

# Covered Bond & RMBS Comment

*DISCLAIMER: This report has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and that it is not subject to any prohibition on dealing ahead. This report is marketing communication and not investment research and is intended for professional and eligible clients only.*

22 June 2017

## Second kiwi of the year

---

**Joost Beaumont**

Senior Fixed Income Strategist

Tel: +31 20 628 3437

[Joost.beaumont@nl.abnamro.com](mailto:Joost.beaumont@nl.abnamro.com)**Lea Riives**

Research Associate

Tel: +31 20 383 6131

[Lea.Riives@nl.abnamro.com](mailto:Lea.Riives@nl.abnamro.com)

- **BNZ to issue the second New Zealand euro benchmark of this year**
- **We see fair value for the 7y deal at around ms +mid 10s**
- **IPT for senior tranche of Dutch RMBS Storm 2017-II set at 3mE +high 10s**
- **Spreads for Dutch RMBS currently at post-crisis lows**
- **Shortage of homes on Dutch housing market to increase in coming years...**
- **...which will continue to exert upward pressure on house prices**

### BNZ to come to the market with a 7 year covered bond

Today, **BNZ International** will launch a 7 year EUR benchmark covered bond, after it completed a roadshow last week. The deal will be the second from New Zealand this year, while it will extend the country's curve by a year. Currently, the longest outstanding deals from the country are the ASBBNK 0 ½ 10/18/23 and the ANZNZ 0 ½ 09/22/23, which are trading at around ms +10bps. Adding some bps for the curve extension, we see fair value of the new 7y deal at around ms +mid 10s. Guidance has just been set at ms +18bps.

This would also be consistent when looking at some Australian benchmarks, which tend to trade some 5/6bps tighter than their New Zealand counterparts. Best comparable is probably WSTPC's recently issued 7y deal (i.e. the WSTP 0 ½ 05/17/24), which is now quoted at around ms +9bps.

The [cover pool](#) fully consists of New Zealand residential mortgages, which have a WA seasoning of 50 months and an indexed LTV of 39%. Nominal OC was some 20% in March.

### Pipeline

Yesterday **Leeds Building Society** completed its roadshow for an euro benchmark covered bond. As such, the issuer is expected to come to the market shortly.

#### Pipeline overview (EUR covered bonds)

Issuer	Tenor	Size (in EUR bn)	Rating ((M/S&P/Fitch/D)	r/s	Type
Bank of Queensland	belly	bnk	Aaa/AAA/-/-	19 June >	CB
Bayerische Landesbank	na	na	A1/-/A/-/-	Completed	Snr/CB
Leeds Building Society	belly	0.50	Aaa/-/AAA/-	Completed	CB
Kommunalkredit Austria	belly	bnk	Baa2/A/-/-	TBA	CB

### Spreads stable in secondary market

Spreads remained stable in the secondary market, where trading was limited yesterday. We saw some buyers of Dutch paper in the short end of the curve, while this paper was sold in the belly of the curve. Furthermore, there were sellers at the long-end France, while Canadian paper was in demand. Recently, we have also seen some good demand for Australian/New Zealand paper, so it will be interesting to see at what level the new 7y of BNZ will be priced.

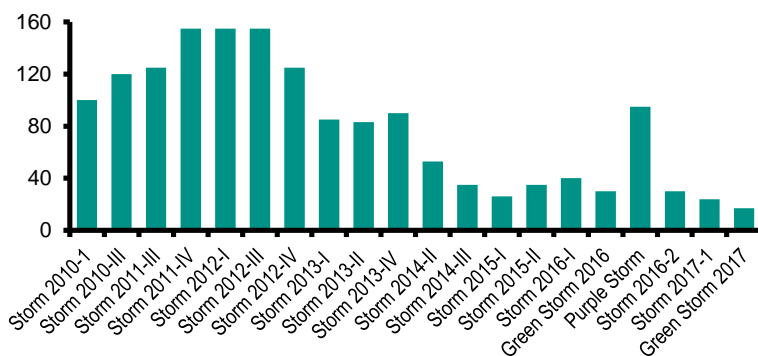
### IPT out for Dutch RMBS transaction Storm 2017-II

Obvion set the IPT for the senior (and only offered) tranche of Dutch RMBS transaction **Storm 2017-II** yesterday. The deal is likely to price this week and marks the issuer's third RMBS deal this year. In January, Obvion printed EUR 2bn of the senior tranche of the Storm 2017-I deal at 3mE +24bps, while EUR 550mn of the Green Storm 2017 transaction was priced at 3mE +17bps in May.

