bank	*Moderator:* **Toby Fildes**, *GlobalCapital*

***GlobalCapital*: How has your approach to market funding changed amid rising rates and falling central bank support?**

Richard Van Blerk, EIB: The fundamentals of the way we approach funding across market cycles does not change much. Moreover, our multi-currency mix, volume and duration requirements, and hedged funding needs have a durability across a wide spectrum of rates and volatility regimes. Coincidentally, EIB is at the lower end of its funding range for the last several years. As a consequence, EIB has been in negative net supply in our core currencies. In other words, investors have been losing exposure to the name quicker than can be regained by new issuance alone. Among other things, this has helped the Bank's trading spreads to remain very stable and has kept market access very strong.

Jens Hellerup, NIB: I don't think our approach has changed that much. We will issue two dollar benchmarks — typically in three and five years — and a longer NIB

Environmental Bond, a green bond, in euros. So far we have issued a five year dollar and a seven year NIB Environmental Bond. We are very keen to issue sterling, Australian and New Zealand dollar benchmarks as well, as this diversification fits very well into the funding programme.

One change since last year is that back then we did 111 funding transactions; this year we have done 20, so the private placement market is not so active. Because rates are higher perhaps investors don't need to enhance their yields by buying callable private placements in euros and dollars where investors are implicitly selling call options and receiving an option premium.

***GlobalCapital*: So you've done fewer private placements?**

Hellerup, NIB: Yes, in euros, dollars and the Nordic currencies. We'll probably do more transactions in New Zealand dollars or Aussies.

Ignacio Bas, Santander: Is the Nordic currency angle the result of the cross-currency basis swap not working?

Hellerup, NIB: It's about pricing, yes. And the Swedish market is very much linked to green bonds, so if we issue a green bond we need to have the assets to fund.

Felix Grote, CEB: For us, investor diversification is key. We do two dollar benchmarks, two euro benchmarks each year and with our larger funding programme we can offer investors a fifth benchmark this year for the first time.

There's quite some demand for taps — in euros in particular. That has increased from last year, so maybe more investors have favoured tailor-made taps than participate in benchmarks.

In Nordic currencies we also issued our inaugural social bond and I think the label really helped. We had not been active in Swedish kronor for a while and that trade was a game-changer for us, showing the growing Nordic investor demand for social assets.

***GlobalCapital*: We'll no doubt talk about liquidity later but it's interesting what you say about tapping deals to make them bigger so they become more liquid when investors have benchmarks as an alternative already. What do you think was the dynamic at play there to make taps work?**

Grote, CEB: Maybe it's that they can choose at any given moment in time the maturity and currency and then invest in that and they don't have to wait for a certain benchmark to come around.

Andrea Dore, World Bank: During that rate cycle change, we didn't fundamentally change our approach or deviate from our core strategy of diversifying our funding sources. We issue across all the major currencies and emerging markets in approximately 25 plus currencies yearly.

Our funding programme is not driven by where rates are. It's driven by demand on the asset side — primarily loan disbursements. For example, during the Covid period we had a significant peak, and our funding reached a historical yearly high of around $80bn across IBRD and IDA — IBRD raised $70bn and IDA $10bn. Our funding programme is back to our normal average of about $45bn-$55bn a year for IBRD.

What we observed during that rate increase cycle was a significant increase in volatility. This has notably compressed the number of available issuance windows.

With the increased yields we are seeing a return of demand from retail investors. We've also seen demand for some of the structured products that we haven't been able to issue for some time.

***GlobalCapital*: What about the bankers, what have you noticed?**

Bas, Santander: We've not seen that much change in funding patterns but we ran stats to look at completion rates in the first quarter of this year and they're low compared to historical levels.

***GlobalCapital*: It felt busier though, didn't it?**

Bas, Santander: It did, 100%, Also, duration seems to be pretty much in line with where it has been historically.

This shows us that demand in the market is very healthy. We've seen a rising number of investors. Investor outreach has picked up a lot and there are more investors involved.

Having a strong presence in Spain, we saw a lot of investors towards the end of last year from southern Europe pick up a lot of private placements.

There was a lot of education that went on, on that side, where investors started to move away from sovereign names and started looking more at supranational and agency names.

***GlobalCapital*: When did you cut off those volume numbers?**

Bas, Santander: The end of the quarter. We saw this retail demand in the first quarter and it's a wave of demand that has not been seen

before. It is happening for one specific reason, which is that banks are not paying deposit rates up to the same level of some issuers in the short term.

This is not just the supranationals and agencies but also the sovereigns. There is a huge wave of retail demand in Italy, in Spain, in Portugal, across southern Europe for that simple reason.

Banks are paying 0.5%-1% in deposit rates for up to one year, whereas these countries are paying up to 3%.

***GlobalCapital*: Investors see the world through a different viewpoint but does any of this resonate with you? Are taps something that you're looking at more and if so, why? Have you noticed any change in your or issuers' strategies?**

Ankit Jain, State Street: As a result of rising rates there has been more of a shift towards SSAs — especially supranationals and agencies where you find more attractive returns than on sovereigns.

Sometimes we have been keen to shift our strategy towards more exposure to this asset class. And yes, from rising rates, it has definitely got some kind of attention. As of now we have been mainly in dollars but we are looking for options in other currencies, especially in euros and Aussie dollars.

***GlobalCapital*: And the reason why you are looking at SSAs is because they pay a spread? There's nothing more to it than that?**

Jain, State Street: You get the spread benefit and at the same time we have a view there will be some jump in performance, especially in non-dollar currencies compared to dollars, if you compare to the sovereign benchmark curves.

***GlobalCapital*: Did this class of issuer benefit from the banking sector crisis in March? Did you see a chasing of your own assets?**

Van Blerk, EIB: We have had quite a good year in 2023.

Already last year we had some concerns that the combination of rising rates and a withdrawal of QE programmes might upset fixed income markets, but in the SSA space demand remained very solid across currencies and tenors in 2022. To some extent, these concerns were transported to 2023, but yet again, we have seen that investors have remained keen to be in SSAs, be it at relatively narrow spreads versus US Treasuries in dollars, optically generous Sofr levels, or, in now positive rate territory in euro markets with historically generous spreads to underlying government bonds.

Euro markets feel busier than ever, with more EGB supply to be digested post-QE and the presence of the EU as a large issuer. While this has given rise to a certain level of congested issuance windows, supply has been relatively easily absorbed.

Grote, CEB: We have the luxury of alternative currencies but the EU has only euros, so in the euro market we of course aim to avoid the windows that it uses.

What is really helpful is that nowadays the European Stability Mechanism usually comes on Monday intra-day, I think that helps the market by not taking away another window.

But overall, with the volatility since March, the market has become extremely data-sensitive, much more than before. What used to be a minor data event can now make a big change. Some of us may have experienced that during a transaction; it's a new world.

Van Blerk, EIB: What has been true, however, is that most developed markets have been highly correlated, as most economies responded in a similar fashion to the Covid crisis, initially with lockdowns, followed by strong recoveries and inflation, that proved to be not-so-transitory.

For all policymakers, the headline concerns are inflation first and an approaching recession second. As a result, markets tend to move much more in sync on a strong or weak inflation print, no matter if it is coming from the US, the EU or the UK.

Bas, Santander: You have three spotlights. One is the EU issuance calendar, then you have the data and then the central banks. You have to play around with these three lights to decide where your window is, where you are competent and knowing that nobody else is using that window that week.

Dore, World Bank: The inter-connectivity across markets is more pronounced now. Markets are more sensitive to data releases globally, so we need to take into consideration not only the potential impact in the euro and dollar markets.

Having said that, the majority of IBRD's funding *is* done in the dollar market. But we raised a significant amount in the euro market particularly for IDA. Approximately one quarter of IBRD's funding comes from the euro market but for IDA that number is two-thirds. We're not a beneficiary of ECB QE, equally our spreads have not been impacted with the changes in QE. We do, however, expect relative spreads between QE and non-QE members to have compressed much further now. Despite that we have been able to raise funding at very competitive levels in euros and in maturities up to 40 years.

Hellerup, NIB: At the beginning of the year, we had to decide which market we would go to first, euros or dollars. We were a bit worried about the supply from the EU in the euro market but in fact the dollar market has probably been more volatile. What works one day doesn't on another.

We did a sterling trade in January on a Friday, which is normally something you need to be careful about but there was no other supply in the market that day and it turned out to work very well.

Van Blerk, EIB: With one of the larger funding programmes among SSAs, EIB has traditionally been an avid multi-currency issuer, and dollars, along with euros is one of its two core currencies for funding. This implies a consistent and regular presence in both markets maintaining liquid, on-the-run benchmark curves. While the relative cost of funding in either market is always a consideration, it is not the prime motivator. With an established track record of regularly spaced benchmark issues in both currencies, we take the perspective that most relative cost differences between euro and dollar markets effectively average out.

For instance, while for the last few years euro markets have likely been marginally more attractive from a pure cost perspective, EIB has nevertheless maintained a meaningful presence in dollar markets. Likewise, dollar funding is currently more economic for an issuer than euros, which will not lead us to be overweight in dollar issuance.

Our mix between euros and dollars has remained stable over the last years, even though in euro markets the increase in funding from the EU has led to some congestion, making finding one's window more challenging. Nevertheless, the advent of the EU as a large issuer has been quite beneficial for euro SSA markets in terms of increased market focus, investor demand and extra liquidity.

***GlobalCapital*: Is it fair to say the EU has been good for liquidity in general but it's made issuers' lives harder because they're having to pick and choose when to come to market?**

Van Blerk, EIB: Correct — but there is more to it. There is now a sub-class in euro SSA, the E-names, that are often considered almost homogenous and whose bonds trade closely but not identically, giving rise to interesting relative value issues. Basically, there is a limit to the differences observable between these E-names and, as a result, EIB finds itself inextricably linked to the fate of the other European issuers. We understand that typical SSA investors are often not particularly interested in the finer credit differentials between the various EU institutions, but substantial differences in the amount of (net) supply lead to sustainable pricing differences.

Grote, CEB: The EU comes to the market according to their issuance calendar, including an RFP process. Sometimes they're obliged to issue when the market is less favourable and then they may have to pay a little bit more, which can have an effect on our bonds as well.

On the other hand, it can be good for us because they test the waters.

Dore, World Bank: The markets are functioning though. The ability of the market to absorb such large volumes of funding is amazing.

To see issuers come, whether it's the EU or IDA, which is much smaller, into a crowded market and print very successful trades means that the market is functioning well. This is a clear indication of the depth and breadth of the euro market.

Van Blerk, EIB: As quantitative tightening got underway, the consensus view was for euro swaps spreads to start narrowing. However, both in 2022 and in 2023, swap spreads have remained wider than expected and, as a consequence, European supras including the EU trade relatively wide versus EGBs and, in that sense, have remained relatively attractive to the investor base.

***GlobalCapital*: Which, off the record, they probably don't mind very much.**

Bas, Santander: Most SSAs are treated as Category 2 collateral at the ECB and the EU is moving to Category 1 by the end of June, so let's see how that ends up.

There was a fear of crowding out because you spend two weeks on the EU RFP process, so that's two days that are taken out of the calendar. Then the auctions are taken out, so that's potentially three days out every month, sometimes six.

The market's ability to absorb, as we saw recently when we saw the EIB and KfW in the market at the same time and both of them did really well, shows that the market is there.

"We've not seen that much change in funding patterns but we ran stats to look at completion rates in the first quarter of this year and they're low compared to historical levels."

Ignacio Bas, Santander

Will there be more occasions like this? I don't remember when two big issuers came to the market on the same day. But it happened and it was well absorbed.

***GlobalCapital*: Has the coming of the EU as an issuer, with an average duration of 15 years, been good news for you as an investor?**

Jain, State Street: Yes, we want to add duration and even with the flows that we have seen we have quite a lot of room to add from a risk perspective.

We want to add duration in our portfolio and we want to manage our balance sheet strategy as well. So anything euro-centric works well with our portfolio. We watch the issuance very closely and we have been adding to our exposures.

You mentioned the small windows when it comes to issuance because of the EU's auctions. We think this is likely to continue for a while, so how does it work in the upcoming months in terms of getting into the market?

Van Blerk, EIB: To some extent, we have consolidated by printing larger sizes when books permit and creating a less frequent footprint in SSA markets: issuing a €4bn-€5bn benchmark rather than focussing on smaller issues and taps.

Beyond that, busy issuance windows allow for a flexible multi-currency issuer like EIB to switch away from congestion zones in one currency to another less occupied.

Hellerup, NIB: Issuers are going to go head-to-head because the windows are fewer than they used to be. Naturally we still have key figures you would like to avoid, but also many auctions and a third factor is the volatility from event or headline information, which makes many days not good for issuance in the primary market. Issuers then need to decide whether to go head-to-head with a peer issuer or be in the market on a day which is not so obvious. Our recent sterling trade on a Friday, which I mentioned earlier and that went very well, is a good example.

Dore, World Bank: Competition for issuance windows has increased a lot, so if you get a window, you try to get as much funding out as you can.

Issuers are very focused, looking at every single window and evaluating it — even into the summer period. The seasonality features associated with funding windows is blurrier now. There was more funding done in February this year than January. It is normally the other way round. And there was more funding done during July last year than in June.

