BofA SECURITIES

Liquid Insight

Early indications of demand from EGB syndications

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Rates and Currencies Research
Global

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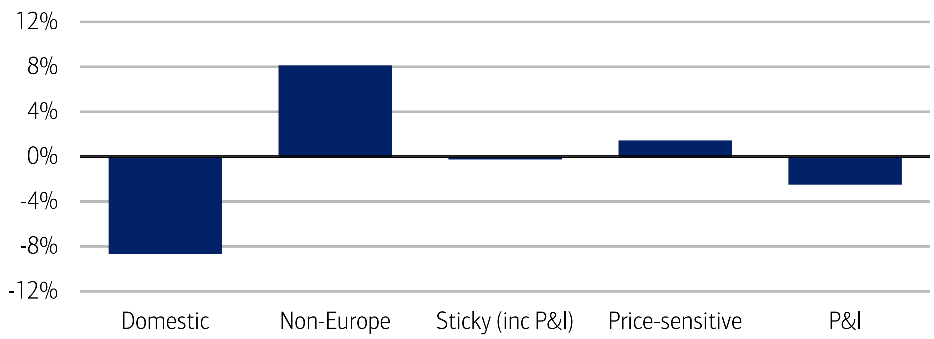
Key takeaways

- Syndications provide early indications of demand from non-residents, confirming our top demand assumption for 2024
- Banks, pension/insurance lag behind in allocations. We look into February/March for confirmation

By Erjon Satko, Sphia Salim

Chart of the day: Italian, Portuguese, Belgian, Spanish syndication allocation changes by type
Syndication allocations to non-domestic/non-European investors increased



Source: Bloomberg, national treasuries. Compares bonds with 2023. Sticky investors include central banks, banks. Pension/insurance (P&I). Price sensitive investors are considered to be hedge funds and asset managers. We do not weigh allocation variations by size.
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Some confirmation of demand gyrations for EGBs in 2024

Using Eurozone Government Bond (EGB) syndication statistics to form the basis for demand considerations is riddled with caveats. However, careful comparisons across time and countries still carry information. We are looking for confirmation (or not) of thematic considerations of Euro Government Bond demand in 2024.

There were syndications from Portugal, Italy, Belgium, Spain and Ireland (mostly at the 10y point) since the start of the year.

These seem to confirm two main important elements that we discussed in the year-ahead. First, demand from non-residents is coming back and is likely going to stay. Second, asset managers are recycling relatively large inflows into fixed income – this is particularly the case for the periphery where they are also relatively underweight.

Banks demand is taking more time than expected to appear (at least on the basis of this data) potentially because of uncertainty of funding until spring while pension/insurance likely still suffer from low policy subscription – watch February/March syndications.

Liquid Insight
Recent Publications

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Non-residents back into EGBs, AMs resilient, P&I a bit shy

Euro government bond markets are starved of good, high frequency data. That is also the case for investment flows.

Using data from syndications is one of the possible, second best, ways to form educated guesses on what is going on with demand with granularity and little lag, especially in the months with many such operations.

The method also has caveats of course. First, we are looking at allocations, not at the composition of the bidding book (although the two should be correlated). Secondly, depending on the market environment, many of the bids can be short-term speculative with investors rotating allocations quickly in secondary to secure the issuance premium.

These (and others) are valid points, however, putting together enough of these datapoints still has information and should help detect major trends which can verify (or not) broader thematic considerations about demand.

In our year ahead (see Global Rates Year Ahead: 2024: Cloudy with a chance of landing 19 November 2023 – Global Demand section) we wrote about the presence of material underweight positions across a number of investor types that are less well covered by surveys available in the industry – we did this by comparing current balance sheet composition with that they had prior to the QE-era. We wrote:

> Positioning from our real money clients is the most long it has been since 2011 but its absolute level is not too far from neutral. As such, we expect "normal" demand from this investor category in the sense that funds demand should mainly be the result of inflows. This is applicable to Euro core, in the periphery they may catch-up from short/underweight positioning (supports the constructive spread view).

Syndication allocations do seem to confirm this story at least in part and mindful of the fact that we see bigger inflows into bond funds (The Flow Show: "Lads, it's the Fed" 11 January 2024). Asset managers have been dominating allocations in Italy and Spain (where they are also underweight). While this investor type is likely long (or at least, more so than the rest), the simple recycling of inflows usually is enough to retain them as the main source of net demand. This is unlikely to change this year.