The IPT for the class A tranche (rated Aaa/AAA/AAA, pre-set coupon of 3mE +60bps, WAL of 4.9yrs, as pool is fully revolving until the FORD, and CE of 8%) has been set at 3mE +high 10s, This is some 8bps higher than the current level (3mE +11bps) of the senior tranche of the Storm 2017-1 deal. The deal will be backed by Dutch residential mortgages, of which 28% NHG guaranteed. Seasoning is some 86 months, the average loan size is EUR 188K, and the CLTOMV is 81%.

As can be seen on the graph below, pricing for Dutch RMBS transactions has tightened since the crisis and is presently around post-crisis lows, also supported by the ABSPP. The Purple Storm (2016) deal, however, can be seen as an outlier in terms of pricing, as it was used for balance sheet relief.

Margin for Dutch RMBS transactions



Source: Bloomberg, ABN Amro

### Shortage of homes on Dutch housing market to increase

Dutch newspaper *Het Financieele Dagblad* reported today that the shortage of supply of homes in the Dutch housing market is likely to increase in coming years. It was mentioned that 54K new homes were build last year, which falls short by the 80K that is necessary to meet rising demand. It is widely expected that this trend will continue in coming years, resulting in a shortage of around 190K homes by 2019. Complex building procedures as well as a focus on building new homes in cities (where space is limited) are the main factors impeding the construction of new homes. Overall, this will continue to put upward pressure on prices.

**Other news:**

\* Fitch noted that the recent downgrade of the issuer rating of **Banca Popolare di Sondrio** did not change the AA rating of its covered bonds.

\* Moody's assigned a preliminary Baa1 rating to the mortgage covered bonds of **Turkish Garanti Bank**.

**Other recent publications:**

Financials Watch – [Italian banks to face a struggle to escape](#)

Macro Weekly – [The reappearance of Goldilocks](#)

Global Daily – [ECB too optimistic on core inflation](#)

Financials Watch – [Banco Popular wiped out in Santander sale](#)

Eurozone Watch – [Target2 balances a ticking time bomb?](#)