The euro market is where we look for duration, we can issue liquid lines in 15, 20, 30, or 40 years. Our average duration for euro funding has been between 15 to 20 years.

"Overall, with the volatility since March, the market has become extremely data-sensitive, much more than before. What used to be a minor data event can now make a big change. Some of us may have experienced that during a transaction; it's a new world."

Felix Grote, CEDB

Van Blerk, EIB: Euro SSA markets have traditionally been an excellent source of duration for issuers although by now the asset swap curve has steepened quite a bit, making the extra cost of, for example, 15s over 10s quite excessive. In particular when, on the asset side, EIB does not really need anything over 10 years. This year has been very pleasing in the sense that we have been able to stay close to our seven year duration target without having to access the very long-end of the euro curve.

Hellerup, NIB: When we have issued our euro benchmark over the last years, the shortest duration was based on a requirement to get a positive return, now you don't need to go too far along the curve to get a good return and all maturities have a positive yield.

Van Blerk, EIB: That's an interesting point for the investor base. In particular in dollar markets, the 2s-10s curve is well inverted and we believed that would lead to much two or three year issuance this year. Having said that, market dynamics around the terminal rate have changed, making the longer end look more appealing and investor appetite has moved out, opening up the opportunity for 10 year dollars.

Dore, World Bank: We have not seen this depth before in dollars. Never in my time in the market have we been able to do $5bn in seven years, or $5bn in 10 years, as we have over the last couple of years. Seventy percent or more of our funding in dollars is now done in seven to 10 year maturities. Before, when we looked for size in those maturities, we looked to the euro market. Now we don't have to, we can do it in dollars more consistently.

***GlobalCapital*: Ankit, you painted a positive picture around wanting to get into this asset class. What are your biggest concerns about it though? Is it liquid enough for you? Are the yields, new issue premiums and spreads compelling? What are issuers having to do to encourage more people like you to invest?**

Jain, State Street: We don't have much of a concern about the asset class, especially with how we are trying to take advantage of the spread basis, which gives more opportunity to add more sovereigns or Treasuries.

Its liquidity provides enough buffer from a capital perspective too. We have a number of capital ratios which we need to monitor.

The spread basis is attractive in terms of what we like to add over the govvie benchmarks.

We have been active in buying bonds maturing in 2026 and 2027. Sometimes it becomes challenging, especially if you seek out opportunities once pricing has shifted.

***GlobalCapital*: Do you have a preference for buying taps versus new lines, or does it not matter?**

Jain, State Street: It doesn't matter much. If we have open credit lines, then a tap gives us scope for adding when we don't have any of that bond.

***GlobalCapital*: This bring us on to another point, which is around investor relations. We've been hearing a lot of noise lately about how issuers are taking the opportunity of coming out from Covid to rethink how they do IR and whether investors have different ways they want to deal with them. Has the way of doing IR changed or does it need to change? Or is it: carry on as we were before Covid?**

Grote, CEB: Sometimes we really like *ad hoc* virtual investor meetings. They are useful if it is for a specific topic or a first exchange.

Once it becomes more strategic, physical meetings make more sense — traditional roadshows or one-on-one meetings. We're back to doing those but with an eye on sustainability.

This year we had a capital increase and are welcoming Ukraine as a new member so at the beginning of the year we had a global investor call and visited a couple of European centres for a strategic approach.

***GlobalCapital*: Have any issuers looked at their investors and thought they need to create a bilateral grouping of investors? One that they contact directly, *ad hoc* and one that their banks work for them, and even a third tier that they might contact, say, twice a year?**

Grote, CEB: Not formally but most of the second or third tier ones we reach by banks organising larger calls, often focusing on one particular region. You have this really useful outreach, the one group call, with maybe 100 smaller investors.

Hellerup, NIB: Covid was a chance to get virtual meetings started, however virtual meetings are not the same as in person meetings Since the market has opened up, we have been catching up and investors are very keen to see us.

During recent months, many banks have organised conferences where you can meet investors. That has worked well.

To a large extent we are back to how we were but there will be a change going forward after the initial catch-up.

Dore, World Bank: During Covid we had to adjust our investor outreach approach. One hundred percent of our investor outreach was done virtually. This was amazingly efficient. We were able to cover so many investors with no travelling involved.

But post-Covid, as we recalibrate our approach and go to visit investors, we see that the quality of information is much better and varies depending on the geographical areas. I find people are more open face-to-face.

I don't think we will come back to the pre-Covid approach because I see a lot of value in us continuing this hybrid approach. This provides more flexibility for investors and issuers. The ability to jump on a call, to provide investors with updated information or to answer their questions within minutes instead of days if we were to travel, is incredibly valuable.

Deciding on which approach we take in a post-Covid world will depend on the different characteristics of investors. We also represent two issuers at different stages of their funding cycle — IDA which is relatively new to the capital markets and IBRD, an issuer that has been issuing bonds for over 70 years — so we must take those differences into consideration in our IR strategy. One thing the Covid period has taught us is that a lot can be done virtually, we just need to be flexible. Covid brought a new lens in terms of how we do IR.

Bas, Santander: During Covid, we had the amazing luxury of being in Australia one moment, New York the next and then London, with a time difference of two minutes, jumping from here to there.

The good thing that Covid brought us was that it became much easier to jump on to a call with a certain number of investors, or banks.

You have a call and you put faces in front of each other. It is very important to be in front of people and putting faces in front of each other and generating the confidence to buy the product you are selling.

This is something that will never be replaced by a screen. The personal touch is key in our business.

In this hybrid, post-Covid world the number of meetings has increased. There are more roadshows, there are more investor meetings, whether it be online, or in person. We're meeting more investors all the time and there's more frequency of contact.

***GlobalCapital*: Ankit, how has life changed for you post-Covid? Are you doing more physical meetings? What do you prefer?**

Jain, State Street: My preference is to meet in person. It helps both sides. During Covid, you could jump from one call to another with your video on and usually you have the presentation, you have the agenda and there were a lot of virtual conferences as well.

But being in person gives you the personal touch and you are more effective at communicating; you can put a face to the name.

Grote, CEB: What has also changed, and that's independent from Covid, is that there are now so many more questions about sustainability. That has really been the theme over the last year or two. It's not just about our green or social bonds but our sustainability strategy at large as an institution.

You have to be much more of a sustainability expert than you had to be in the past.

Hellerup, NIB: Before Covid, you just used to meet the portfolio manager and the credit analyst but now there is the ESG person. And of course, we have ESG experts to support and answer the much more detailed questions about our sustainability framework.

Grote, CEB: There is a different type of relationship growing with investors because often we have not just one meeting but a sequence of calls and a trade idea may come out of it.

Dore, World Bank: On virtual meetings we can pool a greater depth of knowledge across the World Bank. We can engage more people. It adds to the quality that we can bring to the discussion because we can access a lot more experts who can cover certain topics in more depth. When we travel in the traditional way, we are not able to bring all those people for budget reasons, and it wouldn't be good for the climate either.

***GlobalCapital*: As an aside though, it is interesting how we all said the world is never going to go back to normal two years ago and yet I'm sure we're all travelling as much as we were. We have touched on ESG but it's worth going into a bit more. How are the questions issuers get on ESG changing? Are they getting harder? More annoying? One thing I've heard is that every investor has a different view on what is sustainable, making it difficult for issuers to prepare.**

Hellerup, NIB: There are two discussions. One is on how sustainable an issuance programme is and the sustainability of the project you finance.

The other is about counterparty sustainability. How good is the whole company and not only the projects? That's where the discussion is going.

So when we issue green bonds, investors are of course interested in our green framework, but they are also very interested in NIB in general.

***GlobalCapital*: So, more homework for you?**

Hellerup, NIB: Yes, you can get very detailed questions, for example recently we met an investor who is very keen to know how we are looking at infrastructure, both from the environmental and productivity sides, which are two pillars we can finance under.

Van Blerk, EIB: Last year, we 'mainstreamed' our issuance of Climate Awareness and Sustainability Awareness Bonds. Where previously we would issue dedicated €1bn-€1.5bn issues, we have now integrated EIB's CAB and SAB labels into the bank's main benchmark issues of €3bn-€5bn, bringing the size and liquidity that investors are used to from the EIB. We can offer investors increased volumes in CAB/SAB format because we are increasingly seeing more suitable projects on our lending side, be it because the Bank is more active in climate action lending or because the eligibility criteria of our projects could be widened in line with the EU Taxonomy.

Grote, CEB: To highlight the mainstreaming of ESG issuance, we decided last year to issue our social bonds in the same size as our conventional bonds.

The ratio of our social bond funding was an incredible 34% of the 2022 funding programme.

We're also committed to extending our social bond issuance into new currencies. To make it possible, as one of the first SSAs we moved to a portfolio approach in terms of project reporting so we have more flexibility as an issuer. At the same time our social bond reporting continues to feature ICMA's harmonised reporting template, which is very much appreciated by our investors.

Dore, World Bank: We've seen investors really focus on impact a lot more. We started with a green portfolio, putting together a framework that has been replicated by many. We have expanded to a more holistic approach, focusing on our entire balance sheet.

We recognise that, as a big institution with a social purpose, climate is integral to everything we do. We can't move far on our development mandate without taking into consideration climate risks.

We're getting a lot more questions from investors about climate risk. The type of questions depends on the region and the type of investor. In some regions, the questions are more granular and advanced. In other regions, investors are just starting to incorporate ESG factors in their portfolio risk assessment. The questions we get are generally focused on our portfolio of projects and how we are managing climate risk overall.

We have been working closely with investors for many years and responding to their needs in that regard. That's why we have been putting together yearly an impact report and making it available to all investors. It's a lot of work and effort for the team to put this report together but investors appreciate the effort and the level of transparency this has brought to the green and sustainability discussions.

GlobalCapital: Is it a problem that almost every investor has a slightly different view on what is sustainable?

Hellerup, NIB: I don't think so from NIB's perspective. We're quite strict on what we can finance with a green bond. Some 60% of our disbursements count as environmental lending but only about 50% of these loans are eligible to be financed with green bonds.

GlobalCapital: Has the EU taxonomy on sustainable activities been helpful to the World Bank or not?

Dore, World Bank: It's not that simple. Standards are good so we embrace the work being done to put them in place to increase transparency and address the increased threat of climate change, which is extremely important for achieving our development mandate. However, standards must be tailored to take into consideration regional and country specifics, since what is ambitious in one country may not be in another, or certain technologies may not even be available. The differences across countries and where they are in their development journey must be accounted for — emerging versus developed. Depending on where a country is in its development journey, the impact of a specific standard can vary significantly.

Climate is very important for the World Bank and 100% of our projects are screened for climate risk. Last year, 90% of all IBRD's projects had a climate financing component. It doesn't matter whether it's an education project or an infrastructure project, every project is evaluated through a climate lens to ensure the relevant mitigation or adaptation measures are put in place.

GlobalCapital: Do supranationals still expect or benefit from a greenium? And do investors agree with the concept of a greenium in the first place?

Van Blerk, EIB: The greenium, or premium pricing for green bonds, is not an issue we focus on. Our projects on the lending side are what colours the CAB bonds green and that remains our point of focus. When we started the green bond market in 2007, the notion of a greenium was non-existent. In fact,

investor demand for the product at the time was not exactly a given and it took quite a few years before regular SSA investors were willing to be involved. The green bond market has come a long way since, but the greenium has not established itself over that time.

Hellerup, NIB: I completely agree. The green bond market has never been about the greenium, but more about visibility, transparency and commitment. That said, a green theme can help execution and investor diversification.

GlobalCapital: Presumably the idea of a greenium is a total no-no for you, Ankit?

Jain, State Street: We have a team trying to assess where the opportunities are and how much exposure we have.

We have been asking the same questions: from a funding perspective, how much green or ESG issuance is coming over the next months.

Dore, World Bank: I remember when we started the green bond programme there was the discussion that those bonds would attract a premium. We have not really seen a big change in pricing but for us the ability to highlight to investors through our green bond or sustainable bond program the impact of their investments as part of our work and to increase the awareness of climate risk is priceless.

More recently we have focused on outcome-based bonds in addition to other Sustainable Development Bonds. For example, the World Bank Conservation Bond, or Rhino Bonds, and a Carbon Emission Linked Bond. Those bonds allow investors to take on direct project performance risk and benefit from the project success to enhance their yield.

GlobalCapital: Can we expect sustainability-linked bonds to take off for supranationals?

Hellerup, NIB: It's a challenge. We haven't seen MDBs issuing SLBs and only a few banks in general have issued SLBs. We are providing sustainability-linked loans to our clients and are looking at how we can finance them, but it's difficult because it would not be defined as a use-of-proceeds bond funding specific projects, it finances companies. On the other hand, the coupon is not fixed, so it falls a little between what is defined in the ICMA Principles.

It has been discussed with investors and there is some investor interest but it will be difficult.

Grote, CEB: As supranationals we already have our own institutional targets as part of our respective mandates. For me this is really the perfect product for corporates and probably some financials and I still find it surprising that there's not more issuance. There really is potential there.

