The Market's views on the impact of Brexit on the issuance of short-term securities

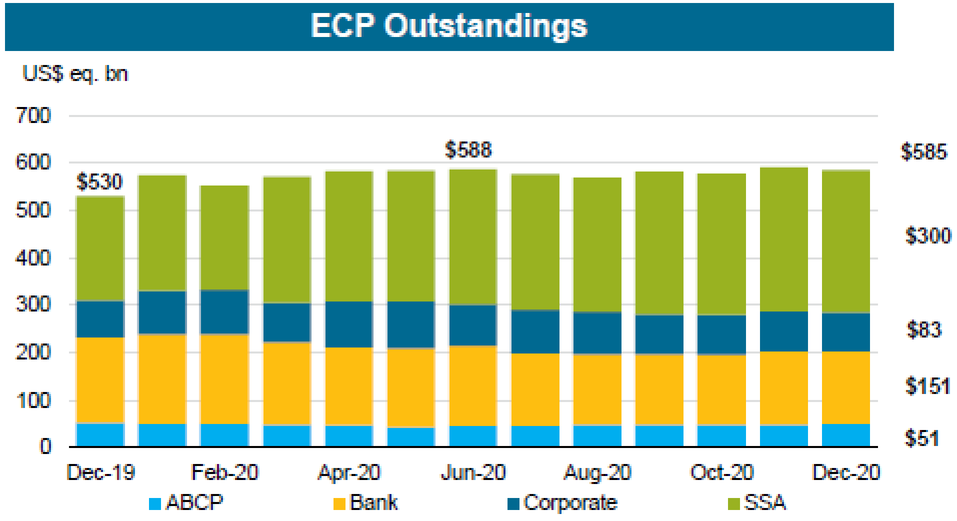
Jaana Sulin,
16.3.2021

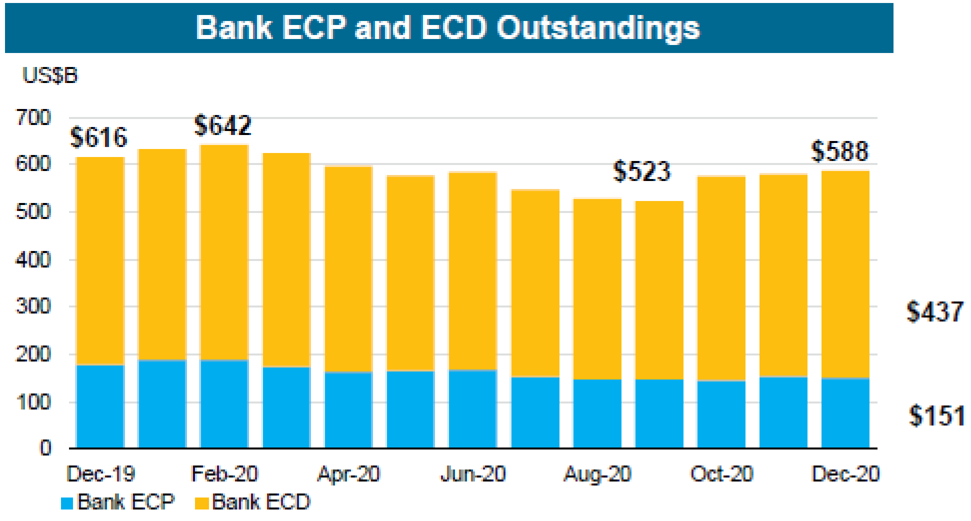
What impacted the short term issuance market during 2020

- Markets driven mainly by Central Bank facilities and balance sheet restrictions
  - Central Bank facilities
    - Due to COVID, massive amount of Central Bank facilities flooded the market with money
    - Tier 1 Banks refused to chase COVID induced high ECP & ECD levels in Q2 and instead took cheaper Central Bank funding
    - Closer to year-end Tier 1 bank issuance levels converged towards SSA levels
  - Year-end restrictions / balance sheet reductions
    - Banks balance sheets were awash with cash and with year-end restriction banks either stopped posting issuance levels or dropped them to very low levels to not look attractive
  - Brexit rather insignificant
    - Turbulence towards the end of the year regarding GBP levels, but once a “deal” was in place the Brexit threat and effect on rates seems to have dissipated
  - Funds
    - Funds kept seeing inflow during Nov/Dec from corporates looking for a safe place to move their cash over year-end
    - Funds had no choice but to keep investing at very low levels and longer down the curve to obtain return
    - After year end there was an effect from both corporates having big outflows and rates starting to move north

ECP / ECD Market developments

- Combined Bank ECP & ECD outstanding's at year end $588bn down from February peak $642bn, but up from low point of $523bn in September
  - Bank ECP outstanding's year-end 2020 16% lower vs year-end 2019
  - Bank ECD outstanding's year-end 2020 equals year-end 2019
- Maturities shortened during the COVID outbreak but lengthened by year-end
  - Investor demand back in Q3 and Q4 for longer tenor
- Market has recovered almost completely from COVID driven rate elevation and maturity shortening





SOURCE: CMD

Nordea

Confidential

Conclusions

- Brexit rather insignificant
- Central Bank funding facilities played a big role with flooding the market with money
- Year end balance sheet activities
- Money Market Funds behavior

Market comments:

“Also, we haven't seen specific Brexit related flow issues, but it’s very much been driven by TLTRO financing of banks etc this has led to a yield compression in pretty much all sectors”

“I'm not sure it has had much of a material effect on short term issuance to be honest!”

“As mentioned before banks had to reduce their balance sheets at year end plus the Central banks flooded the market with money”

Please go to page
SLIDO.COM
Password ECBMMWG

Nordea