

BlackRock

Trends in the SSA market in terms of liquidity and relative pricing

28th Nov 2023

Euro SSA market overview 2023 and read-across to 2024

Focus on H1 Funding

Extreme market volatility making issuers take no risks on funding

Q3/Q4 Supply Volumes Subdued

Front-loaded H1 providing critical relief to markets in Q3

Adverse Moves in Underlying Rates

Speed of move also making it difficult for safe-havens to benefit

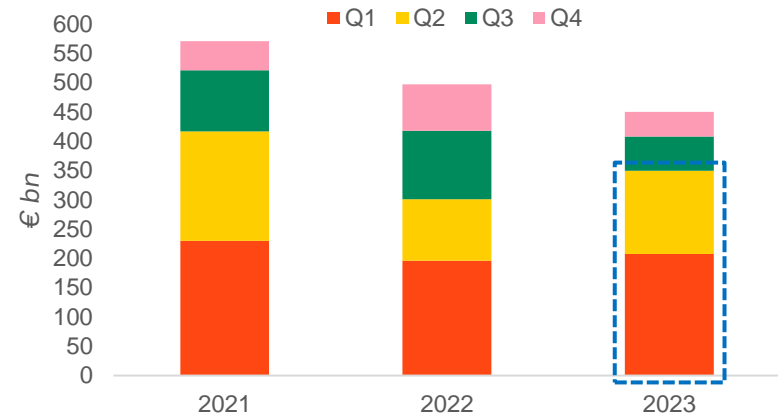
End of ECB APP Reinvestments

One of the causes of EUR SSA indigestion post-summer

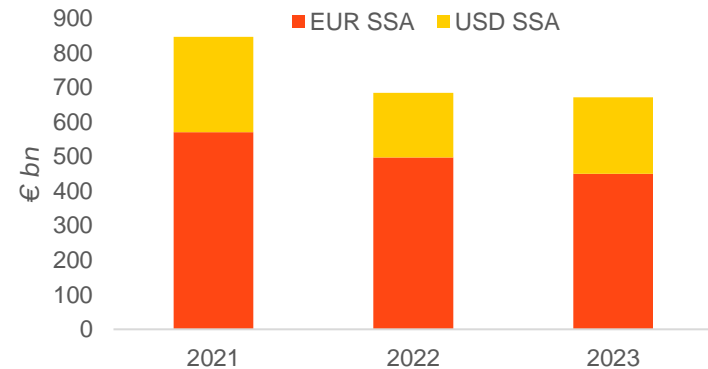
Significant Spread Widening

Positive supply dynamics unable to prevent spread widening

EUR SSA Primary – Heavy Q1/Q2



EUR weakness leading to issuer lean on USD



Source: BlackRock as per 23 November 2023

Some demand trends from the primary market side

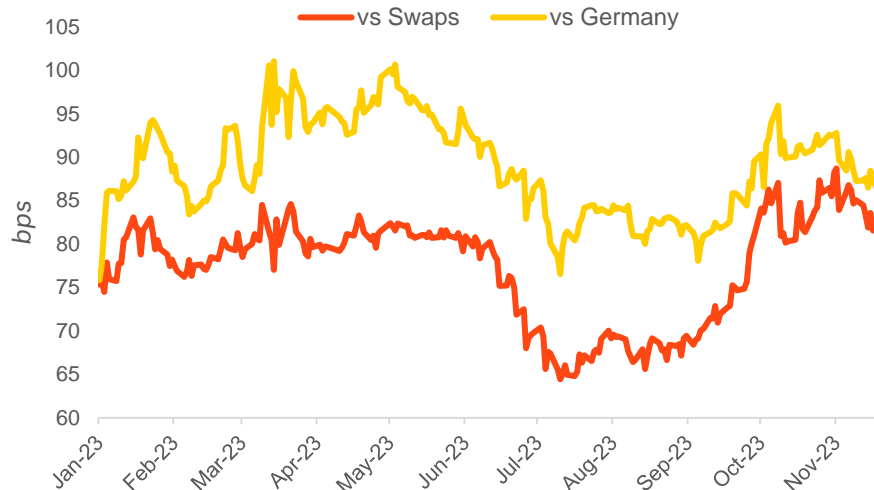
Allocation by sector in primary market of EU bonds