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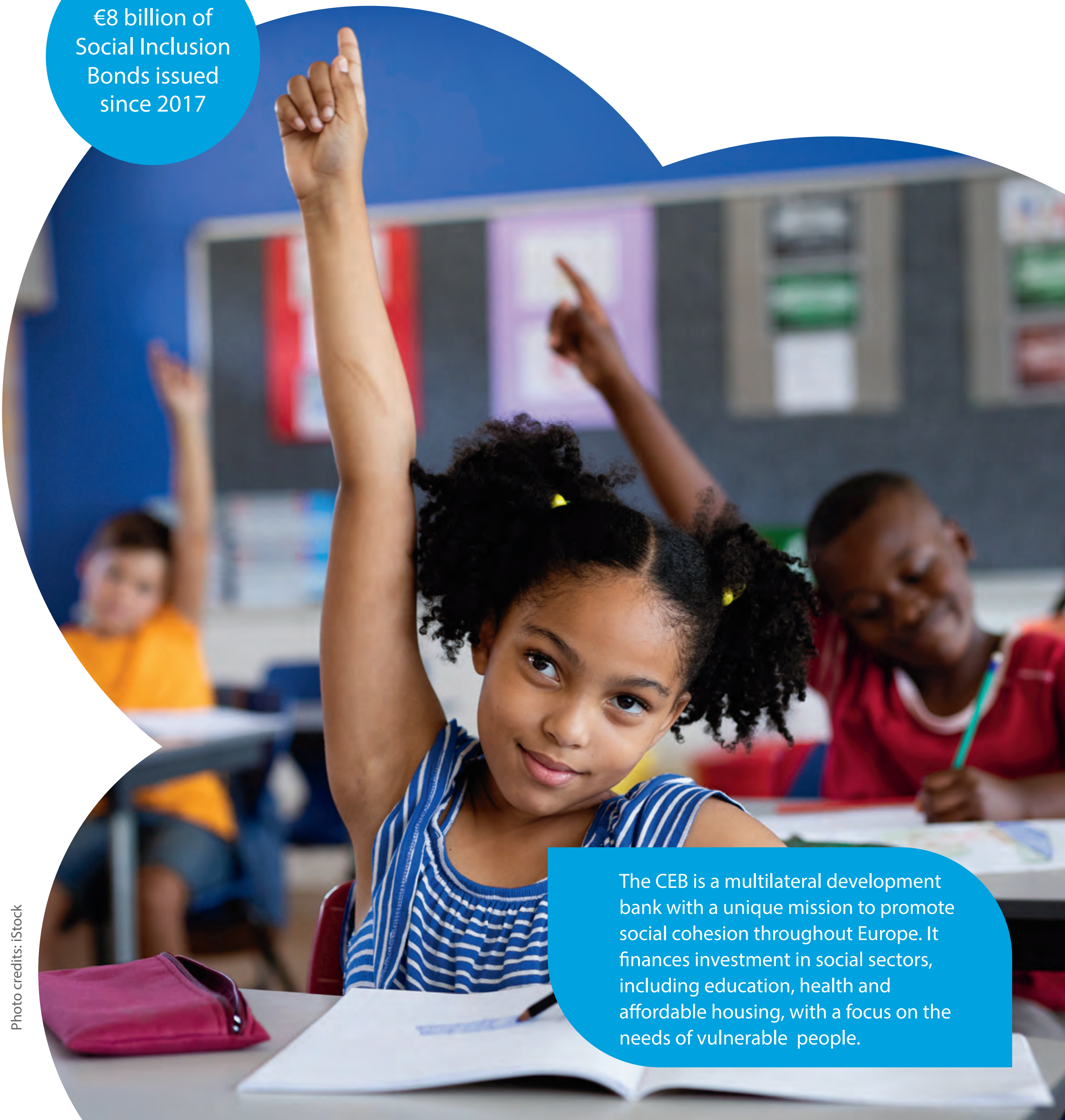


The CEB is a multilateral development bank with a unique mission to promote social cohesion throughout Europe. It finances investment in social sectors, including education, health and affordable housing, with a focus on the needs of vulnerable people.

Photo credits: iStock

Maybe the market needs to mature. There were a couple of issuers that didn't hit the targets on their bonds but one could also argue that these trigger events will eventually help the market become more mature.

***GlobalCapital*: It's very much a corporate market.**

Grote, CEB: Yes, they can link to their corporate strategy and transformation.

***GlobalCapital*: Ankit, do you like SLBs or does the variable coupon put you off?**

Jain, State Street: It's a case of picking what's best. The coupon differential plays a lot and at this moment it's still not clear how we go about the situation. From an investment perspective, coupon differentiation is a lottery.

There are many options around green issuance but as of now, it's not an area we are concentrating on, especially SLBs, but it's something we're keen to explore.

Bas, Santander: Our sustainability team foresees a rise in the asset class but there's a big question mark around transparency and around the ambitiousness of sustainability performance, etc.

We're a key contributor on the ICMA working groups for a KPI registry and we think standardising them will start coming into play.

***GlobalCapital*: Are SSAs leading the next generation of capital markets through tech and digitisation? Can you bring huge innovation, or is it something that you are happy for others to sort out first before using yourself?**

Bas, Santander: We've done a couple of digital transactions with the EIB in the euro market.

We're involved with different names across the world on different projects, not just in bonds but also in derivatives, repo, and some other projects with other digital institutions.

We are proceeding with baby steps and specific proofs of concept with this kind of technology. But we need to get this to a point where the whole system is changing.

We need to do everything in the digital space, not just issue a bond. Issuing a bond for EIB is great proof that things can be done but we need the full industry to open up to digitalisation — not just printing a bond in a blockchain and doing the settlement in Ethereum.

It's about being able from the issuer's point of view to launch a transaction through a digital channel where investors can jump in, where allocations can be done instantly, where settlement can be done, where pricing can be done, documentation, everything in the same system. We are still far away from that.

The most important thing to get to that point is to have a platform. We are all connected to the same systems and we need one that brings every market together.

It's all about promoting the efficiencies and minimising the complexities. When you look at it from the issuer's point of view and the lifecycle of financial instruments, there are enough platforms out there but there's no standardisation.

Yes, some technology works but then the term sheets, the settlement, all these kinds of things, need to be standardised as well. A lot of people are signing on, or are working at signing on, with partners and we're in touch with quite a few people as well on this.

Grote, CEB: It's surprising that in today's world we still have T plus five for settlement and that documentation is still very much manual.

With my team we have been following closely three or four fintech providers for a number of years, running a few test trades and recently a first parallel transaction. The results are quite promising but a lot of work still needs to be done.

In the end it's all about harmonisation and standardisation. We don't want the fragmentation of different providers. We work with three or four and then maybe there will be one clear winner emerging that we all follow.

Hopefully this is something that as public sector institutions, we can drive change in. As of late, there is again some noise regarding the ECB-led initiative and also ICMA has been very active in this field.

We really need to get to straight-through processing and I believe in a pragmatic solution.

Dore, World Bank: Yes, we can leverage technology to increase efficiency, especially at the back end. There's a lot of reconciliation being done on the back end. For example, having a golden copy of a transaction where everyone has access to that same copy can significantly reduce the level of reconciliation that occurs across the markets.

But we cannot fix everything with technology and sometimes it's not efficient to add more tech, it might just be quicker to make a call rather than go through a digital platform.

There are specific areas where we could use digitalisation for quick gains.

We need to focus on those areas. The goal for us is to increase efficiency and/or reduce operational risk through digitalisation.

We just completed the first ever Supranational Bond Exchange Offer and I believe part of that process could have benefited a lot from having a way digitally to locate the bonds.

A few years ago, we issued a blockchain bond to understand the technology and its uses and how we can benefit from its implementation in capital markets and within our broader development mandate.

Bas, Santander: We need to remember that we are still living in a world of T plus five where for roughly one in 20 trades you get an email saying the tickets do not match. This is the operational risk that we need digitalisation to help us solve, which is much more simple than a full blockchain world.

We're at a turning point and of the many different things to digitalise the markets we are trying, some will work very fast.

Van Blerk, EIB: As is typical for technological innovations, if a digital solution would start delivering clear and measurable benefits, adaptation could be really quick.

Hellerup, NIB: I'm surprised when you say that one out of 20 trades don't match. I thought the system worked quite well. I've used it for the last 20 years. It could of course be more efficient, for example with all the emails going back and forth during documentation.

Among the issuers 10-15 years ago there was e-funding, where an issuer could say 'done' and then the trade went to straight-through processing, so post-trade processing was automated. GC

Debt IR in the spotlight as SSA borrowers deal with complex ESG demands

The investor relations function at SSA borrowers is evolving fast, unrecognisable today from the cottage industry that began to take shape at the turn of the century, writes **Philip Moore**. The demands around ESG are driving change, but so too is technology, as well as the experiences of Covid — good and bad.

Informally, debt investor relations have been up and running for almost as long as the Eurobond market itself. Among the earliest exponents was Gene Rotberg, the World Bank's indefatigable and inspirational treasurer between 1969 and 1987. He wore out shoe leather aplenty in the 1970s visiting small German co-operative banks to explain how they could earn a 10bp pick-up over Bunds by channelling their excess liquidity into World Bank paper.

But it was not until the start of this century that the World Bank established a dedicated investor relations team, led by Heike Reichelt, who joined from KfW in 2000. Since then, she has expertly shepherded the World Bank's investor relations through the financial crisis, the expansion of the green bond market and the Covid pandemic. All have had a decisive impact on how SSA borrowers manage investor relations, an exercise which Reichelt defines quite simply as "providing information to investors and to others who influence investors".

If Reichelt is the longest-serving investor relations chief in the global SSA community today, in Europe Peter Munro and Frank Richter aren't far behind. Munro was one part of the two-person team that inaugurated EIB's investor relations initiative in June 2003. Richter was hired in the same year by NRW Bank with a mandate to internationalise the German bank's investor base, which he has been doing with gusto ever since.

By then, KfW also had an investor relations department in place. It is doubtful if the small team needed to say much about the AAA-rated bank's credit story. As Frank Czichowski, head of capital markets at the time, used to tell visiting investors and journalists, KfW offered the risk of the Federal Republic of Germany with a pick-up.

This is not to suggest that investor relations were ever an unnecessary extravagance at

▲ Heike Reichelt, World Bank

Europe's largest SSAs. "I don't think investor dialogue has purely, or even mainly, been about credit, especially for stable AAA issuers," says Peter Munro, who was part of the two-person team that inaugurated EIB's investor relations initiative in June 2003. "A central point has been articulating how the issuer approaches the market, in particular how its funding strategy addresses investors in primary and secondary markets. The feedback we receive shows clearly that investors welcome issuers that maintain a consistent, transparent and market-responsive approach."

This, say SSAs, remains as valid in today's environment as it was 10 or 20 years ago. "One of the reasons why we trade 10bp tighter than many of our peers is the transparency and dependability of our investor relations," says Petra Wehlert, head of capital markets at KfW. "Everybody in the market knows that when we say we'll issue €80bn, we do issue €80bn."

"Investors welcome issuers that maintain a consistent, transparent and market-responsive approach."

Peter Munro, EIB

The increasingly dominant theme of sustainability means that like most SSA borrowers, KfW has a much more interesting story to tell than it did 20 years ago. This is one reason why it has recently revamped its investor relations unit, hiring two specialists schooled in liaising with equity rather than debt investors. One of the new recruits, Andrea Nickolaizig, joined after a 14-year stint as an investor relations manager at Deutsche Bank. The other, Vanessa Wiese, also has an equities background and lectures at the German Investor Relations Association (DIRK), which describes itself as the largest European trade association for connecting companies and capital markets.

The KfW investor relations team of the early noughties had the advantage of representing an issuer regarded as quasi-sovereign risk in Europe's largest economy. But smaller and less well-established SSAs elsewhere in Europe had to fight rather harder for investors' attention and money. Carl-Henrik Arosenius discovered as much soon after his appointment in 2010 as head of funding at the Swedish local government lender, Kommuninvest.

Spreading the word

Among Arosenius's early major transactions was a $1bn benchmark which the borrower regarded as a significant building block in broadening its funding sources and diversifying its investor base. Given the strategic importance of the trade, Arosenius was shocked when the issue was only about 70% covered by 27 institutions. One of these was a central bank which absorbed a third of the issue. He was equally bemused by the insouciant response of some of his colleagues, who believed there was nothing unusual or alarming about the underwriting banks taking 30% of the new issue. After all, they asked, wasn't that what the banks were paid for?

Arosenius was unconvinced. Quite rightly, he believed that a borrower committed to expanding its international funding programme beyond the confines of the domestic market could not depend on the support of one large central bank and 26 other institutions.

It was this recognition that prompted the establishment of Kommuninvest's dedicated investor relations department, which

Arosenius headed between 2012 and 2018. The experience taught him that there was no substitute for looking into the whites of investors' eyes. "By the time I left, we had put a relatively small, unknown issuer on the global map and built relationships with more than 500 of the world's biggest institutional investors," he recalls.

It would have been impossible to measure the results of this effort with anything more quantifiable than air miles, but Arosenius says that what he calls the semi-scientific evidence of its success was compelling. "I once went through our investor list, and of the 500, more than 90% had started to buy our bonds after a personal meeting," he says. "Less than 10% were prepared to invest based on information from banks or intermediaries."

