

Summer reflections

Euro ABS/MBS new issuance pricing trends

In this first in a new series of Euro ABS/MBS premium content articles, we examine the demand and consequent pricing dynamics seen across European and UK ABS, CMBS and RMBS new issuance in Q2 and July 2021.

A busy first “half” of 2021 has taken a while to fade in the European and UK ABS, CMBS and RMBS markets. Even after Q2, healthy new issuance activity continued, but with the end of July, the traditional summer lull at last arrived.

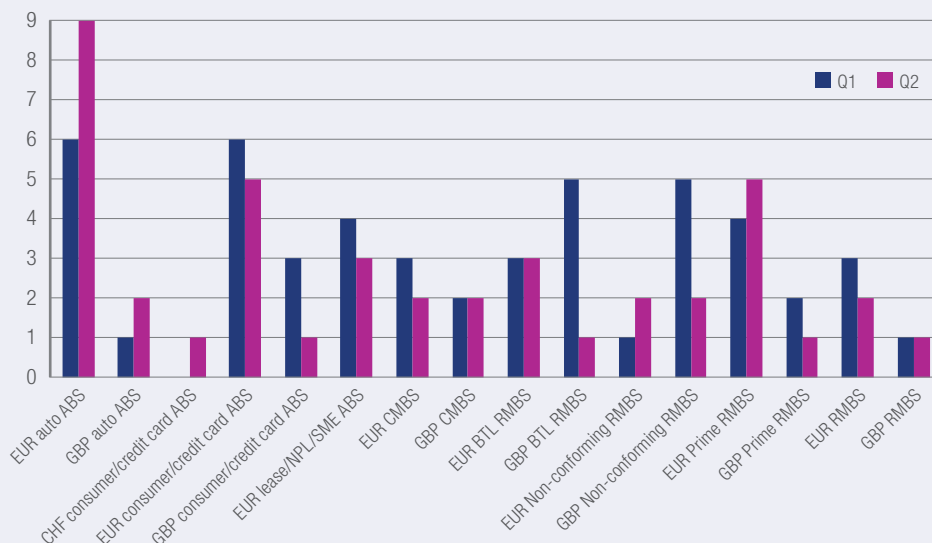
So now is a good time to reflect on a strong year so far. In particular, to take a look at pricing trends seen to date since the start of Q2, when SCI’s Euro ABS/MBS Deal Tracker was launched.

H1 2021

Almost from the outset of the year, it became obvious that the European ABS/MBS market was heading into full recovery mode post-Covid. New issuance volumes spiked after an understandably quieter 2019 and maintained healthy levels throughout the first two quarters, albeit not quite reaching pre-pandemic levels.

As chart 1 below shows, total deal count (including retained and preplaced new issues) was strong across most sectors in both quarters. The total overall figure of 49 deals in Q1 was higher than Q2’s 42, but predominantly thanks to demand driving spreads down and beginning to disincentivise issuers as Q2 wore on.

Chart 1: European ABS/MBS new issue volumes – Q1 v Q2 2021



Source: Q1: Bank/rating agency research and market sources. Q2: SCI Euro ABS/MBS Deal Tracker

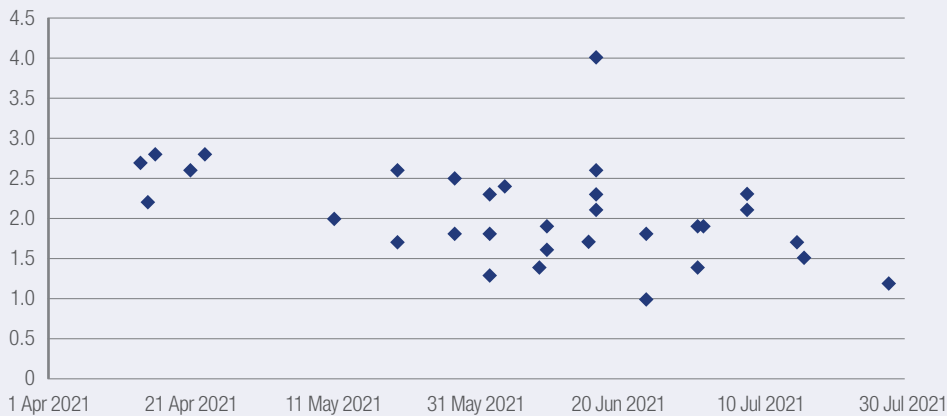
July saw an uptick in headline activity, with a strong total of 22 new deals priced. However, that number was skewed by a flurry of “pre-summer” retained or preplaced deals, with only nine widely marketed to investors.

For the remainder of this article, we’ll only look at the latter types of deal.

