

Listed Credit Market Commentary: March 2023

YEAR-ON-YEAR INCREASES ABOUND

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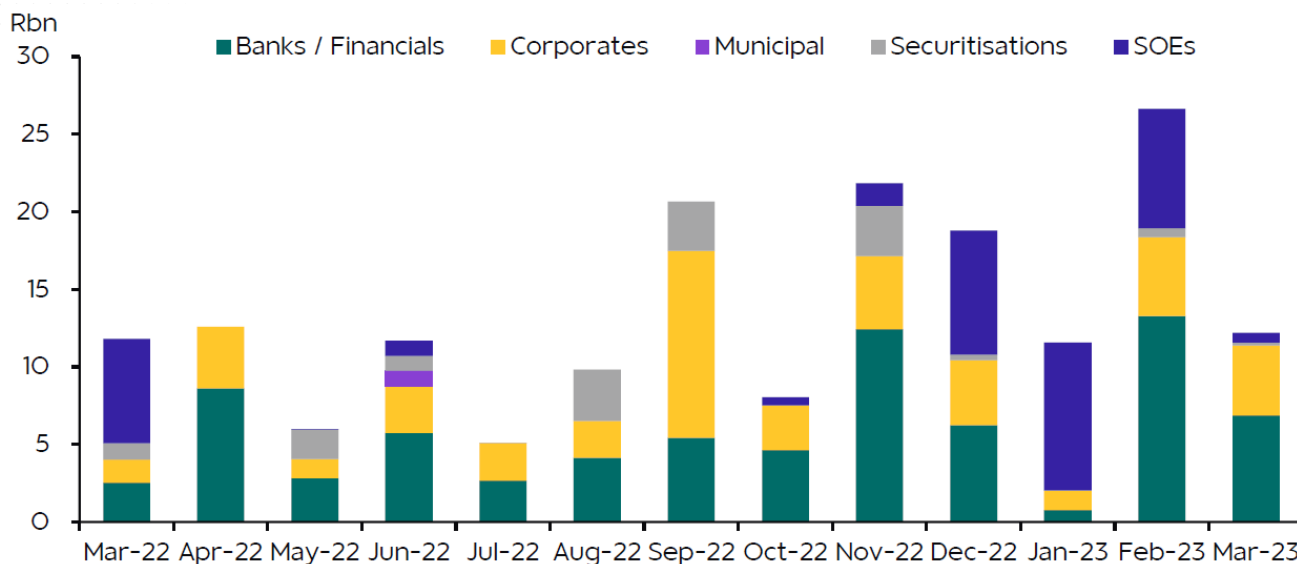
Overview

The year started off with a flurry of auctions, notably in the bank senior unsecured notes, where record bid levels were reported. In addition, the corporate sector had a good rebound year-on-year, with Toyota leading issuances after raising R2.65 billion from two well supported auctions during the quarter. In the property sector, Investec Property Fund dominated with gross issuances of R2.4 billion. On a net basis (after accounting for redemptions, maturities, and delistings), the property sector was led by Resilient with just under R1 billion, closely followed by Growthpoint. Across all sectors, auction participation was robust with most bid cover ratios above 2x, and clearing spreads on the lower end of the price guidance with some issuances clearing below price guidance.

In the first quarter of 2023, the gross issuance of bonds and commercial paper reached a total of around R55 billion, about a 15% increase compared to the previous quarter, and a substantial 73% increase year-on-year. This growth was primarily driven by the financial sector, which issued about R22 billion of bonds (down 5% quarter-on-quarter but up 49% year-on-year), and state-owned enterprises (SOEs), which placed close to R20 billion of bonds (up 163% quarter-on-quarter and 93% year-on-year). Among the SOEs, Eskom emerged as the largest issuer in the quarter, placing R16 billion of notes as it refinanced the ES23 and early-redeemed the ECN24.

In February, Transnet successfully placed USD1 billion in the offshore bond market. The issuance effectively addressed the short-term liquidity requirements, reducing Transnet's reliance on the local bond market to extinguish the bridge to bond implemented last year.

Figure 1: Monthly gross term bond and securitisation issuance



Source: JSE, RMB Markets (data as 31 March 2023)

On a net basis the bond market contracted by about R9 billion in the quarter. This contraction was primarily attributable to the SOE sector, which shrank by R14.1 billion, largely because of Eskom’s R8.4 billion and DBSA’s R5.7 billion maturities. In contrast, the corporate sector grew by R2.4 billion during the quarter, and the financial sector expanded by R3.2 billion.