More anecdotally, Arosenius recalls winning over one of these investors in an exquisitely badly timed visit to Detroit in July 2013. His aircraft was on its final approach when Arosenius was handed a newspaper which, to his horror, reported that Detroit had just become the largest American city ever to file for bankruptcy. The news was playing havoc with the US municipal bond market, which did not bode well for an outsider arriving in the city to promote Swedish municipal debt. Undaunted, Arosenius pressed ahead with his plans to meet a local municipal lender. Later that day, he was sitting in Chicago airport when his relationship manager at Bank of America called to say the Detroit-based investor had placed an order for a Komnuninvest bond.

Arosenius, who today provides independent consultancy services on investor relations, remains convinced that the optimal way of building and maintaining relations with investors is through a dedicated unit. It is a view that many others have come to share. Flora Chao, global head of funding at the International Finance Corp (IFC) in Washington DC, explains that an internal review in 2012 recommended that establishing a dedicated investor relations team would be the most effective way of interacting with investors.

The belief that investor relations should operate as a separate unit has not been universally embraced by SSA issuers. Jens Hellerup of Nordic Investment Bank is one of several market participants whose title is head of funding and investor relations, suggesting that the two positions are inseparable. "I know that some of our bigger peers split the two roles," he says. "We've chosen not to do so, because we believe we should be basing our funding plan on feedback from investors. This makes it very difficult to split the two functions."

Another European SSA which believes the two roles are too closely linked to split them entirely is the German Land of North-Rhine Westphalia, where Florence Elisabeth Seeger is both head of investor relations and senior funding manager. "It may make sense for borrowers with funding volumes the size of KfW's and the EU's to maintain separate IR operations," she says. "We've chosen a different approach and have all senior funding managers meeting investors regularly. We adopted a more benchmark-driven funding strategy a couple of years ago and now use our ongoing close dialogue with investors to explain this strategy directly from the funding officials. In my view it is a gain for both sides. We believe that it has been beneficial that on the one hand all the members of the funding team speak to investors continuously and have an input into the development of investor preferences; and on the other hand the investors understand what we are doing and why and have direct access to the Treasury. I believe the organisation of our investor relations work has played an important role in helping us price more tightly."

The Covid legacy

Productive physical meetings with prospective investors, such as the one Arosenius remembers in Detroit in 2013, were inevitably a casualty of the pandemic. A decade or so ago, an event like the Covid crisis would have brought much of issuers' investor relations work to a shuddering halt. Thanks to Zoom, Teams and other video-based communications mechanisms, relations were maintained. In many ways they were even enhanced.

"The Covid pandemic had a considerable impact on our investor communications, especially when it comes to the way we do investor meetings," says Markus Stix, managing director of markets at the Austrian debt management office (OeBFA). "We realized that virtual meetings worked out very well. They are efficient and they are climate-friendly, which is an important aspect, not only for ESG investors."

Others agree that the pandemic added efficiencies to the dialogue between borrowers and investors. But in some respects, it catalysed a process that had begun several years before the Covid outbreak.

▲ Jens Hellerup, Nordic Investment Bank

"I completely agree that Covid transformed the way we think about investor meetings and roadshows," says Chao at the IFC. "I remember one of the first roadshows I did, which involved visiting several central banks across Latin America. It was gruelling and painful, because we were only snatching a few hours of overnight sleep on aeroplanes between meetings."

Punishing schedules like these, twinned with considerations ranging from budgetary pressures to the emissions generated by air travel, were all leading the IFC to rethink the management of its investor communications long before Covid. Chao says that the establishment of IFC's global treasury in 2015, with a presence in London and Singapore as well as Washington, injected more efficiencies into the borrower's investor relations strategy by eliminating much of the travel it had previously necessitated.

"We are very happy to be back on the road."

Frank Richter, NRW Bank

The Covid crisis generated several unexpected benefits for the World Bank's investor relations. One of these, says Reichelt, was that it allowed the team to call upon more experts than would have been possible in normal times simply because all the Bank's staff were available virtually during the pandemic. This, she says, was especially useful for meetings requiring specialist input on climate change and other sustainability-related issues as well as market specialists from the funding team.

A second benefit was that the use of new communications technology gave the Bank an opportunity to reach a broader range of investors than it would have done on physical roadshows. "We reintroduced net roadshows during the pandemic to keep people updated on our response to the Covid crisis through initiatives supporting the global vaccine rollout and so on," says Reichelt. "These were disseminated widely by our banks to all their clients, which helped to democratise our investor relations function."

A third and perhaps the most beneficial by-product of the virtual communications capability that the World Bank developed during the pandemic was the opportunity it created for the investor relations team to improve and strengthen its database. "Of course, we had an investor database before the pandemic," says Reichelt. "But we had not always been consistent about populating it with updated information. We were able to take detailed notes during virtual meetings that helped to capture the discussions we had with our investor base. So a legacy of the pandemic is that we are now more systematic about our outreach to investors."

While virtual meetings are said to be here to stay as an add-on to their investor dialogue strategies, most SSAs report that they are now travelling again. "We are very happy to be back on the road," says Richter at NRW Bank.

If SSAs are relieved to be visiting their investors again, the feeling seems to be mutual. "It's interesting that physical meetings are back with such force," says Munro at the EIB. "Virtual meetings remain useful but have taken a back seat; we have met with a very receptive audience when we have offered to visit in person."

This may in part be a product of the more challenging funding

"The key now is finding the right issuance windows because any economic data can have a big impact on swap spreads very quickly. That makes gathering investor feedback more important than ever."

Flora Chao, IFC

environment that has been ushered in by rising rates, the end of QE and the advent of QT. "I think that talking to investors directly is more important in volatile markets," says Wehlert at KfW. "The whole approach to investor relations in these markets is more of a two-way exercise, which involves collecting information from investors as much as sending information to them."

This observation is echoed by Chao at the IFC. "The environment is tougher not necessarily because of pressures on new issue pricing," she says. "The key now is finding the right issuance windows because any economic data can have a big impact on swap spreads very quickly. That makes gathering investor feedback more important than ever."

Subject: sustainability

Almost every investor relations official reports that the one subject that is now being discussed more intensively than any other in investor meetings, be they virtual and physical, is sustainability.

Some say this is a relatively recent phenomenon. Felix Grote, head of long-term funding at the Council of Europe Development Bank, says that ESG has become the focal point of most of his investor relations work over the last 12-24 months.

Other SSAs say the ESG discussion dates much further back than this. Reichelt tracks sustainability reporting back to the early 2000s and the support from the World Bank for the launch of the Global Reporting Initiative (GRI) providing standardised sustainability indicators for companies. But she says it was early deals for retail investors in France around 2005 and the first bond issued by the International Finance Facility for Immunisation Company (IFFIm) in 2006 that underscored the need for a more detailed dialogue with investors on impact. "IFFIm was a landmark in the sense that it made investors more interested than ever in how their funds were being used for positive impact," she says.

The advent of the EIB's climate awareness bonds and the World Bank's green bonds opened another chapter in the history of SSAs' investor relations by focusing still more intensively on use of proceeds. "When we launched our first green bond in 2010, I don't think anyone anticipated how much it would change the role of investor relations over the next decade," says Chao at the IFC. "ESG is now the main discussion point in most of our investor meetings."

Small wonder, against that backdrop, that many investor relations professionals and their teams have been given updated titles. Reichelt, for example, no longer heads the World Bank's 'investor relations and new products' unit; like many of her counterparts at other SSA borrowers, she is now officially in charge of 'investor relations and sustainable finance'.

Irrespective of when and how extensively ESG started to change the lives (and titles) of funding and investor relations officials, many say it has simultaneously made their jobs considerably more rewarding and more challenging.

One of the challenges created by the ESG movement for investor relations professionals is the requirement for more internal as well as external communication. "A big chunk of my time is taken up by internal work," says Ayelet Perlstein, head of investor relations at the IFC. "This is because it is our job to make sure everybody within the corporation understands what standards need to be set and what metrics investors will expect if we expect to sell bonds to them."

The principal challenge arising from the ESG investing movement, however, is the sheer variety of questions SSA borrowers find themselves required to field on everything from wind and solar power to minority rights and endangered species.

No investor relations department can hope to respond to all of these queries speedily and accurately without some external help. This is especially true when issuers engage with the increasingly deep, specialised and demanding community of dedicated ESG funds. Take the example of an SSA like Spain's Instituto de Crédito Oficial. Its pioneering activity in the social bond market has meant that its benchmark issues in 2022 were distributed evenly between general and dedicated SRI accounts. "We have needed to hire people who are knowledgeable about these kinds of issues because so many of our investors are highly sophisticated ESG specialists," says Sergio Sierra, Ico's head of funding and treasury. "They are sometimes more interested in how we lend and to whom we are lending to than in our funding strategy."

Nor are the questions posed by ESG investors always confined directly to sustainability-related issues. "The really difficult questions are those with a political and technical ESG component, such as those about an acceptable share of nuclear energy in projects," says one funding official.

CEB's Grote points out that the driver of many of the questions put to investor relations professionals is regulatory change. "There's so much ESG regulation kicking in or about to kick in, not necessarily directly for issuers but for investors, that is making the questions they ask increasingly complex," he says.

If there is a silver lining associated with the ESG-related regulatory requirements being made of investors as well as issuers, it is that it will ultimately encourage heightened standardisation across the market. For investor relations teams across the SSA community, this should provide some relief as the questions they are required to answer also become more standardised. GC

‘Normalisation is an opportunity’

Much has changed for agency borrowers in recent times. No longer the beneficiaries of central bank bond buying, deal execution has become less like a cruise and more like white water rafting. But this is more of a return to normal for this group of issuers rather than a sign it is falling out of favour with investors.

Indeed, demand is robust with some issuers achieving record order books this year. And although the market has not always been open — such as during the nadir of the US banking crisis in March — those were times when no borrower could come to market, but agencies still caught a bid in the flight to safety that followed.

A group of senior funding officials representing programmes from €2bn-€85bn talked to *GlobalCapital*’s frequent issuers managing editor, **Ralph Sinclair**, about how their market is changing and the challenges and opportunities of issuing bonds in a post-pandemic, post-QE market.

Roundtable participants

Jörg Graupner, senior funding manager, treasury, KfW

Karoliina Kajova, senior manager, funding, Municipality Finance

Mascha Ketting, senior funding officer, BNG

Tobias Landström, deputy head of debt management, Kommuninvest

Romain Netter, executive director of medium and long-term funding, Agence France Locale

Frank Richter, head of investor relations, capital markets, NRW.Bank

Paul Eustace, managing director, global co-head of SSA and head of Europe and Asia syndicate, TD Securities

Laura Quinn, co-global head of SSAs and head of Dublin DCM, TD Securities

Monika Seitelberger, director, treasury, OeKB

Moderator: **Ralph Sinclair**, frequent issuers managing editor, *GlobalCapital*

***GlobalCapital*: How has the changing interest rate environment and the receding central bank liquidity this year affected your approach to deal execution?**

Romain Netter, AFL: This normalisation from our point of view is an opportunity. Some major investors who are not involved in very long-dated transactions are now back in the 15 year area. It has offered the opportunity to enlarge our investor base.

This is what we did when we launched our inaugural 15-year transaction in May. Previously we did benchmarks of between seven and 10 years. We were happy to see several investors — notably insurance companies — that had not been in our trades before.

Quantitative tightening (QT) is obviously a main driver for us in executing our debt programme. Traditionally, we prefer printing the bulk of our programme before the end of July. We were at 80% following the 15 year in May.

Frank Richter, NRW.Bank: It’s a similar story for NRW.Bank. We are a medium-sized, or maybe one of the smaller issuers, in the agency sector and therefore we were sidelined in Q1 and monitoring the market closely.

We started to issue in Q2 with a social bond and in May we were active in the dollar market with a three year conventional bond and in the euro market with a seven year green transaction.

It is an uncertain environment. It calmed at the end of May, giving us a good opportunity to come to the market. Execution was very smooth.

Karoliina Kajova, MuniFin: With the uncertainty in the market and all the gloom at the end of last year, we wanted to front-load this year.

We tried to do as much of our funding programme as early as we could. We’re roughly 65%-70% done with our €8bn-€9bn programme this year.

We have issued three lines in euros of between five and seven year maturities and one 4.5 year dollar deal. With interest rates rising, demand has been greater in the shorter end, which has suited us well because we don’t have so many needs in the longer end.

Finding good issuance windows is always challenging. New issue premiums have been quite elevated in the market, order book sizes are not what one was used to in the last few years, so it is in that sense challenging.

But the nice thing is the markets have been open and have worked, unlike, for example, parts of 2022.

Doing private placement-type taps to keep liquidity in our lines and reduce execution risk is also something that we have done in euros.

In other public markets where we are usually active, like Norwegian kroner or sterling, the pricing hasn't really lined up this year as much as before.

Mascha Ketting, BNG: We aim to be over 50% done by the time the summer starts. As of the end of May we were at close to €11bn done out of the desired €16bn. Windows are shorter so we try to be as nimble as possible and seize opportunities where we can.

We have been active in euros and dollars but we also returned to the Swiss market this year for diversification after nine years away. It was a similar story last year for Canadian dollars, where we returned after eight years.

We depend on capital markets funding as we don't have any retail clients with deposits. We depend on those and the money markets to make sure that we can deliver our clients favourable funding levels for our lending programme. Our clients have been borrowing for longer, which has increased our duration profile too.

We have been active in taps to limit execution risk.