	CB/OI	Ins/PF	Fund Managers	Bank Tsy	Banks	HF	Other
20/21	21%	11%	39%	22%	4%	2%	0%
2022	20%	14%	30%	29%	5%	1%	0%
2023	22%	11%	28%	32%	4%	2%	0%

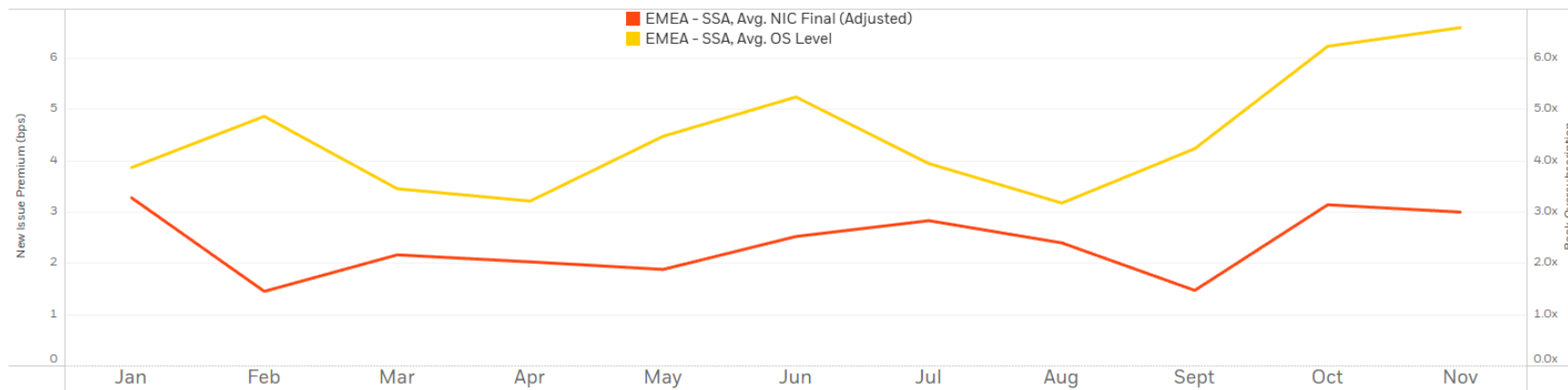
2023 Change vs 2022

Tenor Bucket	CB/OI	Ins/PF	Fund Managers	Bank Tsy	Banks	HF	Other
5yr	-9%	-3%	-6%	15%	3%	1%	0%
10yr	4%	-4%	1%	1%	-2%	0%	0%
15yr	5%	7%	-7%	-8%	1%	1%	0%
20yr	7%	-6%	-5%	4%	-1%	1%	0%
30yr	2%	0%	2%	-3%	-2%	1%	0%

European Union 30yr Credit Spread



Evolution of New Issue Concessions vs Book Coverage



Source: European Union issuance reports, Bloomberg, BlackRock as per 23 November 2023

Relative pricing & secondary trading trends

- Analysis of secondary trading flow on electronic trading platform shows stable evolution over time, but clearly following the primary market cycle.
- Also in secondary trading, EU is the bellwether in SSA, with typically more than >50% of secondary trading flow in the EU ticker across electronic platforms.
- Valuation-wise, historically SSAs have tended to trade towards the upper end of the France-Germany corridor in 10-year maturities, more recently above it.