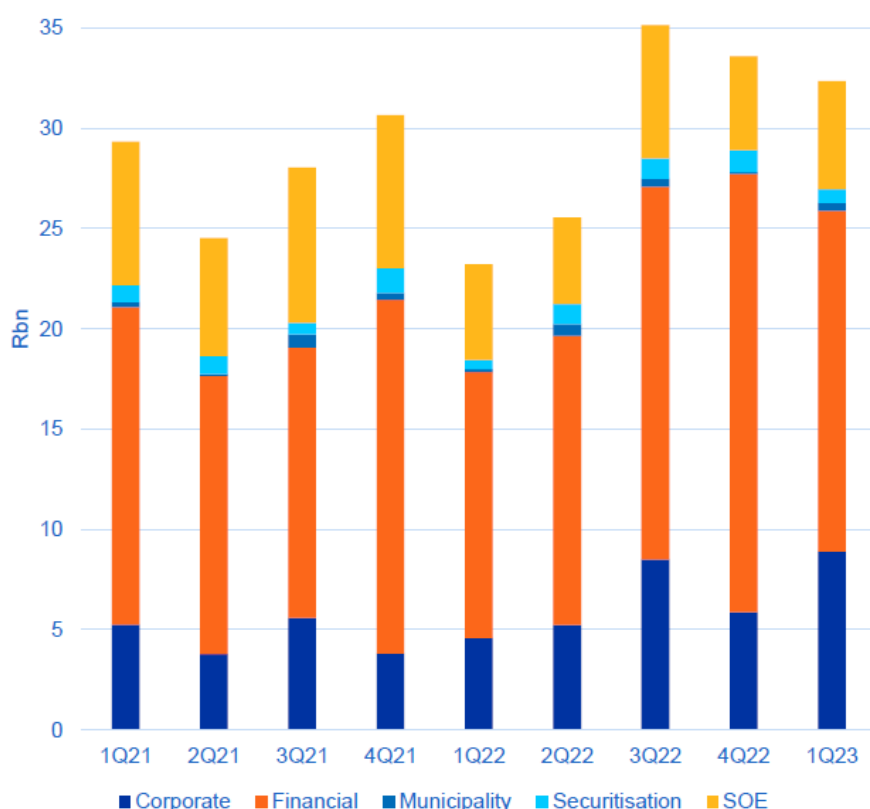
There was a notable disruption in the international banking markets in the quarter, because of the failure of Silicon Valley Bank in the US and the write-down of AT1 notes at Credit Suisse. This led to a crisis of confidence in Credit Suisse, resulting in significant outflows of client funds and concerns about potential damage to the Swiss and global financial markets. To mitigate the Credit Suisse situation, extraordinary government support was provided, including liquidity assistance and guarantees for potential losses of certain assets that UBS would acquire as part of its takeover of Credit Suisse. This triggered a viability event, known as Point of Non-Viability (PONV), which empowered the regulator to bail-in the bank’s AT1 bonds. (For more information on the Credit Suisse event, see: [The Impact of the Credit Suisse Situation on South African Banks.](#))

The issuance of local primary market subordinated bank instruments was limited following the write-down of Credit Suisse AT1 notes, with only one privately placed Investec AT1 note, in late March 2023, that priced at 3M Jibar + 340 basis points, which was issued at the same spread as the last Bank AT1 issuance in Dec 2022. In the local secondary market, the crisis caused no noticeable movement in AT1 spreads, unlike in the offshore markets where the write off resulted in the widening of AT1 spreads.

Secondary market overview

According to data provided by Standard Bank Securities, trading volumes in the secondary market amounted to R32.4 billion in the first quarter of 2023. Although down by 4% compared to the previous quarter, the trading volumes were up by a notable 39% year-on-year. The Financial sector dominated trading activity in the first quarter, accounting for 53% of the total, followed by Corporates at 27% and SOEs at 17%.

Figure 2: Turnover per sector



Source: SBR; JSE (data as at 31 March 2023)

During the quarter spread movements in the secondary market compressed slightly, with the exception of some SOE unguaranteed notes, which experienced a slight widening. Among other SOEs, DBSA showed the most significant compression on a relative basis, indicating a market repricing from the elevated spreads observed during the pandemic.

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