

More bonds, please

Primary prospects for corporates in 2013

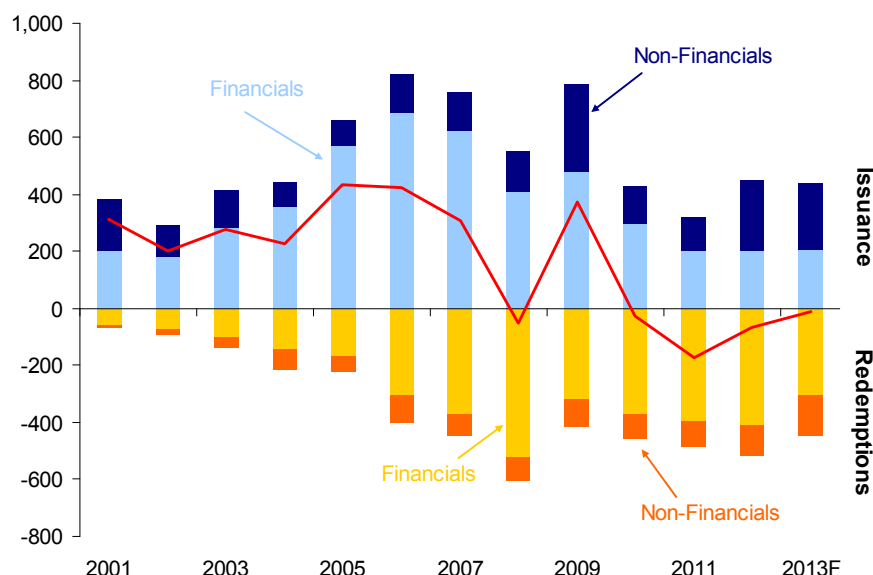
- We forecast a total of -€10bn of net issuance across € and £ - still negative for the fourth consecutive year, but by the least amount since 2009.
- Gross issuance of €437bn should remain roughly flat, with a slight decline in non-financial issuance partly offset by an uptick in unsecured financial issuance.
- Net non-financial supply expected to decline by 38% to €87bn, as the lack of corporate expansion reduces the need for issuance, although gross supply should remain resilient.
- Net unsecured financial issuance set to be far less negative than in 2012, at -€97bn, as bank deleveraging slows and the impact of the ECB's LTRO's diminishes.
- Sub debt issuance expected to increase due to Basel III and the forthcoming implementation of the bail-in regime, with € Tier II issuance set to grow by €16bn to €30bn.
- As in previous years, the net contraction in bonds outstanding is likely to contribute to keeping the technical bid for credit solid.

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Figure 1. € and £ Unsecured IG Corporate Supply, Fixed and Floating, €bn



Source: Citi Research, Dealogic

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Corporate Supply in 2013

One of the defining features for 2012 for many investors was the struggle to get bonds in heavily oversubscribed primary markets. Issuance was resilient, with the highest overall figure for Euro and Sterling gross issuance since the record in 2009. 2013 looks set to be very similar. As in 2012, gross non-financial issuance is likely to remain comparatively strong despite the slight decline we expect from last year's total, buoyed by strong demand from investors, low all-in-yields and the considerable amount of debt maturing over the next two years. Gross financial issuance, on the other hand, which we expect to be roughly equal to last year's relatively subdued levels, should continue to be constrained by bank deleveraging and the weak fundamental backdrop in the periphery.

Figure 2. Fixed and Floating Corporate Supply, 2013 Projections, Local Currency, bn

		--- Gross issuance ---			Redemptions	Net iss.
		2012	2013F	YoY%	2013	2013F
Euros	Corporates	205	185	-10%	132	53
	Senior Fins	184	190	3%	293	-103
	Tier II	14	30	114%	16	14
	Covered	75	75	0%	136	-61
	HY	34	41	21%	20	21
Sterling	Corporates	36	41	14%	8	33
	Financials	15	14	-7%	8	6
	Covered	15	17	13%	1	16

Source: Citi Research, Dealogic

With the ECB providing a low rate environment and, with its OMT programme, the appearance of a backstop against tail risk, the conditions for corporate issuance look relatively benign for this year. However, once again, the overarching caveat to 2013's issuance forecasts is the path-dependency of demand.