For non-residents, we wrote:

> EUR debt securities, see the largest potential for rebalancing from non-residents (€2.2tn), especially for core (DE+NL). This is the payback from the long period of ECB QE (they were the investor type most eager to sell, unsurprisingly). Especially if EUR curves remain comparatively steep, non-residents may likely be the top net buyer next year.

Indeed proxying demand from syndication allocations seem to provide an early confirmation of this, so far. Non-residents allocations are up everywhere except Portugal. One could argue the macro story may support the rebalancing to make foreign demand for EUR debt one of the main stories for 2024. Further granularity provided by syndication statistics seem to indicate North America and Asia as the main sources (on top of the intra-Europe ones).

For banks and Pension/Insurance, we wrote:

> Euro Area banks have a lot of room to rebalance towards bonds (€800bn in EGBs, or €2tn if including all forms of debt securities), especially in France and Germany, in theory. Also, loan books are unlikely to be too dynamic given sluggish growth (even if accelerating) although TLTRO repayments and downside pressures on balance sheets may slow this. French and Italian P&I are in a similar spot - the rebalancing potential is there even if retail investor subscription of schemes is materially down.

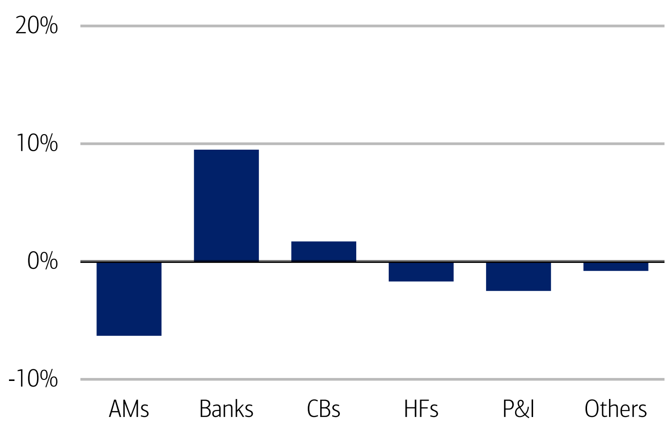
Bank allocations are down significantly with the exception of Portugal. ECB balance sheet reduction (through QT and TLTRO repayments) as well as its spring review may, understandably, keep banks a bit more cautious with risks (we are only looking at 10y+ bonds). Pension & Insurance is one of the investor types that saw fewer allocations across the board, potentially a function of the lower pace of policy subscriptions they have been seeing since the exit from negative rates. We will be monitoring long-end syndications (mostly due in February/March) carefully to verify this story as early as possible.

Now to the specifics (we left Ireland out because of no reasonable comparison with 2023).

Portugal

Portugal inaugurated the EGB syndication period with a 10y on 5-January. Book sizes went up to €19.4bn from 2023's €15.5bn.

Exhibit 1: Portugal 10y allocations by investor type (change vs 2023)
Banks have highest allocation vs 2023 syndication



Source: National treasury, Bloomberg. AMs=Asset Managers, CBs= Central Banks, HFs=Hedge Funds, P&I=Pension&Insurance

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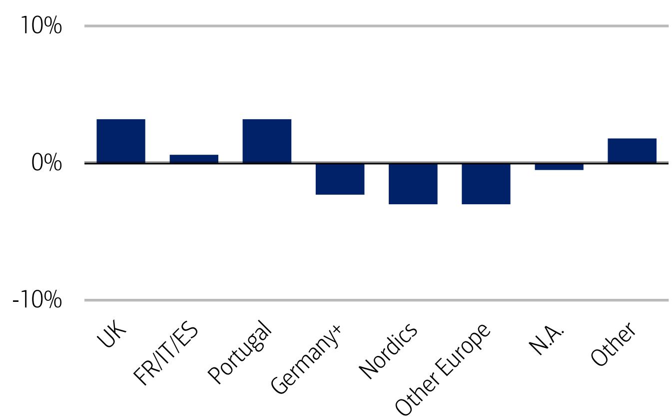
Exhibit 2: Portugal 10y allocations by geography (change vs 2023)
Domestics saw increased allocations, along with UK-based investors



Source: National treasury, Bloomberg. N.A. = North America.