Tobias Landström, Kommuninvest: We have a different approach to many of the other issuers here. We try to lend first and fund later. We have an investment portfolio which is only there to support lending and it's invested very short and very safe, so it would be costly for us to then do a lot of longer dated pre-funding.

Therefore, we're not as advanced in our funding as many of the others here. We have funded about 40% of our needs so far and we are also active with about 50% of our total funding in the domestic Swedish market. We do weekly auctions in smaller volumes every week, which have gone very well.

In the international markets, especially before this year, we were predominantly active in dollars. The average duration of our lending portfolio is around three years, so the bulk of the funding that we do in international markets is also short. The dollar transactions that we did in 2022 and 2021 were 3.5 years or shorter.

Shorter dated dollars were always the easy trade to do but not in 2022. It has become a much more window-driven market. You really need to have full focus on when central bank meetings are, or when data is being published.

We are very happy that we've been active in the market this year twice, with two green euro transactions that were very oversubscribed.

The euro market is a blessing — everything is so much easier. Execution can be intra-day and you work out of European hours, so it's a much smoother process than in dollars.

The dollar market is good as well but we hope to be active in euros more times.

Jörg Graupner, KfW: Having a flexible funding approach is always helpful in uncertain times. That means we monitor the market permanently to be in the position to transact with little preparation time. One example is the recent €1bn transaction, executed with TD Securities on May 19. Special demand drove this transaction.

When I come back to the main question about interest rates, we always hedge our primary market activities so rates are less important for us. We also consider investors' points of view. In our transactions the share of outright rates buyers has been limited. There are lots of reasons for investing in bonds and the outright level of rates is only one of them.

We probably have less liquidity in the market, influenced by the central banks. Liquidity is one of the key factors right now for investing in bonds and was the reason we extended our initial benchmark issuance size from €5bn to €6bn. Last year we established a maximum bond size of up to €7bn.

We also have to compare the liquidity of our outstandings with a bigger issuer like the German sovereign.

Paul Eustace, TD Securities: There are fewer obvious windows to issue into. New issue concessions have been wider overall in 2023 too. That lack of central bank liquidity that has been taken out of the system has been replaced with different investors who have a different price point versus where central banks buy under QE.

Momentum in transactions is something that has unfortunately become more important for investors but more difficult for us to get into order books at the point where you need it most.

It's been less obvious than in previous years but the market is functioning and it has functioned well for the last five months. Deals are getting done in good size and probably from the outside looking in, it's not obvious that the liquidity has been taken away by the central banks — it has passed without any major accidents. Deals are still

"We are always trying to expand our investor base by providing new products or currencies that offer attractive arbitrage"

Monika Seitelberger, OeKB

getting done with good liquidity and good momentum in order book growth.

Monika Seitelberger, OeKB: With a funding volume of €5bn, OeKB chooses its issuance windows diligently. Since the three to five year funding levels in dollars are more attractive for us as opposed to issuing in euros, we are more focussed on issuing benchmarks in dollars.

Receding central bank liquidity is only just beginning and for OeKB is not a major issue as we issue predominantly in dollars and our euro issuance of late has been in sustainable format, which caters to a different investor base than central banks.

With the uncertainties regarding inflation and central bank rate hikes, it is crucial to find the ideal issuance window with a stable market environment and little competing supply. We started the year with two successful dollar benchmarks that tightened during pricing and were a number of times oversubscribed.

We also issued a £450m benchmark in January. Accessing the market so early in the year was beneficial since there have been weeks recently where no issuance was possible.

Issuing no-grow deals since the beginning of 2022 has been a change in our strategy and has been helpful in setting one of the parameters in the pricing process from the outset. Market volatility deriving from various factors, such as the US debt ceiling, inflation, central bank uncertainty, the war in Ukraine, will continue to affect market sentiment.

GlobalCapital: How have agency borrowers fared through the recent trouble in the banking sector?

Graupner, KfW: KfW always benefits from safe haven demand. The question is whether we have a comparable situation also in the euro area. At the moment, I would say no. I don't see any influence from the US so far. The banking system within the eurozone is in less trouble than the US but of course you never know.

As for the US market, we did a dollar benchmark in May. We did not see any influence from the banking crisis.

Landström, Kommuninvest: Since we have this local market in Sweden where we issue on a weekly basis, we are benchmarked versus domestic covered bonds. Those are the markets where we see a great difference. When you have turmoil in the world, in the US and also with SbB in Sweden, we saw great benefit in being who we are and being active in size in the domestic market.

Our spreads to covered bonds tightened. It was more expensive for covered bond issuers to borrow in the market compared to us so we definitely saw a flight to quality in the local market.

Netter, AFL: It's exactly the same in France where we compete with the covered bond market. When the banking sector is in difficulty, as was also the case during at the end of the 2010s, spreads widened and there was big pressure on this type of issuer.

AFL is a very small issuer; we are not like KfW or the French state. But we benefit from the flight to quality as we have many times in the past when volatility rises.

Graupner, KfW: Romain, have you seen any changes on the spread between you and the French sovereign?

Netter, AFL: No. In France, public sector issuers are benchmarked versus OATs and in the meantime we swap our interest rate risk on our new issues versus three month Euribor. Therefore, we get this noise coming from the spread between swaps and cash. That led at the end of last year to a wider spread on our bonds versus OATs. This has tightened from the beginning of this year and the turmoil in the banking sector did not affect that trend.

Kajova, MuniFin: Sentiment in the market weighs on SSA issuers as well. You don't want to be opening books on days when there's a lot of turmoil and uncertainty in the market. In March, I don't think anybody was contemplating book building for a new issue.

The dollar market was shut for longer than euros during the spring. Also, the all-in cost of dollar benchmarks for euro-based funders wasn't so appealing. This highlights the fact that it's important that you have at least two strategic benchmark currencies so you can switch between them if needed.

That's what we did. We were monitoring dollars but we decided to postpone that idea and replace it with a euro deal.

Landström, Kommuninvest: When we did the auctions in the Swedish market, they were typically around 3.5 times subscribed. But during the turmoil in March and April the auctions were six or seven times subscribed. It seems like investors appreciated that we were in the market on a weekly basis with smaller size.

Ketting, BNG: The SSA community benefits in general if there is turmoil in the banking sector. Our approach hasn't really changed. We work with a funding plan that we normally draft at the end of the preceding year and then we get feedback every three months to see if we're on track. That helps but it has been one of BNG's

core strengths to move quickly and take the windows when they are there.

Windows have been shorter, especially in dollars where you also have the risk of two-day execution. In euros deals happen intra-day — that's something that we keep in mind when there is turmoil in the markets.

It's good to have a benchmark yield curve in at least two currencies so you can see the most favourable options for you. That said, we swap everything back to euros as our clients borrow euros only, so it must be cost effective.

Richter, NRW.Bank: Diversification is very important, as this year has demonstrated. It is important to have access to two large, liquid markets to ensure liquidity for your institution.

I do not think the banking crisis is over but it hasn't deepened so far, so there was some flight to quality but it was not comparable to the turmoil we had 10 years ago. Yes, we benefited a little but the real flight to quality didn't happen.

Eustace, TD Securities: The covered bond reference is important. Investors buy SSAs and covered bonds because they're triple-A rated and it's typically the same portfolio manager.

But if you look at that spread between the issuers that we have on this panel and where covered bonds are coming in in dollars and euros, that spread has widened over the last couple of months.

You have those conversations with investors around the spreads between an SSA and covered bonds and it's often cited as something that they look at. But then when I look at the relationship between the two, it still feels to me that it is the flight to quality for SSA names that is making that spread versus covered bonds widen.

Seitelberger, OeKB: The turmoil in US regional banking is only one of the many factors impacting the market these days. The US debt ceiling was a threat to market stability, CPI data published in May sent a positive message – expectations were for an even larger improvement.

Inflation remains a concern and will continue to influence US Federal Reserve policy.

***GlobalCapital*: Another obstacle to unimpeded market access over the last couple of years has been the European Union's enlarged presence as a borrower. How has that affected your approach to the market? How do you navigate around a supertanker like that?**

Graupner, KfW: I have to take a deep breath when I'm talking about this topic. The EU has dominated the market for a while and in the almost two weeks in between it sending out an RFP and the execution, there is a lot of speculation about the transaction.

In addition to that, the EU's auctions also take days of attention between it announcing the relevant outstanding to be sold and execution.

Issuance windows are getting smaller but with a flexible funding approach, we hopefully are well prepared to achieve our funding target, although of course, from time to time, I'm a little disappointed when I see an issuance window but this has already been flagged by the EU. But the time when the EU always had an issuance window too itself is over. Early in June we executed a euro benchmark at the same time the EU was out.

The decision to go head-to-head with the EIB in the week of May 15 was driven by finding the cleanest issuance windows for achieving our funding target.

***GlobalCapital*: Let's take the example from that week. Do you ever find that when the whole market is waiting for the EU to do a deal that there is in fact a build-up of demand and that there is more that could be done in the aftermath of an EU deal and that helps make for a better issuance window?**

Graupner, KfW: The question that we always have is whether the EU transaction doesn't really perform well or is very well absorbed. That brings more risks to doing a transaction after the EU instead of going head-to-head.

It is not always a given that an EU transaction or other bigger transactions are well absorbed. Then issuers with huge funding programmes have to look to themselves.

I don't want to be in the situation too often that I just hope the transaction will be great but maybe it isn't.

Richter, NRW.Bank: From a smaller issuer's point of view, I think we are more relaxed. We follow what the EU does but we try to avoid being in the market at the same time. But that is of course a luxury of our smaller issuance programme of around €12bn.

Kajova, MuniFin: It depends on the market.

The RFP system the EU uses means its trades are well flagged, so it is navigable as a smaller issuer. But it feels like they can sometimes take liquidity out of the market before the trade as well as after.

I don't think anybody would want to go head-to-head with the EU so we would leave them to do their trade alone. But then of course their pricing does pose questions as to where other SSAs should be priced and on the liquidity of other SSAs.

Landström, Kommuninvest: We had a similar situation to the one Jörg mentioned. We were planning a transaction and the green label on it, plus the fact it was in euros, meant it was quite effective be in and out of the market quickly instead of waiting until after the EU had priced.

If you wait until after, depending on how the EU transaction goes, or for example how EIB goes, what's left for a smallish issuer like Kommuninvest can create a tricky situation that you need to handle in the best possible way.

Ketting, BNG: It's not just the EU. I would love to have all the windows to myself but we're happy to share. You also see it in the January rat race as to who is coming, when and at what price. You hope that the other trades perform if you're not first and that you can tighten in line with them.

But we're all in it together and the market is big enough for all of us, we just need to find the right time and the right windows.

Seitelberger, OeKB: It is our strategy to issue one sustainability bond per year and that would typically be in euros.

Therefore, finding a clear issuance window is usually not a problem but of course, we would avoid coming head-to-head with one of the EU's jumbo issues.

***GlobalCapital*: Laura, the SSA market is well co-ordinated. The EU's programme is a new challenge. What do you tell clients about how to plot their path around it?**

Laura Quinn, TD Securities: The SSA community is very tight. Communication flows very well. The EU clearly communicates to the market and publishes when they have sent out RFPs so there is no ambiguity. That makes it easier for other borrowers to work around.

Obviously, there are issuers like KfW and other large borrowers who maybe would have been used to picking the first and best windows and now they have to consider EU's pre-communicated issuance windows. But the EU have a massive funding programme. They have up to €800bn to do by the end of 2026. It would be remiss of people to ignore that and its impact on issuers and investors.

***GlobalCapital*: One investor told me recently that they didn't look at agency deals because the funding programmes were too small. They wanted more liquid names. What concerns do investors express to you?**

Ketting, BNG: Only investors can truly answer that question but in our discussions with them we have seen a lot around sustainability themes or labels. All the SSA issuers have an important role to serve clients that are at the forefront of sustainability challenges.

We're asked a lot of questions on how SSAs ring-fence the funding to our clients — the municipalities and Dutch housing associations.

We have frameworks in place where we ring-fence some part of our lending so that we can provide impact reporting.

Also, on sustainability ratings you see more discussion coming on which rating agencies they use.

There has been a big discussion with investors about liquidity. When QE started, we decided to offer liquidity by extending our benchmarks, so even though we don't start with the largest issuance sizes, we do have outstandings which are quite large — up to €3bn on liquid benchmarks across the curve.

In other currencies we try to provide liquidity by making sure that deal sizes are big enough.

Netter, AFL: Maybe one quick comment regarding the question around the jumbo issuers that is linked to your question on investors. We have a €2bn funding programme, so we are extremely small. We have to navigate between these jumbo transactions and take into account their execution calendars.

But it's sometimes an opportunity for us to come the day after a big issuer and take what we can to make an AFL bond a success.

My biggest issue at AFL is to exist in front of the big SSA issuers. We must be extra opportunistic to get the right window.

Regarding what they are looking for, we believe there are two different, important elements. The first one is the quality of the AFL signature. We are the only issuer offering pure, French, local public sector risk, so buying an AFL bond is to invest in a high quality asset.

Liquidity is also key. We commit to make each of our benchmarks as liquid as possible by increasing the size at inception. We used to issue €500m, now we try to issue €750m. It was not the case in May but the trend is our friend, as the bankers used to say.

We try to tap our existing bonds to €1bn when possible. The build-up of the yield curve to make it as liquid as possible was a priority from day one at AFL and will remain a rule in our home market, or in others we decide to enter.