We have assumed – in line with our economists' views – a continuation of the recession in Europe this year. However, our central scenario also assumes that the sovereign debt crisis will remain relatively manageable, and presumes that pressures from further afield, from the US fiscal cliff to the slowdown in Chinese growth, will remain contained. Should our expectations prove overly optimistic, this would likely entail a dramatic shift in the issuance environment.

The key upside risk to our forecast is the pace of the loan-to-bond shift we have witnessed in recent years. Whilst we are not expecting corporates to increase their stock of debt in particular, given that bonds still make up only a limited proportion of European and UK corporates' balance sheets, a concerted reduction in bank lending could have a large impact on the volume of bonds issued, and push up volumes beyond our forecasted total.

For financials, senior unsecured issuance volumes will be highly dependent on how much LTRO funding banks choose to pay back early on in the year. For sub debt, if new regulatory framework is clarified early in the year, we are likely to see a flurry of Tier II, and perhaps even some Tier I issuance.

In Euros, where we are expecting a shrinkage in the total volume of bonds outstanding (€50bn for IG credit), the comparative lack of supply coupled with the ongoing inflows most investors are seeing should continue to provide a powerful technical. This is demonstrated by market performance over the past year, when spreads in cash mostly rallied even during periods of volatility in other asset classes. Whilst we think that 2013 is likely to bring further volatility, that technical

does suggest that in times of comparative headline stability, the supply demand technical should be supportive for spreads.

Broad Themes

Conservative Corporates

With Europe mired in recession and the UK still experiencing very low growth, corporates are reluctant to re-lever aggressively. The low rate environment, instead of pushing companies to take on more debt at cheap cost to fund aggressive expansion plans, seems instead to be increasing pressure from income-hungry shareholders to increase dividends, as our equity strategists [argue](#).

As indicated by the latest ECB lending survey, demand for credit from non-financial corporates for capital spending is currently a net negative factor in demand for loans, and the trend for bonds is no different. The relatively resilient non-financial issuance we expect this year is instead attributable to refinancing and corporate actions. There is a heavy maturity schedule for non-financial debt over the next two years, and with no better time to replace higher-yielding paper and costly equity with cheaper debt, the low all-in yields on offer in the bond markets should continue to entice corporates to issue.

Disintermediation

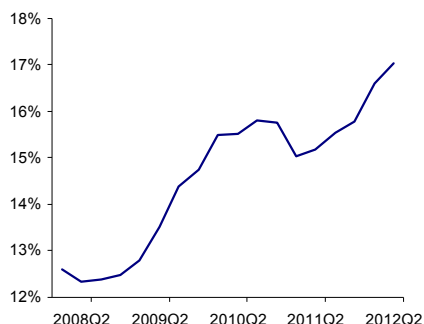
Issuance should also be propped up by the ongoing trend towards disintermediation. Over the last few years this has been apparent, with bonds increasing their share of the non-financial corporate debt in Europe (Figure 3). We expect this process to continue in 2013. With a 1.4% year-on-year shrinkage in credit extended to the private sector by European banks as of October 2012 according to ECB figures, corporates are increasingly being pushed into the capital markets to access funding. The forthcoming implementation of the Basel III framework has driven up the cost of capital, and, as demonstrated by the latest ECB lending survey, loan availability has tightened for all but top-tier corporates. Given that funding costs for issuers in the capital markets are frequently lower to issuers and give greater scope for achieving the desired tenor, the relative attraction of bonds compared to loans has seldom been greater.

Senior Substituted

For financials in 2013, the key story is likely to be the relative paucity of senior bank issuance, with net unsecured financial supply set to be negative in Europe and only slightly positive in the UK. ECB-provided liquidity and little in the way of loan growth are decreasing banks' need for senior funding.

The outlook for sub-debt issuance on the other hand is brighter. The Basel III capital rules and the onset of the bail-in regime in 2018 are encouraging banks to issue more subordinated debt, especially as we gain increased clarity over the new regulatory environment. Banks are struggling to provide their senior bondholders with reassurance that they will be protected in the event of write-downs, and the low volumes of sub-issuance over the last few years, together with their need for yield, have led investors to rebuild their appetite for the product.