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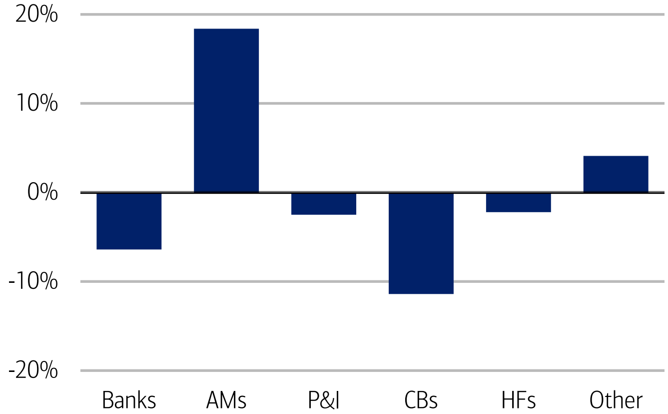
Italy

Italy hits the market with a dual-tranche syndication on 9-January (7y launch and a 30y tap). Books were solid at over €150bn in aggregate while international real money saw the bulk of the allocations in both absolute as well as terms relative to the 2023 experience.

This should not be particularly surprising given the large underweight that these investors have been cumulating since the 2018 bond crisis. Of course this investor class is likely more sensitive to macro and political risk narratives and, given the conjuncture, likely will continue rebalancing towards Italy. That is a reminder that political volatility, if it comes and when it comes, likely remains one of the top risk factors for BTPs.

Exhibit 3: italy 30y allocations by investor type (change vs 2023)
Increased allocations to asset managers / investment funds



Source: National treasury, Bloomberg. AMs=Asset Managers, CBs= Central Banks, HFs=Hedge Funds, P&I=Pension&Insurance

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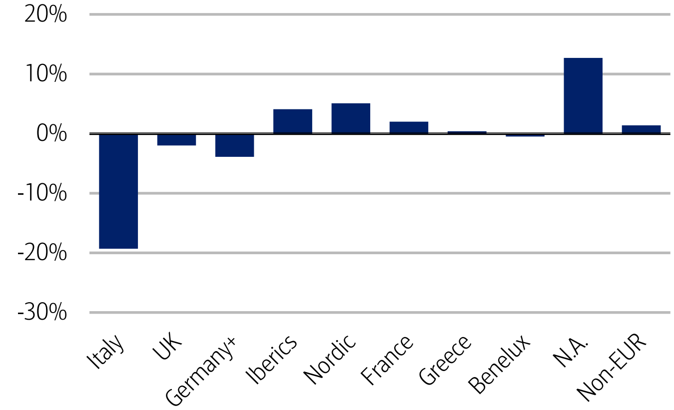
Exhibit 4: italy 30y allocations by investor geography (change vs 2023)
North America, Nordics and Iberics back into Italy. Asia shows signs of life too



Source: National treasury, Bloomberg. N.A.=North America

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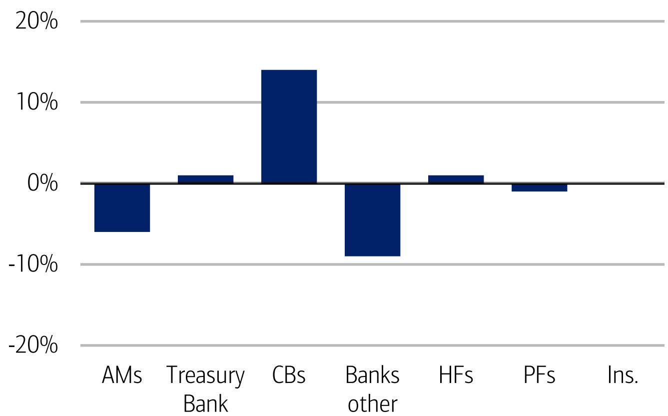
Belgium

Belgium comes with a 10y syndication on 19-January with a €72bn booksize (3bp premium) and a higher than usual €7bn allocation. Book volume was a record.

More price-sensitive investors did not benefit of sizeable extra-allocations, central banks rather did. Location-wise, non-residents again garnered a bigger portion of the allocations, especially the Rest of the World (likely Asia, and US) as well as the Netherlands.