New issue monitor (EUR benchmarks)								
Date	Name	Size (EUR bn)	Coupon (%)	Maturity	Rating ((M/S&P/Fitch)	spread (ms)	spread (CBBT, ms)	Change
20-Jun	HVB	0.50	0.125	10/26/2023	Aaa/-/AAA-	-10	-10	0
20-Jun	AEGON	0.50	0.750	6/27/2027	-/AAA/AAA-	12	12	0
19-Jun	SPABOL	1.00	0.375	6/26/2024	Aaa/-/AAA-	0	-1	-1
19-Jun	ACACB	1.00	0.375	9/30/2024	Aaa/AAA/AAA-	-5	-5	0
14-Jun	DHY	0.50	0.375	6/20/2025	Aa1/-/-	-10	-10	0
14-Jun	LBPSFH	0.50	0.625	6/23/2027	-/AAA/-	0	0	0
13-Jun	SEB	1.00	0.250	6/20/2024	Aaa/-/-	-5	-5	0
7-Jun	BHH	0.50	0.125	10/23/2023	Aaa/-/-	-14	-15	-1
31-May	ISPIM	1.00	1.125	6/16/2017	Aa2/-/-	38	40	2
30-May	OPBANK	1.00	0.750	6/7/2027	Aaa/AAA/-	1	2	1
30-May	BPCECB	1.00	1.000	6/8/2029	Aaa/AAA/-	12	11	-1
23-May	BCPPL	1.00	0.750	5/31/2022	A3/-/BBB+/A	65	59	-6
23-May	SOCSFH	0.75	0.500	6/2/2025	Aaa/-/AAA-	-5	-8	-3
22-May	PLUSSB	0.50	0.125	5/30/2022	Aaa/-/-	0	-1	-1
22-May	RABOBK	1.00	1.250	5/31/2032	Aaa/-/-	9	8	-1
22-May	RABOBK	1.50	0.250	5/31/2024	Aaa/-/-	-11	-12	-1
16-May	HASPA	0.50	0.375	5/23/2024	Aaa/-/-	-10	-10	0
11-May	WSTP	0.50	1.375	5/17/2032	Aaa/-/AAA-	17	19	2
11-May	WSTP	1.00	0.500	5/7/2024	Aaa/-/AAA-	7	11	4
10-May	DEVOBA	0.50	0.750	5/18/2027	Aaa/-/AAA-	3	4	1
10-May	VORHYP	0.50	0.375	5/17/2024	Aa1/-/-	2	3	1
9-May	RBS	1.25	0.500	5/15/2024	Aaa/-/AAA-	10	12	2
9-May	CFF	1.50	0.200	9/16/2022	Aaa/AAA/-	-6	-9	-3
3-May	CAFFIL	0.75	1.250	5/11/2032	Aaa/AA+/AA-	20	17	-3
3-May	CAFFIL	1.00	0.375	5/11/2024	Aaa/AA+/AA-	-5	-6	-1
2-May	MUNHYP	0.50	0.625	7/7/2027	Aaa/-/-	-12	-14	-2
26-Apr	ACACB	1.50	0.750	5/5/2027	Aaa/AAA/AAA-	5	0	-5
26-Apr	SWEDA	1.00	0.400	5/8/2024	Aaa/AAA/-	-6	-5	1
25-Apr	HVB	0.75	0.500	5/4/2026	Aaa/-/AAA-	-10	-9	1
20-Apr	SANTAN	1.00	0.875	4/25/2024	A1-/A/A	62	41	-21
19-Apr	SABSM	1.00	1.000	4/26/2027	Aa2/-/AA	33	25	-8
3-Apr	CBAAU	0.75	0.375	4/11/2024	Aaa/-/AAA-	6	9	3
3-Apr	YBS	0.50	0.375	4/11/2023	Aaa/-/AAA-	10	10	0
30-Mar	WSTP	1.00	0.250	4/6/2022	Aaa/-/AAA-	7	8	1
28-Mar	HYN0E	0.50	0.375	4/4/2023	Aa1/-/-	5	0	-5
23-Mar	TD	1.25	0.500	4/3/2024	Aaa/-/AAA	0	5	5
23-Mar	PKOBHB	0.50	0.625	1/24/2023	Aa3/-/-	27	29	2
21-Mar	NAB	1.25	0.250	3/28/2022	Aaa/-/AAA	2	1	-1
21-Mar	SBAB	0.75	0.875	3/29/2027	Aaa/-	3	2	-1

### DISCLAIMER

ABN AMRO Bank N.V., with registered office at Gustav Mahlerlaan 10, 1082 PP Amsterdam, Netherlands (AA), is responsible for the production and the dissemination of this document, which has been prepared by the individual working for AA or any of its affiliates (except ABN AMRO Securities (USA) LLC) and whose identity is mentioned in this document.

This document has been generated and produced by a Fixed Income Strategist ("Strategists"). Strategists prepare and produce trade commentary, trade ideas, and other analysis to support the Fixed Income Sales and Trading desks. The information in these reports has been obtained or derived from sources that are publicly available, such as Bloomberg and Thomson Reuters Datastream; AA makes no representations as to its accuracy or completeness. Although AA has a strict rule using only the most reliable sources, these sources might not meet that rule at all times. The analysis of our Strategists is subject to change and subsequent analysis may be inconsistent with information previously provided to you. Strategists are not part of any department conducting 'Investment Research' and do not have a direct reporting line to the Head of Fixed Income Trading or the Head of Fixed Income Sales. The view of the Strategists may differ (materially) from the views of the Fixed Income Sales and Trading desks or from the view of the departments conducting 'Investment Research' or other divisions.