Q2 and July 2021

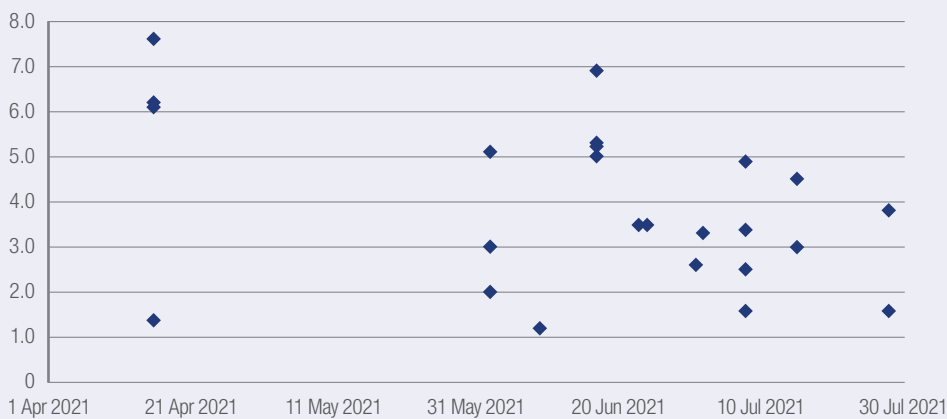
While Q1 kick-started the theme of oversubscription and ever-tightening spreads, Q2 and July took that trend and ran with it across all sectors. As charts 2 and 3 show, oversubscription levels rarely dropped throughout the period and throughout the capital stack.

Chart 2: European ABS/MBS Q2 & July 2021 AAA x Coverage



Source: SCI Euro ABS/MBS Deal Tracker

Chart 3: European ABS/MBS Q2 & July 2021 Sub-IG* x Coverage



* Sub-IG = tranche rated BBB- or below by at least one rating agency

Source: SCI Euro ABS/MBS Deal Tracker

Only one deal went through with a “mere” 1x coverage – the class As of Porsche’s FACT Compartment 2021-1 auto ABS. The lack of demand was attributed to a range of factors – from it being an irregular issuer, RV risk and oversupply of senior autos at that time. Conversely, the lack of mezz paper in the sector was underscored by FACT Compartment 2021-1’s class Bs ending up 3.9x oversubscribed – despite the issuer paying a coupon of 95bp over one-month Euribor, some 15bp-25bp inside initial price talk.

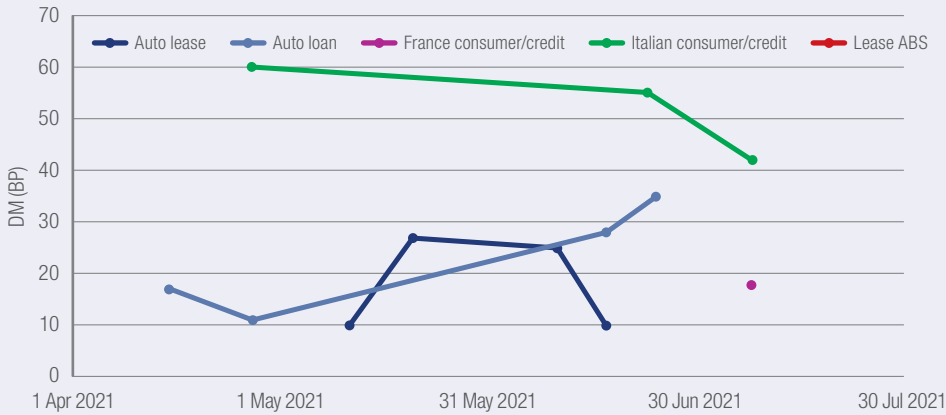
Pricing patterns

With generally very strong demand for bonds in every sector and across the capital structure and little headwind from fundamentals, the tightening bias experienced throughout Q2 and July is unsurprising. Nevertheless, the strength of the moves left participants wondering how far spreads could ultimately go.

Below we look at pricing activity by product type through the prism of senior paper. Moves in lower rated tranches were, typically, even greater throughout the period.

Euro ABS

Chart 4: Euro ABS seniors new issue DMs Q2 & July 2021



Source: SCI Euro ABS/MBS Deal Tracker

Auto lease deals were most notable in this sector, with two deals hitting 10bp DM, and thereby the post-financial crisis German auto spread record – Bavarian Sky Compartment German Auto Leases 6 and VCL 33. The seemingly widening trend in auto loans was generated by the previously mentioned FACT Compartment 2021-1 following on from Autonoria Spain 2021, which actually printed only 4bp away from the Spanish auto senior tight of recent years and at 28bp DM easily inside initial price talk of mid-30s.

GBP ABS

Chart 5: GBP ABS seniors new issue DMs Q2 & July 2021



Source: SCI Euro ABS/MBS Deal Tracker

The widest print came from credit card deal NewDay Funding 2021-2, with a DM of 80bp. While that only represented the tight end of initial price talk, as SCI noted at the time, the deal was viewed as something of a success, printing inside the issuer’s January deal by 17bp and last year’s offering by 60bp.

