EU bond supply watch: March madness - EU bond issuances continue to attract unprecedented demand

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The European Commission issues bonds on behalf of the European Union (EU) to fund the SURE programme. The bonds issued under SURE benefit from a social bond label. Member States can request a loan from these funds to mitigate rising public expenditure and to support their labour market amid the pandemic. The SURE[1] programme which has a capacity of up to €100 bn is expected to endorse €90.3 bn in loans to 18 EU member states with an average maturity of 15 years. In 2020[2] €39.5 bn of EU bonds were issued, under SURE, with a further €36 bn already issued in 2021. We expect the €750 bn NextGenerationEU programme to be operational later this year. In this blog, we will explore the details of the latest EU bond issuances and the overwhelming investor appetite for these deals in the primary market.

Pricing of the EU's bond deals in March

As an issuer, the European Union is rated AAA/Aaa/AA by S&P, Moody's and Fitch, respectively. The rating agencies indicate, a positive outlook from S&P and a stable outlook from the other rating agencies.

EU bond issuance on 9 March 2021: The fifth issuance of EU bonds under SURE raised a total of €9 billion. This issuance consisted of a single tranche with maturity in June 2036.

The 15-year bond which had a coupon of 0.2% was priced at 4 basis points (bps) below mid-swaps[3] which is equivalent to 33.4bps over the conventional 0.00% German Bund due May 2035. The final new issue premium has been estimated at 2bps and is pricing at a lower premium compared to the range seen in recent primary market transactions[4].

EU bond issuance on 23 March 2021: The sixth transaction under SURE was a €13 billion dual tranche social bond, split over two maturities. €8bn due in March 2026 and €5bn due in May 2046. The 5-year bond which had a 0% coupon was priced at 14 bps below mid-swaps, which is equivalent to 20 bps over the 0.5% German Bund which matures on 15February 2026. The 25-year bond, which had a coupon of 0.45%, was priced at 1bp above mid-swaps, which is equivalent to 34.4bps over the 2.5% German Bund, maturing on 15 August 2046. The final new issue premiums have been estimated at around 1.5bps on both tranches. With more than 600 orders in the final order book, reflecting nearly a 34% jump from the deal priced earlier in March. This is a strong sign that low yields are not deterring investor demand. It also

appears that the EU has now established itself as one of the most liquid among supranational and agency issuers[5].

[1] SURE refers to the EU's Support to mitigate Unemployment Risks in an Emergency programme

[2] European commission investor presentation on European Union dated 20 March 2021.

[3] Mid-swap is typically the price calculated as the midpoint between the bid and offer prices on currency or interest rate transactions.

[4] European Commission technical press release dated 10 March 2021 for European Union bonds under the SURE issuance.

[5] European Commission technical press release dated 23 March 2021 for European Union bonds under the SURE issuance

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