Z-spreads of 3 benchmark SSAs versus 2 sovereign issuers (10 year maturity)

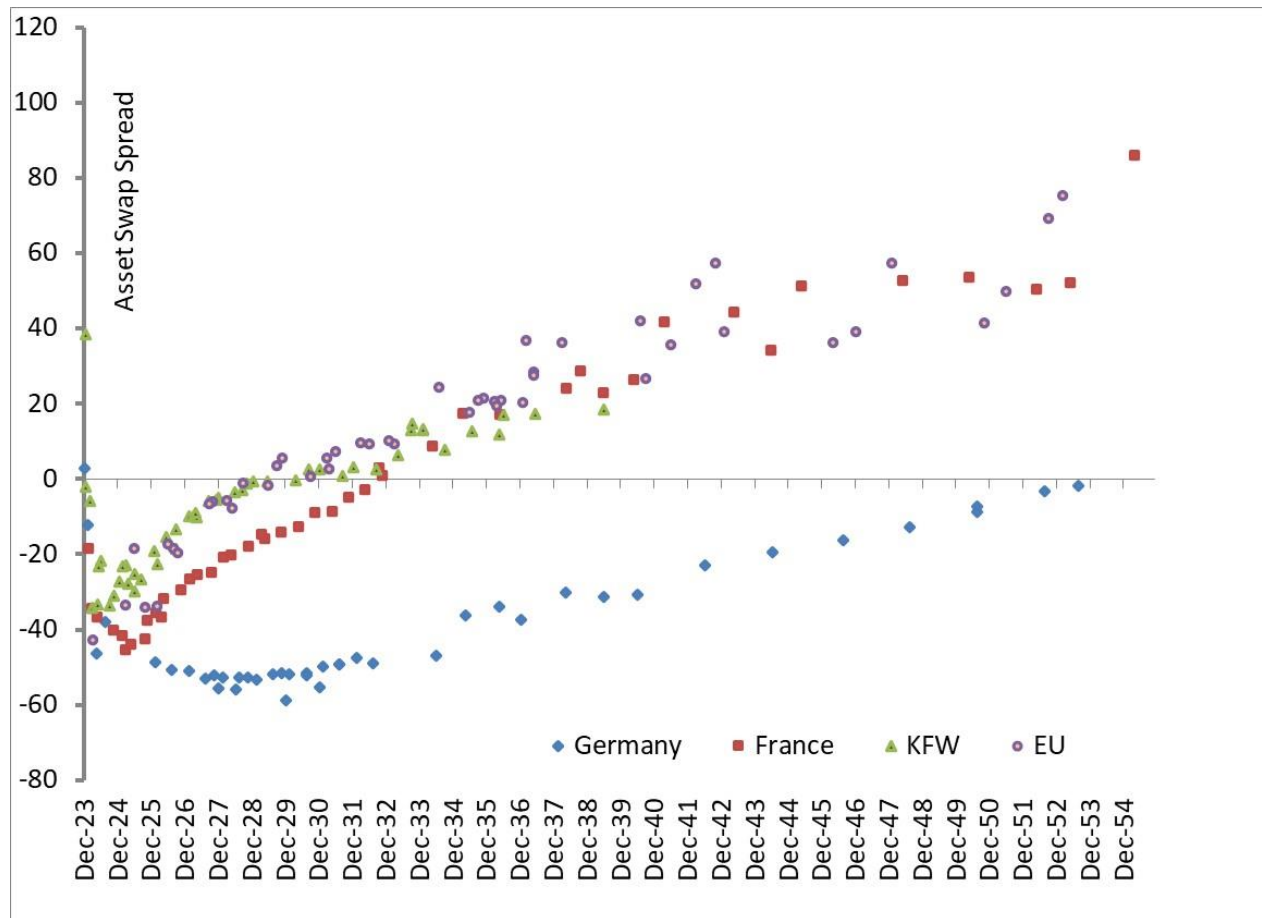


Source: Bloomberg as per 23 November 2023

Relative pricing & secondary trading trends

- This leaves yields of Euro SSAs above those of sovereigns with a comparable credit rating
- But with the yield gap not uniform across the curve

Z-spread of 2 benchmark SSAs versus 2 sovereigns by maturity



Source: Bloomberg as per 23 November 2023

Discussion points

- 1. Has the swift acceleration of net supply in Euro SSA on an absolute and relative basis been met with equally swift change in end-investor demand, or has the difference in pace contributed to market distortions?**
- 2. The big societal challenges that require funding through capital markets (e.g. energy transition, climate, digital transformation) are increasingly at the global level. Will that lead to a more central role for the SSA sector in bond market supply?**