Figure 3. Bonds as a % of European non-financial corporate debt



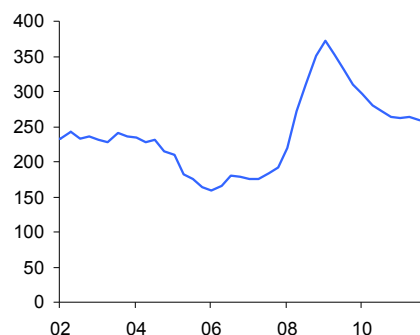
Source: Citi Research, ECB

Credit in demand

Demand for credit should remain strong in 2013. Private savings rates in Europe are still relatively high from a historical perspective (Figure 4) and with central banks continuing to force investors out of safe havens, there is more money chasing what has been a shrinking universe of investment grade credit (Figure 5). With our rates strategists expecting monetary policy to remain similarly accommodative this year, a key element in what promoted a strong bid for credit in 2012 should remain in 2013.

Figure 4. Savings still high...

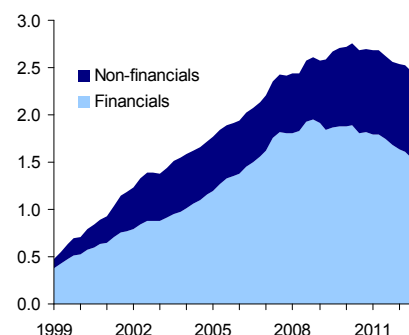
Household net savings, €bn, yoy



Source: Citi Research, Haver, ECB

Figure 5. Outstanding in € IG credit

€tr

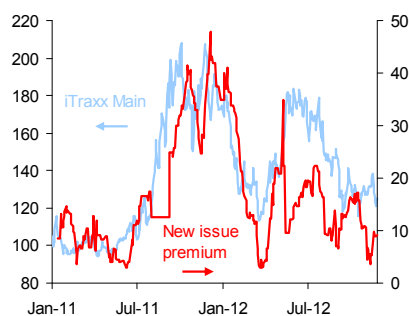


Source: Citi Research, Dealogic

We expect returns on credit this year to be far lower than in 2012, given the decreased scope for spread tightening and with rates already at or near all time lows, and so alpha generation should depend, to a large extent, on investors increasing their bid for duration and participating in primary markets. Both of these bode well for issuers.

Figure 6. New Issue Premia vs iTraxx Main

Bp



Source: Citi Research, Markit

The minimal new issue premia (Figure 6) to secondary curves seen towards the end of 2012 reflect the ongoing high level of investor demand despite the heavy volume of issuance. Our rates strategists are forecasting the supply of sovereign debt securities to decrease this year (with gross supply falling by €80bn to €759bn), and we expect the overall net total of non-financial and unsecured financial issuance to remain negative. Combined with yield hungry investors experiencing inflows, the technical bid for credit is likely to remain strong.

A risky business

The key risks to our forecasts are similar to those we presented in our supply outlook last year – whilst demand will likely remain strong, it is still path-dependent and while the increased liquidity provision from both the ECB and the Fed have served to reduce much of the tail risk, that does not negate primary markets' sensitivity to systemic risk (especially for financials), and the tendency for policymakers to delay action until pressures flare up again. The fundamental outlook in Europe for this year remains decidedly gloomy, with our economists forecasting a contraction of 0.7% in the Eurozone for 2013. Add to this the pressures from the fiscal cliff negotiations and our economists' expectation that Grexit will likely occur sometime this year (60% probability), and we can feel confident that 2013 will see intermittent periods of high volatility.