Graupner, KfW: Liquidity is always combined with the topic of fair value. Have you had any extra difficulty in finding fair value for your new issues?

Netter, AFL: In this market, fair value is extremely complicated to find. That is especially true for a

"The market is big enough for all of us, we just need to find the right time and the right windows"

Mascha Ketting, BNG

small issuer like AFL. To give you an example, in May we issued a 15 year at OAT plus 44bp when the secondary levels of our existing issues were closer to 50bp. There is a dislocation in the market — it's not true only for AFL but for other French SSAs as well.

We have concerns because of the small programme we have. It will improve in the future because we are still in a ramp-up period but we are not that liquid for now.

Richter, NRW.Bank: I think every investor is aware of the funding programmes of the smaller issuers and they know that in terms of liquidity the bid-offer is wider in comparison to the big issuers. Therefore, I think that when they're investing in our bonds, it is not a trading position; they are holding them for longer and they enjoy the spread against the sovereign or the big names in the market.

Liquidity is also always linked to issue size. Given our funding programme of €12bn, we could not increase a single issue to €3bn, so we stick to €1bn. The feedback from investors over the last couple of weeks was that €1bn is sufficient.

Many investors lifted have lifted their required minimum issue size from €500m to €1bn too, so in future we must ask ourselves if we will stick to the €1bn rule or increase the size of our issues, like BNG did.

A well-prepared deal helps to generate solid demand — ongoing marketing activity, keeping the investor base up to date and of course working with strong investment banks, hearing their advice.

If it comes to fair value, Jörg, of course there is always a distance between banks and issuers. It is not 6bp-7bp in our case, as Romain mentioned, but maybe 1bp-2bp.

Landström, Kommuninvest: The investor meetings that we have, and that many of the others have here, are tailored for us to the relevant investors. I don't think the banks would take us to meet investors that need to have, say, a €3bn-€4bn outstanding issue size. It's not beneficial to anyone.

We were in Copenhagen in May and met a few Danish investors. They appreciated that we chose a few strategic markets and that we stay and dedicate volume to those markets because then they know that if they do the credit work and get lines approved for the issuer, there will be opportunities to invest into that issuer.

But I wanted to ask what is liquidity when we talk about it? Is it that you have a lot of turnover in the bond? Or is liquidity that you can sell the bond close to a mid-market price?

The €500m green transactions that we have — are they liquid or not? There's not going to be much turnover but if you want to sell, you can probably sell it very close to mid.

Kajova, MuniFin: With smaller issuers, liquidity can affect the secondary pricing of the bonds, meaning that the spreads might not always be up to date if there's a lot of movement in secondaries. You must perform a balancing act between your secondaries and recent issues when you are doing a new issue.

Buyers want to invest in us to diversify and get some pick-up — in MuniFin's case to the sovereign of Finland, for example. You have the same taxpayer base guaranteeing both of us, so it's a safe exposure with a bit of pick-up and diversification.

This is something that US-based investors for example think about especially. They have their liquid US agencies that they could buy but then they realise that there's this interesting SSA asset class where you can diversify.

On liquidity, we try to incentivise our dealer banks to make a market in our bonds and we ask them to report on their secondary market turnover. Secondary turnover is a part of our mandating model for benchmarks — the more turnover you do in our benchmarks, the more likely you are to be a lead manager.

We do euro taps these days quite a bit and we can tap until a bond reaches €2bn. We have seen more secondary flow in our euro benchmarks because of the constant activity in the market. It's not just a case of doing one issue in the primary but doing a lot of taps to complement.

That brings us back to fair value. When you are active in the market doing taps, there is more flow, and your secondaries are more relevant.

Seitelberger, OeKB: As you pointed out in your question, liquidity is always an issue for investors when trying to buy our bonds in the secondary market. Two thirds of our bonds this year were allocated to buy and hold investors which, of course, accentuates the liquidity issue.

When pricing our bonds it is important for us that we still leave some room for tightening and can thus ensure performance in the secondary market.

OeKB's dollar bonds have rarity value. They're the only way to buy Austrian sovereign credit in the currency. This offers diversification.

***GlobalCapital*: Paul, what do you hear from investors on secondary curves as a fair value reference?**

Eustace, TD Securities: Liquidity is always close to the top of the list of what investors want, along with the biggest new issue concession they can get. It is tricky; when you look at all the issuers around this table, everyone continues to make efforts to increase the liquidity of the lines they issue, whether that's through starting with bigger deal sizes, or doing multiple taps, or incentivising their underwriting banks to provide maximum liquidity in their bonds in the secondary market. All these things are important.

During big market dislocations, if you want absolute liquidity in the bonds that you buy, then you should be buying US Treasuries, Bunds and OATs. The trade-off for buying SSAs is additional spread. There is an understanding that to get that spread you give up some liquidity versus government bonds.

It's one of those challenges that's always going to be top of mind for investors. It's always going to be something that they raise but most issuers and all the issuers around this table are working to improve, hand in hand with their underwriters.

***GlobalCapital*: How everyone did investor relations work changed with the pandemic — no one could travel anywhere. Since travel has resumed has your investor relations work gone back to the way it was pre-pandemic? Are you targeting different groups of investors? How do you meet them and what do you talk about?**

Richter, NRW.Bank: We are coming back to face-to-face meetings, which is good.

But meetings are taking place more in the developed world so there is less travelling to central Asia, Africa or Latin America.

There is much more work to do here in Europe and North America.

I have the impression that in the second half of this year, IR work will broaden again and NRW.Bank will be travelling to Asia, for instance.

***GlobalCapital*: What do investors ask you about nowadays? Do they care mostly about your credit and spreads or do they ask you more about ESG?**

Richter, NRW.Bank: In Europe it's more about ESG. We talk a lot about the social and green programmes of NRW.Bank and our ESG approach — how we screen our loan book, our investment book and so on.

***GlobalCapital*: Tobias, tell us about your trip across the bridge to Denmark and whether it was different to your trips there before the pandemic?**

Landström, Kommuninvest: We made a change when it came to investor relations, even before the pandemic, to be more environmentally friendly and cost effective and go more to conferences, participate in those and have meetings around them instead of focusing on one-to-one meetings.

We're a small team and it takes a lot of time, energy and it costs a lot and it's not optimal for the environment to do a lot of roadshows.

But it's quite funny because before the pandemic, when we tried to have digital meetings, it took so much time to try to set it up and have a video meeting that it was impossible. We had it with one of the biggest US banks where we could hear them, but we couldn't see them. With a Nordic bank we could see them, but we couldn't hear them.

It took months to get things up and running. A positive from the pandemic was that people started to engage with digital meetings.

Some investors appreciate them, we appreciate them, and I appreciate them — I have a family back home, they don't like me to be away too much.

But some investors want to have a physical meeting so we do travel but we try to combine it with conferences instead of just going for a long trip somewhere in the world to have a few meetings, then fly home.

***GlobalCapital*: Do you get the same level of engagement with a digital meeting as you do with a physical meeting?**

Landström, Kommuninvest: I do. We have great digital investor meetings. We had one meeting with an Asian central bank and there were seven or eight people in the meeting but there was only one person who had their video on. She was the one that I had a dialogue with, and it was very good. It's the same with central banks in other countries; there's usually one person who is the dedicated one, the others are listening.

The level of dedication is good, but the meetings can't be too long. You can't have a 45 minute or an hour investor meeting, it's too much. Half an hour or 20 minutes is perfect.

When we meet investors there are a lot of ESG questions when you're in Europe. Outside of Europe, there are some investor meetings where they say they don't have an ESG mandate.

Kajova, MuniFin: We have returned to travelling and we feel it is important that we do face-to-face meetings as well as virtual.

Before the pandemic, setting up a simple video conference just didn't work; people had different systems that didn't talk to each other. Now that works well.

There are some jurisdictions where they like 15 minute to half hour virtual update meetings. But then there are others where they appreciate you going to meet them. There's a trust element; you're placing a lot of money into this issuer, you want to know who is working there.

There have been a lot of changes on the investor side too over who is taking the decisions. It's important to meet the new people as well.

One investor said it was easier to concentrate in a face-to-face meeting. For issuers it's easy; we are the ones talking but they are the ones listening.

ESG comes up in every meeting, even in jurisdictions where it might not be as advanced as Europe.

We've also talked a lot about energy and the macro topics of the respective countries in investor meetings.

Ketting, BNG: We also have a hybrid strategy. It is what works best if executed correctly. We are of course aware of the environmental footprint of travelling and, we try to be as cost effective as possible.

We either combine a conference with one-on-ones or at least do not take a plane for just one meeting. But some investors need and appreciate face-to-face meetings. We try to find a mix, so that one year we meet face-to-face and the other year or we have a digital meeting.

Although we had a lot of contact with investors during the pandemic on Zoom, it had been years since we had seen our peers, whom we only see at conferences. I missed that. That picked up again last year and I was very happy to have those discussions with colleagues.

Netter, AFL: We try to be cost effective — we're not going to go to Asia for a couple of meetings.

We love the digital process; we believe it's efficient. You can be in the US at 10.30am and an hour afterwards be in Japan and it's good for the planet.

We have an internal debate because some people are still pushing for physical meetings. Those are very important; shaking hands, joking, seeing the investor's environment, even being in their city you are getting something that you miss with a digital meeting. At the end — and I'm sure Laura is fully aware of this, especially the bankers — it's a human relationship business.

It's a clear mix between the digital and the physical but we should not put the physical in brackets forever. This is a place to thank all the banking institutions that organised central bank conferences, especially last year, which was one of transition. It was complicated to meet investors. Virtually it was possible but the only places in which we could have met some investors physically were in the conferences organised by banks.

It's definitely the case in Europe that the bulk of what investors want to ask is around sustainability — green, social, impact reports, extra financial ratings. But we also have discussions about what's going on in the coming weeks that could lead to market dislocation or big market moves.

***GlobalCapital*: Let's ask Laura then. Is taking issuers to central bank conferences regrowing to help them meet investors? Generally, issuers tell me that to meet a new investor, you do so in person, otherwise it's digital updates. Do you agree?**

Quinn, TD Securities: Yes. I think Romain said it nicely; it's always nice to look someone in the eye. It's important that an investor has access to the issuer — who is sitting in the hotseat and who is making the funding decisions.

That said, the pandemic forced us to embrace the digital world and it's important there is a mix. Tobias mentioned the environmental impact of travel and we all must think of the consequences. We can't get on a plane for 24 hours and fly to the other side of the world to talk about green bonds, ignoring the carbon footprint of the trip. We must be sensible.

It makes sense for there to be a rota in place to visit certain investors, like key Asian central banks for example. They are very important in dollar and euro order books, and you want to be in front of them answering their questions face-to-face once a year, say, as well as *ad hoc* digital meetings as necessary throughout the year.

But to Frank's point, maybe trips to meet investors in South America, where it's a long journey for one meeting and then it's another long flight on to the next country for the next meeting, can be done less frequently face-to-face — maybe on a three to five year rotation.

Conferences are fantastic. It's great for everyone to meet peer-to-peer as Mascha said and to get good bang for your buck for the cost of the flight and the carbon footprint.

ESG has very slowly but surely taken over more conversation time. It was initially five to 10 minutes at the back end of a meeting and now it's 30 minutes of an hour-long conversation.

One final comment; after we're involved in a transaction, we have conversations with the issuer on any obvious investor gaps that might have been in the book and make suggestions on where they can have a more targeted approach for future travel for face-to-face meetings. We carry out a lot more analysis on that.

Seitelberger, OeKB: We have resumed an IR schedule similar to the one before the pandemic. Last year we started attending issuer and investor conferences again in Europe and the US.

In our opinion, it does make a difference to meet investors in-person versus virtually. Meeting investors at conferences provides the perfect, most efficient opportunity to see many investors in one location.

It has become more challenging to organise roadshows before or after these conferences, especially regarding hybrid working. Investors often work from home making it more difficult to schedule meetings in-person. While trying to organise investor meetings in Asia, we had the experience that some investors still preferred to meet virtually even though we were in the region.

Other investors declined meetings as they were comfortable with the OeKB credit.

The buyers we meet have not changed much and over time we have established a loyal investor base. In general, investors familiar with us like regular updates. This can be done either virtually or in person. To maintain, broaden and diversify our investor base we visit them regularly and always hope to get on to the approval lists of new investors.

The topics have not changed but we are seeing an increased interest from investors in our ESG activities and our sustainability bonds.

***GlobalCapital*: The dollar market has always been an important part of the SSA funding galaxy. However, when the US Federal Reserve started raising rates ahead of the other major central banks, that contributed to making the dollar market harder to access.**
Do issuers agree with that and how have they counteracted it?

Graupner, KfW: Eighty percent of our loan business is underwritten in euros but we need the dollar market for diversification. In general, we've had no difficulties issuing in dollars and the only consideration has come from an economic point of view. We always aim to get the best funding levels and at the moment the best for us are mainly achievable in euros.

But we have to consider dollar investors and the liquidity of our own curve. Even in the event that the economics are less attractive, we want to deliver liquidity and reliability. That's why we've committed to issuing a dollar benchmark every quarter, minimum.

Short maturities dominated the dollar market in the past, but this has changed even if at the moment, the shorter end is more likely than anything else.