This document has been prepared by AA and for the purposes of Regulation (EU) No. 596/2014 and has not been prepared in accordance with the legal and regulatory requirements designed to promote the independence of research. As such regulatory restrictions on AA dealing in any financial instruments mentioned in this marketing communication at any time before it is distributed to you, do not apply.

This document is for your private information only and does not constitute an analysis of all potentially material issues nor does it constitute an offer to buy, hold or sell any investment. Prior to entering into any transaction with AA, you should consider the relevance of the information contained herein to your decision given your own investment objectives, experience, financial and operational resources and any other relevant circumstances. Views expressed herein are not intended to be and should not be viewed as advice or as a recommendation. Any views or opinions expressed herein might conflict with investment research produced by AA. You should take independent advice on issues that are of concern to you.

Neither AA nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this communication.

This document is not intended for distribution to, or use by any person or entity in any jurisdiction where such distribution or use would be contrary to local law or regulation. In particular, this document must not be distributed to any person in the United States or to or for the account of any "US persons" as defined in Regulation S of the United States Securities Act of 1933, as amended.

### CONFLICTS OF INTEREST/DISCLOSURES

AA and its affiliated companies may from time to time have long or short positions in, buy or sell (on a principal basis or otherwise), make markets in financial instruments of, and provide or have provided, investment banking, commercial banking or other services to any company or issuer named herein.

Any price(s) or value(s) are provided as of the date or time indicated and no representation is made that any trade can be executed at these prices or values. For a list of all Fixed Income recommendations that AA disseminated in the preceding 12 months, we refer to our latest Fixed Income Convictions publication on our website <https://insights.abnamro.nl/en>.

AA undertakes and seeks to undertake business with companies, financial institutions and public sector organisations covered in its reports. As a result, investors should be aware that AA may have a conflict of interest that could affect the objectivity of this report. AA and/or an affiliate regularly trades, generally deals as principal, and generally provides liquidity (as market maker or otherwise) in financial institutions thereof, that might be the subject of this report.

Furthermore Strategists routinely consult with AA's Sales and Trading desk personnel regarding market information including, but not limited to, pricing, spread levels and trading activity of a specific fixed income security or financial instrument, sector or other asset class.

AA is a primary dealer for the Dutch state and is a member of the Bund Issues Auction Group for the German state. Furthermore, AA is a member of the Market Group of the EFSF as well as ESM. To the extent that this report contains trade ideas based on macro views of economic market conditions or relative value, it may differ from the fundamental credit opinions and recommendations contained in credit sector or company research reports and from the views and opinions of other departments of AA and its affiliates. Any graph or other illustration that is displayed in this document and includes (a comparison of) financial instruments is intended for illustration purposes only and does not contain any investment recommendation, unless otherwise stated in this document.

Trading desks may trade, or have traded, as principal on the basis of the research analyst(s) views and reports. In addition, Strategists receive compensation based, in part, on the quality and accuracy of their analysis, client feedback, Trading desk and firm revenues and competitive factors. As a general matter, AA and/or its affiliates normally make a market and/or trade as principal in securities discussed in marketing communications.

Recommendations made are not part of any agreement with the issuer company (including financial institutions and public sector organisations). The author of this recommendation has not consulted any issuer or external party before disseminating the recommendations made in this publication.

AA has clear policies and restrictions with regard to personal account dealing, including restrictions for Research analysts from trading in any financial instruments they cover.

Within our publications we regularly use the term fair value. Fair value does not constitute a long term investment recommendation and only applies to the date of issuance of the financial instrument and the market conditions on that day. For this reason we do not keep a history list with fair values.

Publications from Group Economics are being published periodically, depending the market circumstances and are subject to change at the time of changing market conditions.

AA is authorised by De Nederlandsche Bank (DNB), the European Central Bank (ECB) and regulated by the Autoriteit Financiële Markten (AFM) for the conduct aspects of its business in the Netherlands and the Financial Conduct Authority for activities undertaken in the United Kingdom.

Copyright 2017 ABN AMRO. All rights reserved. This communication is for the use of intended recipients only and the contents may not be reproduced, redistributed, or copied in whole or in part for any purpose without express prior consent from AA. This marketing communication is not intended for distribution to retail clients under any circumstances.