Euro and GBP CMBS

Chart 6: CMBS seniors new issue DMs Q2 & July 2021

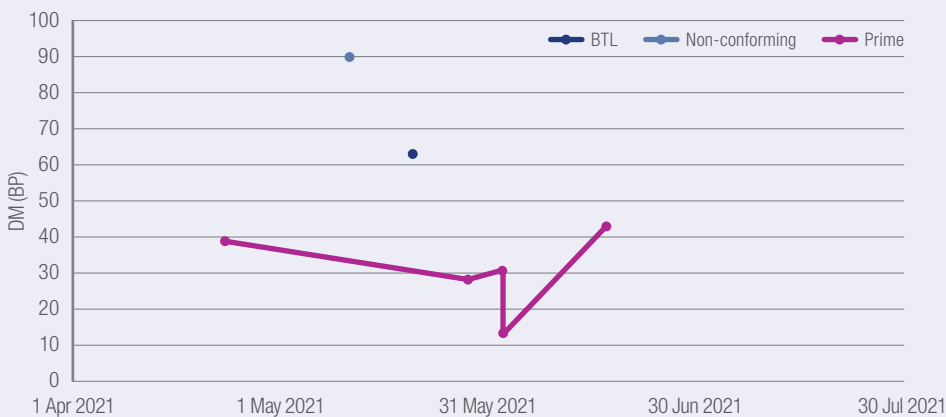


Source: SCI Euro ABS/MBS Deal Tracker

A successful quarter across the sector, with issuers veering away from the most Covid hit sectors and seeing reasonable demand as a result. Perhaps the most impressive feat was Taurus 2021-4 UK sustaining interest to successfully print on 28 July at 95p, 5bp inside talk.

Euro RMBS

Chart 7: Euro RMBS seniors new issue DMs Q2 & July 2021

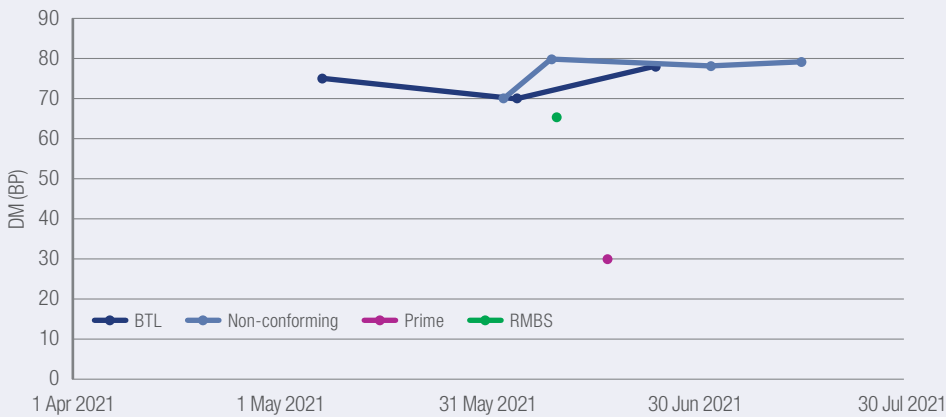


Source: SCI Euro ABS/MBS Deal Tracker

The highlight of the sector was Green Apple 2021-I's post-Covid Dutch prime record print of 13bp DM, in from initial talk of 18 area. The class A tranche ended up being 2.3x oversubscribed, even after being upsized from to €500m to €650m, further confirming the no-brainer demand for Dutch STS prime RMBS.

GBP RMBS

Chart 8: GBP RMBS seniors new issue DMs Q2 & July 2021



Source: SCI Euro ABS/MBS Deal Tracker

Solid and consistent performance across the sector on the back of strong fundamentals yielded no real surprises in the quarter. The standout deal was Kensington’s Finsbury Square 2021-1 Green.

With green credentials and a leading issuer, bullish market conditions unsurprisingly yielded a strong result. The deal was upsized yet still had 1.9x coverage and saw a 65bp over SONIA coupon, in from initial talk of high-60s-70.

What next?

Expectations are that after a brief pause to recharge batteries in August, new issuance will return with a vengeance in September. As a result, the bulk of bank research teams have upgraded their forecasts for full-year issuance.

For example, JPMorgan’s international ABS research analysts say: “In response to the higher-than-anticipated volume of supply in H1, coupled with our expectations for i) a supportive issuing environment and ii) modestly stronger bank demand, particularly in the UK and Australia with the upcoming expiration of the TFSME and TFF in October 2021 and June 2021 respectively, we raise our full-year 2021 forecast for distributed European ABS issuance to €70bn from €62bn previously.”

Equally, Rabobank credit analysts now expect around €60bn equivalent in non-retained issuance (excluding CLOs) for 2021, leaving around €24bn left for the remainder of the year. In terms of Dutch RMBS issuance, they expect around €500m in prime paper and €600m in BTL RMBS for the rest of the year. UK RMBS issuance is likely to come from the non-prime segment, where the Rabobank analysts have upgraded their full-year forecast to €17bn equivalent supply (€5bn to go), while they expect €600m in prime RMBS for the remainder of the year.

The analysts conclude: “More Irish RMBS is expected to hit the market, with €900m foreseen in H2, while some more French prime RMBS is also likely later in the year.

Finally, we stick to our auto ABS full-year forecast of €17bn, with around €8.5bn in supply expected in H2. Risks are skewed somewhat to the downside though, due to lacklustre year-to-date car sales.” ■

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