Euro Issuance

Figure 7. European Corporate Supply, 2013 Projections, € bn

		--- Gross issuance ---			Redemptions	Net iss.
		2012	2013F	YoY%	2013	2013F
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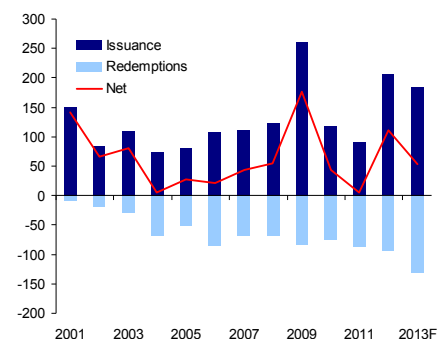
Source: Citi Research, Dealogic

Non-Financials

Although we are not expecting it to reach the highs of 2012, which at €205bn came in well above market expectations, the €185bn of non-financial supply we forecast for 2013 is the third highest annual total on record. But while this may sound impressive, the heavy pace of redemptions (€132bn – the highest ever annual figure), means that we estimate net issuance will be only €53bn, well below the €111bn seen in 2012. Investors are increasingly hungry for new bonds to generate returns and replace their redeeming paper, but, given the decline in the net figure, we think their appetite will remain unsated, and this bodes well for the performance of new issues this year.

Figure 8. € IG Non-Fin Issuance

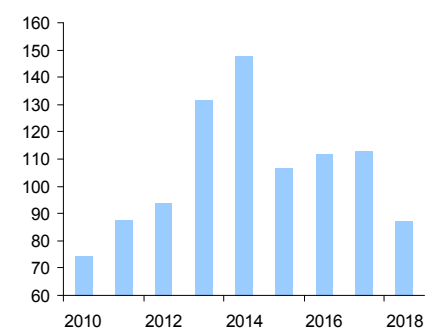
€bn



Source: Citi Research, Dealogic

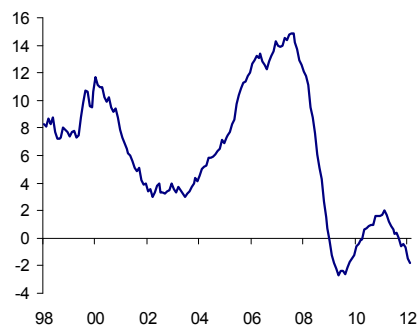
Figure 9. € IG Non-Fin Debt Redemptions

€bn



Source: Citi Research, Dealogic

Figure 10. Annual growth rate in loans to non-financial corps, %



Source: ECB

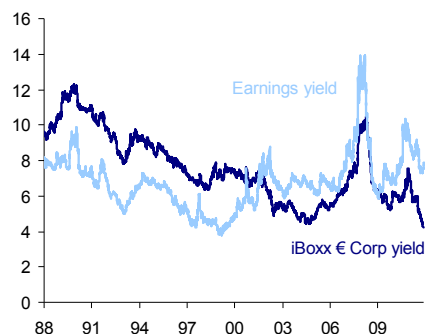
Overall, the market conditions for non-financial issuance seem likely to be very supportive this year, except during any period of high systemic risk. The much hoped for rise in corporate expansion is still some way off in our view, as indicated by the negative growth rates in fixed investment for European corporates. However, the heavy redemption schedule over the next two years (Figure 9), with €131bn of non-financial debt maturing in 2013 and €147bn in 2014, compared to €94bn in 2012, should push gross issuance volumes higher, as companies seek to re-finance their debt and engage in pre-financing for the year after. On the other hand, the very attractive issuance environment prevalent over 2012 has meant that much of 2013's maturing debt has been refinanced already, and thus we are not expecting the heightened maturity schedule to translate into an overall increase in supply this year.

Much of 2012's increase in non-financial issuance is attributable to the increasing attraction of obtaining funding in the bond markets instead of loans. Lending standards have tightened, loan growth has stalled (Figure 10), and with loan rates punitive for smaller issuers, especially those previously dependent on peripheral banks, an increasing number of corporates are being pushed into the capital markets. This pullback in banks' willingness to lend to smaller corporates goes some way to explaining the increase in deal numbers seen this year (365 in 2012, compared to the previous high of 319 in 2009), and we expect this trend to continue into 2013. This is particularly relevant for HY issuance, which we expect to expand in both gross and net terms, given the difficulty many lower rated corporates are likely to have in obtaining bank credit.