Exhibit 5: Belgium 10y allocations by investor type (change vs 2023)
More price-sensitive investors did not benefit of sizeable extra-allocations, central banks rather did



Source: National treasury, Bloomberg. AMs=Asset Managers, CBs= Central Banks, HFs=Hedge Funds, PFs=Pension Funds, Ins.=Insurance

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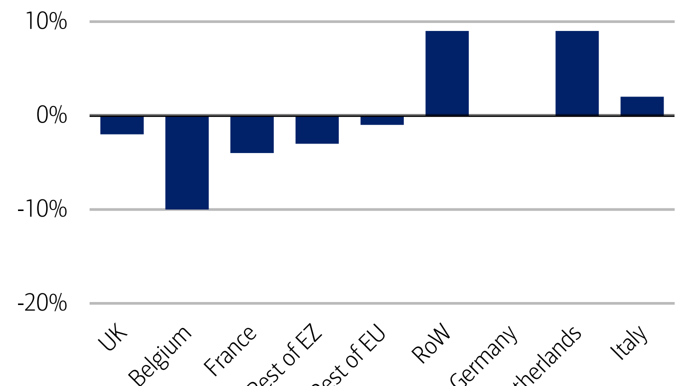
Exhibit 6: Belgium 10y allocations by geography (change vs 2023)
Non-residents again garnered a bigger portion of the allocations



Source: National treasury, Bloomberg. RoW.=Rest of the World EZ = Eurozone

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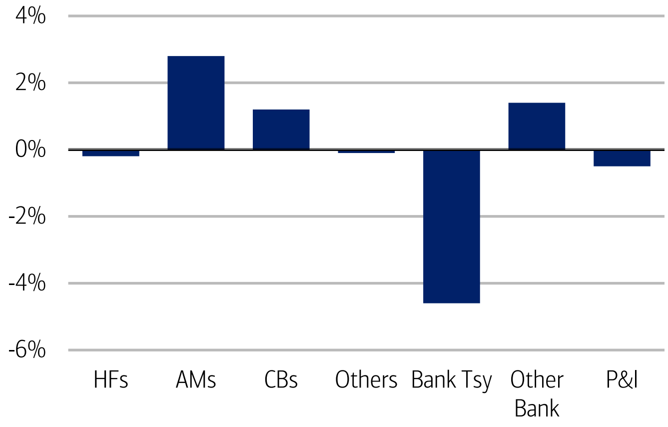
Spain

Spain broke another record with the 10-January syndication of the 10y with books of €138bn and a €15bn sale (also a record high).

Allocations by investor type saw relatively lower volatility relative to the 2023 operation – real money increased further their presence in the deal. Location-wise, North Americans gave way to French, Italians, as well as UK/Ireland. Asians increased allocations also at this operation.

Exhibit 7: Spain 10y allocations by investor type (change vs 2023)
Real money see increased allocations. Bank Treasuries and P&I down



Source: National treasury, Bloomberg. AMs=Asset Managers, CBs= Central Banks, HFs=Hedge Funds, P&I=Pension&Insurance

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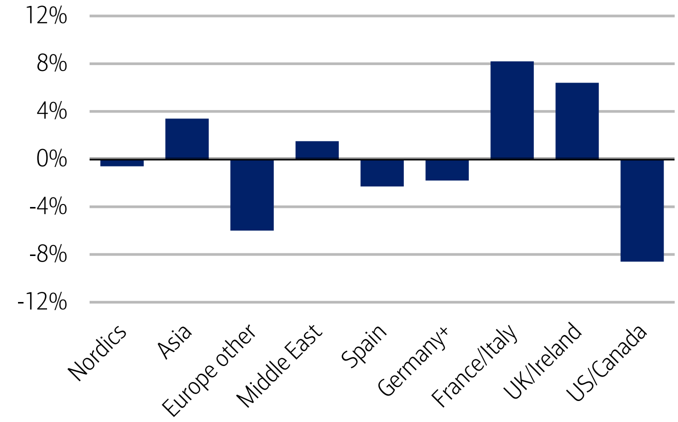
Exhibit 8: Spain 10y allocations by geography (change vs 2023)
France/Italy/UK/Ireland up along with Asia. US possibly rotating to Italy



Source: National treasury, Bloomberg

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Exhibit 9: Common acronyms/abbreviations used in our reports
This list is subject to change

