

Francis Dassyras at GlobalCapital/LBBW SSA Issuers Roundtable

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Speeches



**Francis Dassyras, Team Lead, Funding
Remarks at GlobalCapital/LBBW SSA Issuers Roundtable
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Moderated by Ralph Sinclair**

GlobalCapital: SSA bond spreads have widened all year, and there seems little on the horizon that will reverse that trend, especially with the political situation in Germany developing as it is and the rates picture in euros. How will this trend alter your approach to issuing debt in the year ahead?

Francis Dassyras: We have to be even more strategic and flexible in our debt issuance. We need to be adaptive to the market conditions and to the investor demand for successful transactions. We need to pick the right window and pay attention to price discovery to ensure that we attract the investor demand while we try to keep costs low for our borrowing countries.

ESM and EFSF (European Financial Stability Facility) only has to refinance existing debt, and we will keep a similar issuance strategy as in 2024 by issuing maturities from three to 10 years for ESM and up to 30 years for EFSF.

We frequently execute intraday transactions to avoid crowded markets as many issuers use the same window to raise funds. This has advantages for us and our investors as we are going to minimise our market presence during market movements. But we also used the two-day approach to execute transactions which leads us to better price discovery and feedback from investors. On top of that, we closely monitor market conditions for other markets like the US dollar market.

How have you felt about this dynamic? Has this affected your programme?

In 2025, Sovereigns and SSAs overall issuance will exceed in net-net terms vis-a-vis 2024. Due to the higher volatility that we have seen lately - although more contained than in 2022 - issuers have had to be flexible and adaptive to the market conditions and investor demand to ensure successful transactions. We have an investor base of over 1,800 investors which is diversified both in terms of geography and investor type.

Different investors have different objectives. Relative value is just one consideration, which can provide an opportunity for investors, who look at our bonds, yet it may also make some investors more selective. These investors will only participate if they feel we offer value compared to our peers. This view on relative value can make us think carefully about our pricing but again, it is just one factor to consider. Yet, in the latter part of the year, we have observed the opposite of what one might have expected considering yield differentials, i.e., a shift of demand from the domestic investor base of some sovereigns to the SSA space.

All our transactions were well subscribed this year, so the demand is clearly there. I think investors appreciate the clear transparent way that we operate in the market announcing RFPs, carefully considering each transaction, and being present on all parts of the curve -all these elements are very useful to our investors.

Have the developments in France and Germany over the last year affected your issuance at all? What's it been like from your point of view?

As an issuer we do consider the extent to which the widening of some sovereign spreads since June would spillover to our market segment and could become more relevant during episodes of a more general market stress and resurfacing issuance. Our adaptive and flexible approach addresses such challenges. Meanwhile, the more recent swap spread tightening has happened for different reasons. The core driver of this move is higher net issuance meeting constrained balance sheets. Some countries run expansionary fiscal policies with large deficits. Those large deficits are financed by higher net bond issuance at a time when Central banks, the most active buyers under QE, are shrinking their portfolios of Sovereign and SSA bond holdings. The gap left by Central banks is now filled by other investor types – real money accounts or trading accounts. When markets are stressed, this may come at a cost for issuers through higher new issue premia in what is clearly an investor driven market.

For these reasons, SSA spreads and covered bonds remain under pressure versus swaps as the net supply will remain highly positive for 2025. During the October swap spread tightening move Euro SSAs outperformed EGBs, and still looked attractive relative to covered bonds factoring their liquidity.

For investor demand, there are positive developments, i.e. the historically wide spreads versus swaps, high absolute yields in longer tenors, central bank tailwinds in the form of rate cuts, and real money investors ready to re-engage. Also, the swap spread tightening has attracted continuous demand from asset swap buyers, and that is expected to continue into 2025 despite some mark-to-market pain for trading books.

Relative value will play a bigger role next year, potentially attracting new investors accounts which are rotating across asset classes. Foreign demand for euro area bonds has resurfaced and is expected to continue. Asian investors' behaviour has shown positive signs and is not expected to be impacted.

What are you anticipating from a second Trump presidency?

As we know, next year will be another year of record net supply for EGBs and SSAs compared to 2024. We see some challenges which may include disorderly dislocations and overextended volatility with swap spreads tightening and yield

curves shifting. Such developments may keep some investors sidelined requiring issuers to pay higher new issue premia to secure final demand. Spread dislocations across EGBs compared to their ratings may pose valuation challenges, with scarcity premia further distorting relative value metrics. Additionally, we need to monitor the spillovers from US monetary and fiscal policy, which could also impact yields, swap spreads, yield curves, and the cross-currency basis in an unpredictable way-conditioning investor demand.

In terms of positives, in addition to historically wide spreads versus swaps, high absolute yields in longer tenors, central bank rate cuts, real money investors are ready to re-engage and foreign demand for EA bonds has resurfaced and is expected to continue.

Let's now move to the next question and get a sense from the issuers here about their borrowing programme for next year.

We are in the process of getting approvals for ESM and EFSF funding plans, and ESM will communicate them in our December newsletter. You can expect a similar size to what is published in our investor presentation, and we will keep a similar issuance strategy with syndications as we only have to refinance the existing debt. The ESM will continue to issue T-bills through auctions in 3-and 6-month maturities and we will use for liquidity purposes our commercial paper programme introduced in 2024. We will also closely monitor conditions in the dollar market.

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