Furthermore, if we covered all funding needs in euros, how would the costs worsen here?

***GlobalCapital*: Mascha, I think BNG was the first SSA issuer back in the dollar market after the US banking crisis.**

Ketting, BNG: Yes, correct. As Jörg said, you want to be able to diversify so we are committed to maintaining a benchmark yield curve in euros and dollars.

It has been no more difficult to issue in dollars but as we swap everything back to euros you need to have the basis swap with you as well.

We had been monitoring it for a while and we were lucky enough to find a window where we could do a successful five year dollar deal.

The short-dated trades have been really good. We were able to show a 5% coupon for one year paper. Combined with the basis swap back to euros, it was beneficial for both the investor and for BNG.

We have done 10 year dollar benchmarks in the past and wish to do so again. As soon as it's possible, we will look at it.

Kajova, MuniFin: Yes, it's a similar story for many euro-based issuers this year. The lack of supply has been due to the all-in cost of funding.

We also have a commitment to the dollar market: to do at least one dollar and one euro benchmark each year.

In terms of the market, the banking turmoil affected dollar issuance more than euros. But we must monitor the all-in cost of a dollar benchmark because we cannot pay up that much, even though it is a strategic market.

As an example, only the larger SSAs such as KfW and the EIB have been in the market with five year deals this year and to a lesser extent smaller agencies. For smaller SSAs such as MuniFin, finding a good level for example in five-year agency paper can be tough if you don't have those recent issues to look at.

Landström, Kommuninvest: We are in the same situation but as I mentioned earlier, the funding we do in the dollar market is predominantly three or 3.5 years.

You referred to longer-dated funding in the dollar market. We found it beneficial to swap back into Swedish kronor in those shorter-dated bonds. And when we go beyond four or five years we have seen the benefit of being in the euro market.

There has been great volatility in shorter-dated dollars with yields going up as much as they have. The easy 18 month transaction hasn't been an easy one to do lately.

Richter, NRW.Bank: Our experience in the dollar market this year has been positive. We found an opportunity in May with a three year transaction and it was one of the most successful we've ever done. The order book was close to $4bn and high-level investors were involved.

It would not have been possible to do it three or four months before because of high uncertainty in the markets. Investors are risk averse and looking for shorter tenors. We saw them moving into our commercial paper with tenors below one year.

I do not see investors coming back to the 10 year sector but in the three to five segment, there will be an opportunity.

***GlobalCapital*: Romain, do you not have plans to be in the dollar market?**

Netter, AFL: We have plans, of course, but our debt programme size does not enable us to enter this market. Tobias's Danish investors would be happy to hear that we are concentrating on developing our euro curve but as soon as we reach critical size, we will certainly go into this market; it's just a question of size and time.

For now, we use the dollar market for opportunistic private placements, which works well.

Eustace, TD Securities: There's more volatility in the US market than there has been in the euro market, particularly at the short end over the last six or nine months and that has sidelined some big investors. Having said that, I think they've slowly come back to the market over the course of 2023.

There's no demand problem in the dollar SSA market – it's strong. If you look at the amount of SSA supply

"Even in the event that the economics [in the dollar market] are less attractive, we want to deliver liquidity and reliability"

Jörg Graupner, KfW

that there's been in euros versus dollars, there's been more in euros. That's just a factor of cost to the issuers. But the basis swap has come back a bit in the last couple of weeks.

Seitelberger, OeKB: We accessed the dollar market very early on in the year by issuing a three year global in January and a five-year in March.

The three-year bond was five times oversubscribed and attracted our largest ever order book. We were able to tighten the pricing by 4bp, which was a great outcome.

The five year bond was three times oversubscribed.

Since 2022 it has been OeKB's strategy to issue $1bn 'no-grow' benchmarks. That way investors are more prone to come into the book at an early stage and it sends a clear message to investors regarding the final size of the transaction.

We have one more dollar global to issue in H2, in either three or five years.

***GlobalCapital*: What new markets are agencies trying to access?**

Seitelberger, OeKB: We are always trying to expand our investor base by providing new products or currencies that offer attractive arbitrage.

We have issued in the CNH and Hong Kong dollar markets at very attractive levels.

This year we have done four CNH transactions in one and three years. We issued our largest CNH transaction to date with a volume of Rmb1bn. Depending on investor interest we would also like to issue a Sofr floating rate transaction this year.

The level will need to be comparable to what we can achieve with a fixed rate dollar benchmark.

On the ESG side we will continue to come to the market on a regular basis with €500m deals. This depends on our having sufficient projects on the asset side to achieve the volume. We updated our sustainable financing framework in 2022 by adding two new categories: green housing and the circular economy.

We also issued a Nkr1bn ($87m) sustainability bond in 2021.

We will continue to monitor opportunities in sterling and Australian dollars, where issuance has picked up again.

In addition to our strategic issuance, we will continue to issue MTNs in various currencies at attractive funding levels and strive to attract new investors.

Kajova, MuniFin: It's all about maintaining the funding markets that you have in your toolbox and being active in them. For us, euros and dollars are the strategic currencies and then the rest are tactical and more dependent on pricing.

It's great that Swiss francs works again but it was only possible because we had the investor base ready. If you don't have the history, or you don't do the investor work, then you can't pull the trigger when the pricing works.

ESG is the growing theme. Investors want labelled bonds. For green bonds investors are interested to know how issuers are planning to align with the EU Taxonomy. This is because many investors themselves need to report how aligned they are with it.

"There's no demand problem in the dollar SSA market – it's strong"

Paul Eustace, TD Securities

Ketting, BNG: We were also active in Swiss francs. We did our investor work even when not active. Windows are especially small in Swiss francs, so we had to move quickly when the stars aligned.

The diversification is important but also, we are duration takers. That is more easily done in euros but far more difficult in dollars. That's why we have a good footprint in the Australian dollar market as well.

We are not able to issue green bonds; we issue either sustainable bonds or social bonds according to our sustainability finance framework. You can see that broadens the investor base and helps performance of these deals.

Last year 36% of our total funding had an ESG label. We hope for a similar number this year. Our funding programme has increased so if we don't get to the same percentage, we hope to at least be able to issue the same nominal amount: roughly €6bn.

Richter, NRW.Bank: We are very comfortable with our current setting. A funding volume of around €12bn limits our ability to be active in all markets. We decided to view euros and dollars as the strategic currencies; in addition, we are present in the sterling market and in Australian dollars.

Australian dollars offer duration and access to Japanese investors. We will stick to this and maybe look at the Kauri market.

The ESG part of our funding volume has increased. In 2017 and 2018, it was around 5% of our annual funding volume. Last year it was around a quarter. Our expectation is that it will increase further and in two years' time we could easily talk about one-third in ESG format.

Graupner, KfW: It has been such a long time since we have done a Swiss transaction that we had to establish a new product process internally, which takes time. Unfortunately, no Swiss bond from KfW at the moment.

Our funding strategy is well established, and we haven't any plans to change it. We are committed to the green bond market and to issuing €10bn of green bonds in 2023. We have issued close to €7bn so far, mainly in euros.

There are no plans for other types of bonds, like social, at the moment. We must look at the asset side to find the right assets.

Landström, Kommuninvest: Of our $12bn-$14bn funding programme, we do 50% in Swedish kronor, the rest is in euros and some in dollars.

We follow everything that MuniFin and the other Nordic agencies do to see what the benefit of getting into, say, the Aussie market is. The pricing for us is very close to where they are.

Over time we don't see that there's a great advantage compared to what you can achieve in dollars or euros or Swedish kronor. So we will stick to our strategy for now. It can change in the future if we perceive there will be durable arbitrage funding in other currencies but we are dedicated to are dollars and euros.

When you add a green label, it adds on another level of success, another level of investors, another level of volume, of interest. The two green transactions we did in euros were six to eight times oversubscribed.

It adds allocation work but it's exciting to see the momentum in those books. We have a new CEO and she is very dedicated to green and sustainability as well.

We would like to issue social bonds. We have a social bond programme but it's a new one and it takes clients time to understand the product and what kind of investments they can do, so we haven't really built the critical mass of assets in order for us to issue a social bond yet. We hope to but I don't think it's going to be this year.

Netter, AFL: One of the, if not the strongest mandates we have is to develop as far as possible the investor base to be sure that AFL, which represents French local authorities, always has access to any market.

It's just the beginning of the adventure here but it's our duty to develop the investor base in any way; new currencies and private placements, but also with benchmarks and we were very pleased to launch our inaugural sterling issue last year.

We increased it at the beginning of this year to £500m. It's just one point in this market that is designed for an issuer like AFL because the size to introduce a deal is £250m and this is within the scale of AFL's balance sheet.

We launched our sustainability programme in July 2020. We have done two benchmarks so far so it's not that big but it's a question of having eligible assets to fund and it will accelerate. This market is just a great one to enlarge the investor base.

"Despite all the grey clouds last year, this year we have all been able to issue"

Karoliina Kajova, Municipality Finance

GlobalCapital: Laura, where do you see the remote desert islands crowded with underserved SSA investors? What are the products that they are screaming for that they aren't getting?

Quinn, TD Securities: We've seen a lot more diversification of funding this year in the SSA community. There has been increased activity in Aussie dollars as well as Canadian dollars but also in Swiss francs.

If you look at Australian dollars for example, SSA issuance so far this year is double what it was for the same period last year at A$22bn.

Higher yields and wider swap spreads help as well as it being attractive for US dollar and euro funders from the basis swap perspective.

GlobalCapital: Is this greenium for labelled issuance a big attraction for you as issuers? How do you see that evolving?

Richter, NRW.Bank: There is a pricing advantage. For instance, our seven year deal was priced on the curve without a new issue concession. It's hard to calculate the greenium in a precise way for NRW. Bank because there is no liquid secondary market curve but I would argue that there's around 3bp of greenium that you could achieve with a green bond.

We hand this greenium to the lending side, giving an additional interest rate advantage for taxonomy-aligned loans to attract more volume to increase our capabilities to issue more green bonds.

Kajova, MuniFin: The greenium depends on the market tone. Previously in euros it was visible, even in the secondary market. Now it's less visible as it's more of an investors' market.

Doing a green bond lowers the execution risk of a trade. You might be able to tighten your pricing better than a conventional bond and you will probably have a larger book but the greenium is very much market sentiment-driven.

Graupner, KfW: I figured out in May that the greenium is around 1bp maybe in the primary market. In the secondary market, I don't see any greenium at the moment — maybe 0.5bp but it is really difficult to say whether it is a greenium or more driven by special demand because of a special request from an investor.

Netter, AFL: I agree and I'm just thinking about what you said Frank because to me it's complicated to calculate the greenium. We had this presentation from the Danmarks Nationalbank and they calculated a precise greenium with some volatility in this calculation showing that it could go from 0.5bp to 5bp, or 6bp. Bunds show more precisely the greenium.

We don't have any greenium but I saw that both sustainability bonds we launched performed better than the other bonds. This performance, or greenium, will last in the long term. It shows the appetite of investors for more sustainability, green or social transactions because there are more funds dedicated to those assets.

Landström, Kommuninvest: You can find greenium if you want to but I echo what Karolina said: execution risk falls on green bonds.

Does that mean that there is a greenium? In a way, yes. But as Jörg said, looking in secondaries, pricing is very much in line.

Ketting, BNG: As we issue more and more bonds with a label, we can say our ESG bonds are becoming more mainstream and maybe we must pay up for regular bonds, especially in euros.

I think it's been more obvious in the Canadian market that there's a 2bp-3bp difference if you issue with a sustainability label, so maybe in those more niche markets it has a bigger impact.

But overall, our sustainable benchmarks or our social benchmarks are priced in line with the regular ones. With the broader investor base and more volume, tickets from those investors impact the performance of your bonds.

Seitelberger, OeKB: When issuing our sustainability bonds the first exercise is to assess fair value just like with every conventional bond.

This is usually a longer process since we are not in the market frequently and our outstanding bonds are not so liquid.

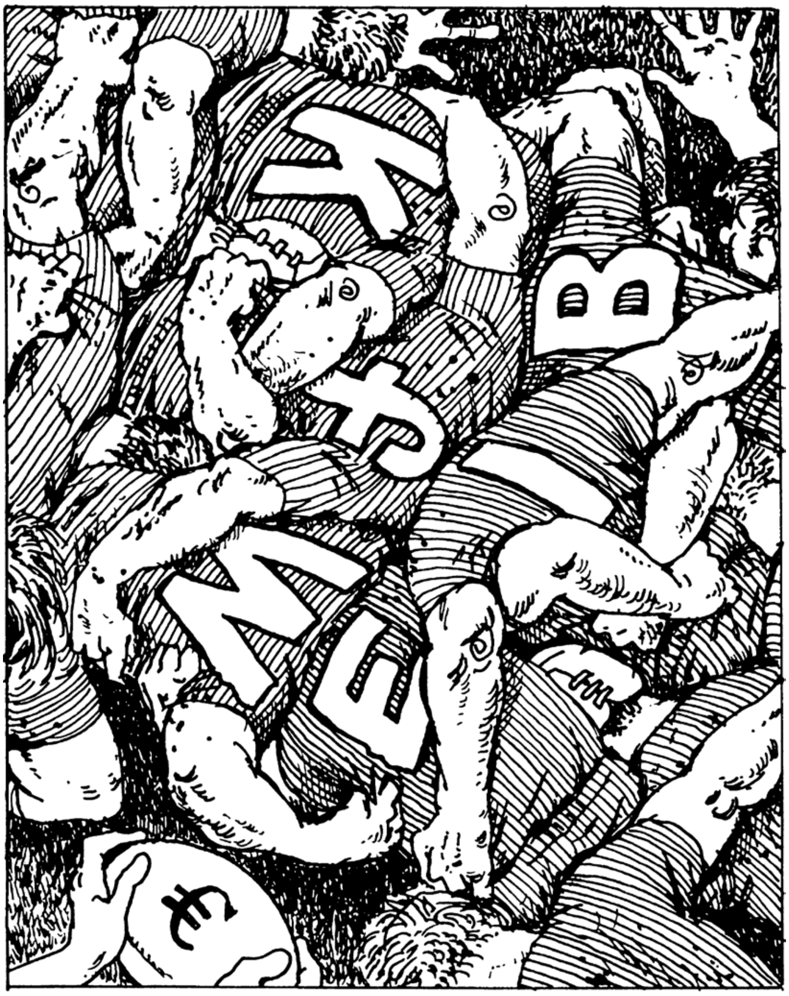
When issuing our last one we were able to tighten the pricing by 3bp from initial price thoughts, which was an excellent result. The bond was also eight times oversubscribed.