Not only are smaller corporates shifting towards the bond market at the expense of traditional bank funding, but we have also seen some evidence of established issuers reducing their residual dependence on loan funding in favour of bonds as new bank funding has frequently proven harder to obtain.

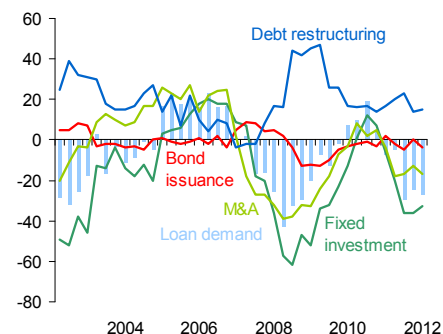
Bond issuance has become more attractive relative to equity too (Figure 11). The differential between bond yields and cost of equity for European corporates is near all-time highs, and with issuance conditions highly favourable going into 2013 from the perspective of all-in funding costs, we expect corporates to take advantage of benign conditions in credit markets to refinance the heavy upcoming maturities over the next two years while they are able to do so.

Figure 11. Bonds cheaper than equity too
iBoxx € Corp. yield vs. EuroStoxx 600 earnings yield, %



Source: Citi Research, Markit, Bloomberg

Figure 12. Still far from expansion mode
Loan demand with contributing factors in ECB lending survey

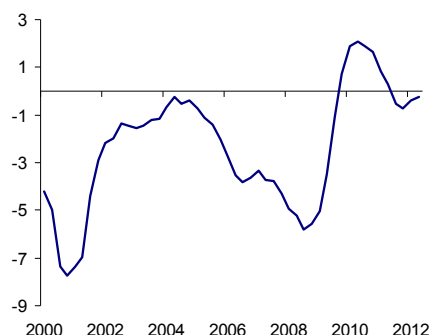


Source: Citi Research, ECB

Pressures from other avenues should be less acute. As the latest ECB lending survey demonstrates, fixed investment has made a net negative contribution towards loan demand through 2012 (Figure 12) and this trend is not likely to be swiftly reversed in our view. Given that the financing gap (alternatively defined as net borrowing) by non-financial corporates barely shifted from its near neutral position throughout 2012 (Figure 13), there is little indication that corporates will need to resort to the capital markets to cover their investment costs.

Figure 13. Cash flow covering it?

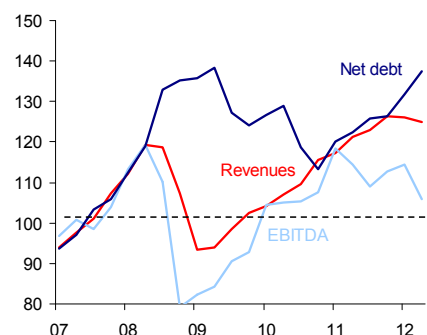
Four quarter moving sum of European corporate net borrowing, percentage of gross value added



Source: Citi Research, ECB

Figure 14. Levering Up?

EBITDA, sales & net debt for European corporates ('07=100)*



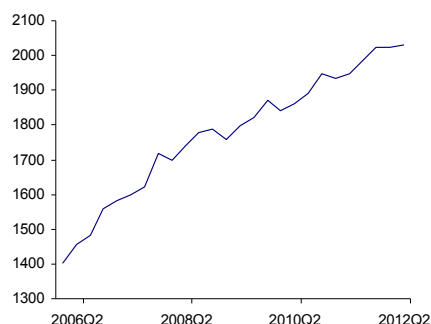
Source: Citi Research, Bloomberg. *: Based on a sample of 290 non-financial corporates in the EuroStoxx 600 index.

As our equity strategists argue, companies are coming under increasing pressure from dividend-hungry equity investors to limit their capex and have mostly reacted accordingly. And although recent data does show a decline in the earlier trend towards corporate deleveraging (Figure 14), we would argue that this is more a reflection of declining profits rather than any great desire to take on more debt in outright terms.

With no real reason to expect this trend to shift this year, and little in the broader economic backdrop to inspire renewed confidence amongst corporates in Europe, we believe only a small fraction of this year's issuance will be sparked by the need to generate funding for expansion. Corporate cash levels are high (Figure 15) and despite a decline in earnings, revenues have remained relatively stable. Therefore, we expect that for most companies, internally generated revenues will generally suffice to cover corporates' fixed investment requirements.