Acronym/Abbreviation	Definition	Acronym/Abbreviation	Definition
1H	First Half	IT	Italy
2H	Second Half	Jan	January
1Q	First Quarter	Jul	July
2Q	Second Quarter	Jun	June
3Q	Third Quarter	lhs	left-hand side
4Q	Fourth Quarter	m	month
ann	annualized	MA	Moving Average
APP	Asset Purchase Programme	Mar	March
Apr	April	MBM	Meeting-by-meeting
AS	Austria	mom	month-on-month
Aug	August	Mon	Monday
BdF	Banque de France (Bank of France)	MPC	Monetary Policy Committee
BE	Belgium	MWh	Megawatt-hour
BEA	Bureau of Economic Analysis	NGEU	NextGenerationEU
BLS	Bank Lending Survey	NE	Netherlands
BoE	Bank of England	Nov	November
BofA	Bank of America	NRRP	National Recovery and Resilience Plan
BoI	Banca d'Italia (Bank of Italy)	NSA	Non-seasonally Adjusted
BoJ	Bank of Japan	OAT	Obligations assimilables du Trésor
BoS	Banco de España (Bank of Spain)	OBR	Office for Budget Responsibility
bp	basis point	Oct	October
BTP	Buoni Poliennali del Tesoro	OECD	Organisation for Economic Co-operation and Development
Buba	Bundesbank	ONS	Office for National Statistics
c	circa	p	preliminary/flash print
CA	Current Account	PBoC	People's Bank of China
CPI	Consumer Price Index	PEPP	Pandemic Emergency Purchase Programme
CSPP	Corporate Sector Purchase Programme	PMI	Purchasing Managers' Index
d	day	PSPP	Public Sector Purchase Programme
GE	Germany	PT	Portugal
Dec	December	QE	Quantitative Easing
DS	Debt sustainability	qoq	quarter-on-quarter
EA	Euro area	QT	Quantitative Tightening
EC	European Commission	RBA	Reserve Bank of Australia
ECB	European Central Bank	RBNZ	Reserve Bank of New Zealand
ECJ	European Court of Justice	rhs	right-hand side
EFSF	European Financial Stability Facility	RPI	Retail Price Index
EGB	European Government Bond	RRF	Recovery and Resilience Facility
EIB	European Investment Bank	SA	Seasonally Adjusted
EMOT	Economic Mood Tracker	SAFE	Survey on the access to finance of enterprises
EP	European Parliament	Sat	Saturday
SP	Spain	Sep	September
ESI	Economic Sentiment Indicator	SMA	Survey of Monetary Analysts
ESM	European Stability Mechanism	SNB	Swiss National Bank
EU	European Union	SPF	Survey of Professional Forecasters
f	final print	Sun	Sunday
Feb	February	SURE	Support to mitigate Unemployment Risks in an Emergency
Fed	Federal Reserve	S&P	Standard & Poor's
FR	France	Thu	Thursday
Fri	Friday	TLTRO	Targeted Longer-term Refinancing Operations
GC	Governing Council	TPI	Transmission Protection Instrument
GDP	Gross Domestic Product	TTF	Title Transfer Facility
GNI	Gross National Income	Tue	Tuesday
GR	Greece	UK	United Kingdom
HICP	Harmonised Index of Consumer Prices	US	United States
HMT	His Majesty's Treasury	WDA	Work-day Adjusted
IMF	International Monetary Fund	Wed	Wednesday
INSEE	National Institute of Statistics and Economic Studies	y	year
IP	Industrial Production	yoy	year-on-year
IR	Ireland	ytd	year-to-date
PCA	Principal Component Analysis	EGB	Eurozone Government Bond
ORI	Optional Reverse Inquiry	C&R	Coupons and redemptions
DV01	Dollar Value of one basis points change		

Source: BofA Global Research

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Notable Rates and FX Research

- **Global Macro Year Ahead 2024 -** Hope for the best, prepare for the worst, 19 Nov 2023
- **Global Rates Year Ahead 2024 –** Cloudy with a chance of landing, 19 Nov 2023
- **G10 FX Year Ahead -** The year of the landing, 20 Nov 2023
- USD breather, **Liquid Cross Border Flows**, 8 Jan 2024

Rates, FX & EM trades for 2023

For a complete list of our open trade recommendations, as well as our trade recommendations closed over the past 12 months, see the reports below:

Global FX Weekly: The long and choppy rest of the year ahead 12 January 2024

Global Rates Weekly: Quantitative Teasing 12 January 2024

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