It is difficult to ascertain if a greenium was achieved with the pricing, at best it was probably 1bp for the ESG component.

GlobalCapital: What are your biggest concerns for the SSA market?

Eustace, TD Securities: There are the obvious geopolitical risks of the last year, but I think on a more micro level, keeping global investors engaged in the SSA market is something that we all need to be conscious of.

There are always headwinds, whether it's High Quality Liquid Asset buyers in the US and the headwinds associated with deposits being drained from banks, or whether it's certain large central banks in Asia which have been a lot less active in 2023 than in previous years. Every large investor that we lose you want to find ways to get them back to the negotiating table.



Head to head. SSA's 7yr euro scrum.

Richter, NRW.Bank: The biggest risk is of course the geopolitical one. But also the US is a centre of uncertainty for international markets. I do not think that the crisis in the regional banking sector is over, I think there may be more to come.

Graupner, KfW: Should I start with this recent *GlobalCapital* cartoon *[pictured]*? This looks like a fight between KFW and EIB because we did these head-to-head transactions. This cartoon illustrated very well the situation that we faced and will probably face in the future.

It is not easy to determine the impact of QT, but this is also one of the things that we must consider as well as the forecast for economic recovery.

We must find the right issuance windows, which grow smaller and will involve coming to an agreement and understanding within this group of issuers.

Seitelberger, OeKB: The tapering of central bank buying in Europe will have an impact on euro issuance which could result in smaller order books.

Due to the current compression in dollar spreads, it is very likely that spreads could widen again, which will have an impact on our funding levels.

We are, however, confident that the markets will remain challenging but accessible for the SSA issuers.

Kajova, MuniFin: To end on a positive note, despite all the grey clouds last year, this year we have all been able to issue and there has been market access. That will also be the case in the future. GC

Dollars deliver as data shows shift in SSA issuance

From the US debt ceiling to Silicon Valley Bank, SSA editor **Addison Gong**, explores the highs and lows of SSA bond issuance this year through data captured in *GlobalCapital's Primary Market Monitor* and uncovers the shifting patterns in how issuers raise benchmark funding.

Public sector borrowers raised more than $460bn-equivalent benchmark funding — including sovereign syndications — in core currencies over the first five months of 2023, up 21% from a year ago, shows data from *GlobalCapital's Primary Market Monitor* (PMM), a data set which captures new issue performance across a range of asset classes.

The start of the year was exceptionally strong, with issuers managing to secure a third more funding through benchmark issuance in January and February combined than they did in early 2022.

But the markets were not plain sailing. With inflation still elevated, major central banks continued to raise interest rates and tighten monetary policy, with the threat of recession never far away.

Issuers also navigated unexpected roadblocks such as the US regional banking crisis, the collapse of Credit Suisse, and another round of brinkmanship over the US debt ceiling.

Despite the banking saga, "overall for SSAs, the conditions have been very supportive and issuers have been able to raise large volumes," says a senior SSA DCM banker at a European bank. "They have also been a lot more pragmatic than they have been in recent years, after being surprised by the how difficult the second half of last year was."

The PMM data suggested issuers have looked to do larger amounts of funding when they have come to market — contrary to what some might think given the broader backdrop — though average maturities have shortened. Benchmark deals were $2.1bn-equivalent, on average, up from $1.9bn during the same period in 2022, whereas the average tenor dropped to 8.8 years from 10.3 years.

Issuers, however, managed to tighten benchmark pricing more on average compared to a year ago, by an average of 2.1bp versus 1.5bp. Meanwhile, average new issue premiums were stable at 2.1bp, as were subscription ratios at 3.6 times.

Issuers have had to adjust their pricing expectations, given investors now hold more negotiating power, says the senior DCM banker, as well as expectations for size and duration given the uncertainty around inflation, inverted yield curve and the rate trajectory.

"To me, the takeaway is that concessions are more stable than we would expect them to be," he adds, "which I think is positive because it illustrates some level of certainty and investors are comfortable purchasing at those spreads."

Dollar issuance flourishes

Despite the ructions over the debt ceiling and regional banking in the US, dollar SSA issuance was surprisingly healthy.

Not everyone had expected the outperformance, given the second half of 2022 had been anything but straightforward for SSAs in that market. Some transactions struggled to get across the finish line, forcing issuers to adjust their size or pricing expectations; others were pulled.

Nonetheless, in the first five months of this year, PMM data showed that dollar syndicated benchmark volumes jumped 31% year-on-year, surpassing the 10% growth seen in euros.

Of the core currencies, dollar issuance makes up 25% of SSAs' syndicated benchmark funding, up from 21% a year ago. This came at the expense of the euro market: the single currency's share dropped to 68% from 72%, with sterling steady at 7%.

The average size of SSA dollar benchmarks rose to $2.1bn from $1.7bn, as the average tenor shortened to 4.4 years from 5.1 years. The average spread tightening from initial price thoughts to re-offer rose to 2.9bp from 1.4bp, though issuers have had to pay a higher concession of 1.7bp versus 0.9bp a year ago.

Spreads have widened at the same time, to an average of 48bp over Sofr mid-swaps from 32bp, and nearly 34bp over US Treasuries from 28bp, despite the shorter average tenors.

That helps to explain why dollar benchmarks have been subscribed 2.4 times on average, up from 1.8 times during January-May 2022.

"Overall in dollars, we're seeing slightly bigger deals with consistently larger oversubscription, but at wider issuance spread levels, both versus mid-swaps and US Treasuries," says Alex Barnes, head of SSA syndicate at Citi.

"Arguably it's the wider spreads that have helped drive those larger books and, with that, the opportunity to move spreads further."

Comparing dollar deals of the same tenor from the same issuer in both early 2023 and 2022, the greater tightening "perhaps reflects the nervousness at the beginning of this year, with issuers leaving a bit more on the table to ensure deals go well in what was going to be a tough market, but then being able to recoup extra basis points later in the book building process", he adds.

Euros, sterling challenged

SSA issuers have funded ahead of schedule in euros, driving the 10% increase in syndicated benchmark volume between January and May this year versus the same period in 2022.

The ECB has increased interest rates by 325bp in 10 months to battle red-hot inflation. But the euro bond market has also been impacted by policy shifts unique to the single currency, such as the ECB's reduction in buying for its Asset Purchase Programme (APP). It also revised the terms of its Targeted Longer-Term Refinancing Operations (TLTROs) loans, triggering early repayments from financial institutions, a move that also affected some public sector borrowers, incentivising them to seek public funding.

Against this backdrop, while the overall euro benchmark issuance volumes still increased, the average deal size between January and May decreased to €2.17bn from €2.34bn a year ago. Many issuers have chosen to market their deals as 'no-grows' to encourage a feeling of scarcity and draw investors into order books early.

Meanwhile, the average tenor plunged by more than two years, to 10.9 years from 13.7 years.

Nevertheless, the average tightening from initial price thoughts to re-offer rose to 2.1bp from 1.8bp, though new issue premiums also rose on average to 2.2bp from 1.9bp. Spreads to swaps averaged to 14.6bp, and they were 75.5bp against Bunds — nearly 12bp and 17bp higher than where they were a year earlier, again despite the shorter tenors.

The sterling market too has had its challenges. Excluding Gilts, sterling SSA syndicated benchmark volumes from the first five months of 2023 dropped over 30% from a year ago. While the average deal size has been similar at around £475m, the average tenor compressed to 3.4 years from 4.8 years.

Pricing did not move during execution on 80% of deals, while the average spreads over Gilts at re-offer jumped to an average of 77bp from 50bp.

"Sterling is exposed to unique central bank risk," says Mark Byrne, DCM syndicate at TD Securities. "The ECB can't diverge from the Fed to a certain extent whereas the Bank of England may well have to go on a hiking path for longer. The economic situation in the UK is different to other markets and that's what is hurting issuance."

A key issue for sterling primary volume also lies in the economics.

"The funding levels for sterling issuance swapped back to euros or dollars don't line up for issuers," Byrne adds. "No one is going to pay up to do a deal where there is uncertainty around whether demand will be there. We don't have investors chasing us for issuance, despite much lower new issue volumes which is a bit concerning."

Navigating the hurdles

The monthly data also illustrated how SSA issuers successfully navigated through the banking crisis and other moments of peril during the first five months of the year.

Looking at average premiums paid by issuers across the first five months, issuer paid on average 2.9bp for benchmarks in January, though that improved to 1.6bp in February. Then came the fall of Silicon Valley Bank and Credit Suisse, pushing the average premium in March up to 2.5bp, followed by a recovery to 2bp in April and 1.4bp in May.

Order book coverage stood at 3.1 times, 4.3 times, 3.5 times, 3.2 times and 4.6 times, across the same months.

Because of uncertainties heading into 2023, "issuers opted to err on the side of caution and offered more generous concessions in the early part of the year," says Barnes, "and demand was elastic to the price — that spread widening was quite attractive to investors and helped deliver a large bid, particularly from the bank treasury community. But the concessions have reduced again since."

In addition to a rise in concessions, the banking crisis had even more impact on core currency syndicated benchmark volumes.

At the height of the crisis, in March, SSAs raised 61% less compared to February, and nearly 47% less than March 2022. Dollar benchmark volumes dropped even further: 68% month-on-month and 59% year-on-year.

But the volumes rebounded in April, leading to a 153% surge in core currency syndicated benchmark volume compared to March. The number of new issues doubled. Year-on-year, April volumes jumped 83%.

But risks including an unprecedented US default loomed over markets in May, putting primary issuance on a downward trend again as some borrowers preferred to wait for the debt ceiling talks to be resolved first. Volumes plunged 39% compared to April but were still 55% higher than March. GC

All SSA benchmarks in euros, dollars and sterling

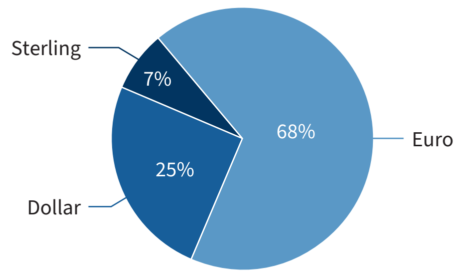
	2023 Jan-May	2022 Jan-May
Average size ($m)	2,142.9	1,905.6
Average tenor (years)	8.8	10.3
Average MIPT (bp)	2.1	1.5
Average NIP (bp)	2.1	2.2
Average BtC (times)	3.6	3.5
Average MS spread (bp)	26.5	13.9

MIPT: move from IPT
NIP: new issue premium
BtC: bid-to-cover
MS: mid-swaps

Source: GlobalCapital Primary Market Monitor

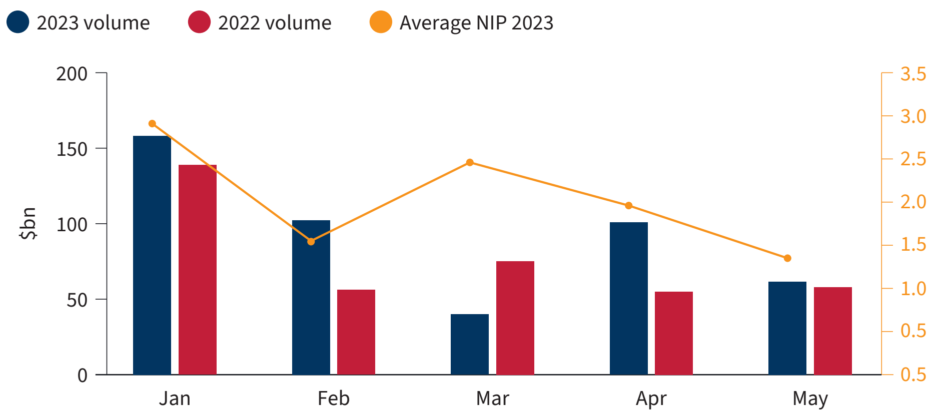
All SSA benchmarks by currency

Jan-May 2023



Source: GlobalCapital Primary Market Monitor

SSA benchmarks monthly comparison



Source: GlobalCapital Primary Market Monitor