Figure 15. Got cash?

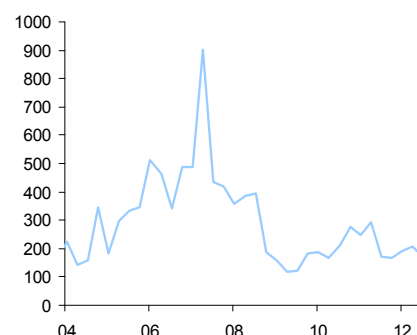
European corporate cash levels, €bn



Source: Citi Research, ECB

Figure 16. M&A revival still far off...

European quarterly M&A volumes, \$bn



Source: Bloomberg

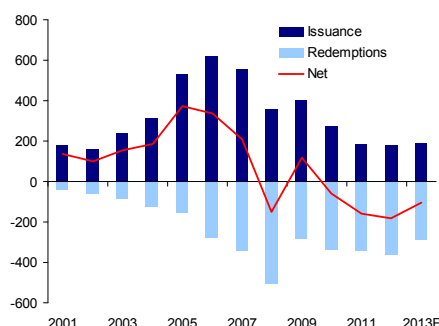
M&A will once again only play an auxiliary role in driving issuance this year in our view, with the long-awaited recovery in volumes still yet to materialise (Figure 16). However, other forms of corporate action are likely to play a greater role in driving up supply volumes than they did in 2012. We can expect more issuance for the purposes of returning capital to investors, through dividend and share buyback deals. However, we would expect this option to be viable for only a limited pool of better-rated names, given the potential negative impact that these exercises are likely to have on issuers' credit ratings.

Financial Issuance

We expect gross issuance of senior unsecured financial debt to increase slightly this year to €190bn (Figure 17). This uptick is solely attributable to fixed issuance, which we expect to increase by 6% to €150bn, whilst we expect FRN issuance to be slightly below 2012's figure at €40bn, given bank treasuries' declining appetite to buy the paper. Despite the relative stagnation in gross issuance, we expect the market to contract by considerably less than in 2011 and 2012, with net issuance of -€103bn overall becoming less negative. Almost all of this shrinkage is attributable to FRNs, where we expect negative net issuance of €102bn. On the other hand, we are barely expecting any shrinkage in fixed net issuance (-€1bn), and this represents the least negative total since 2010.

Figure 17. € IG Unsecured Fin Issuance

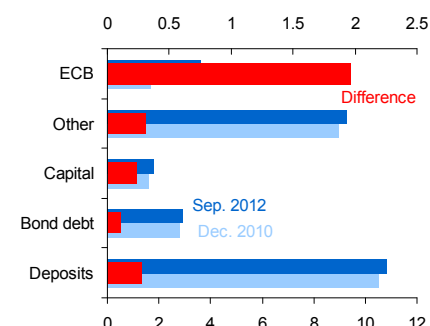
€bn



Source: Citi Research, Dealogic

Figure 18. Approximate chg. In Euro area bank liabilities, 2010-2012

€tr



Source: Citi Research, ECB

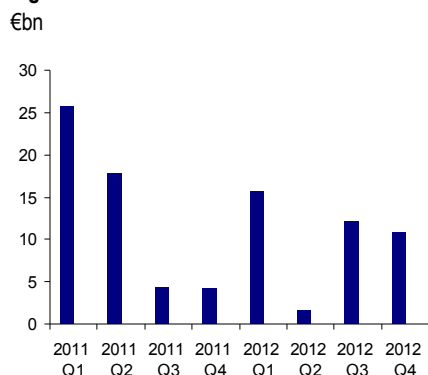
Despite the considerable rally in senior spreads over the course of this year, many of the factors that inhibited senior issuance over the course of 2012 are still in operation. The deleveraging pressures brought about by the impending implementation of the Basel III regulatory framework and the lack of loan growth, with banks struggling to find clients they are interested in lending to, is restricting their need for additional senior funding.

Whilst bank deleveraging is slowing, and hence we expect net issuance to be less negative this year than last, refinancing requirements should also be less pressing in 2013 relative to 2012. Besides the outright decline in maturing debt (€293bn in 2013 vs €366bn in 2012), much of banks' funding requirement for this year has already been filled by LTRO money. The circa €1tn borrowed by banks in these operations was not simply intended to fill banks' accrued requirements for term funding; rather it replaced much of the financing they need over the next two years. There is now little stigma attached to obtaining funds from the ECB and, whilst we are likely to see some repayment early this year, most banks are not in a rush to pay this funding back.

Furthermore, banks are now under less short-term pressure from regulators to build up their liquidity reserves, given the improvement in their liability position over the last two years (Figure 18), and this in turn weakens what has been a key impetus for issuance. We expect pressures to improve liquidity reserves will become more pressing towards year end as the LTRO's approach the point where they will no longer count as structural liquidity.

However, despite banks being awash with liquidity from the LTROs, they are still keen not to stay away from investors for too long. Banks are weighing up the advantages of early return of LTRO money in terms of reducing their costs from carrying extra liquidity and releasing collateral currently tied up with the ECB with the benefits of keeping the funds until their due date. If there is a spate of LTRO repayments early in the year, this may provide an additional impetus for senior issuance.

Figure 19. P5 Unsecured Fin Issuance



Source: Citi Research, Dealogic

The €40bn of unsecured peripheral bank issuance seen in 2012 is the lowest total since 2002 and we are not expecting to see a dramatic revival in this. On the one hand, the demand environment has improved considerably over the last year, as illustrated by the rally in spreads. However, given the gloomy economic outlook for peripheral economies this year and the high proportion of non-performing loans prevalent on peripheral bank balance sheets, funding is still proving tricky for many. So whilst there is a considerable body of investors attracted to higher yielding peripheral bank paper, as attested to by the recent flurry of issues by banks in Italy and Spain, there are still concerns over the solvency of weaker peripheral banks, which are all the more relevant given the non-negligible likelihood of peripheral bank debt restructurings over the coming years.

However, there should be some upwards pressure on peripheral unsecured issuance from the desire not to be perceived to be lacking market access, and, in times of heavier core unsecured issuance, the stronger peripheral names will seek to launch issues themselves.

In the core, the ratings downgrades which plagued many financials this year are mostly behind us, in our view, and rating profiles should be more stable in 2013 than 2012. Although many banks have a negative ratings outlook, we expect the pace of downgrades to slow. Given the increasing health of core bank balance sheets in light of the deleveraging already undertaken, demand for senior unsecured paper should remain strong for choice issuers. Peripheral banks,

however, will continue to be susceptible to their sovereigns' predicament, especially with the upcoming implementation of the bail-in regime having added an additional risk factor for senior investors. And any further downgrades could constrain their ability to launch unsecured issues.

Demand for financial issues may also be augmented by US investors – if US bank bond spreads tighten further in 2013, yield-seeking investors in financials may turn to Europe and further down the credit spectrum, below the top tier banks.

Subbing it

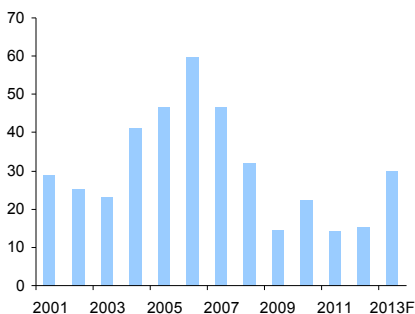
We expect €30bn of Tier II issuance this year (Figure 20), with potentially even some issuance from peripheral banks, and, once we gain clarity on which instrument will be eligible for inclusion, we may even see a renaissance in Tier I issuance.

The relative paucity of Tier II issuance over 2012, and banks' extensive undertaking of liability management exercises which removed even more sub debt from the market, has created a supportive technical backdrop for the product going into 2013. Tier II is seen as crucial to create a buffer between senior investors and more deeply subordinated capital instruments before the advent of the bail-in regime in 2018.

However, the regulatory outlook is subject to considerable uncertainty. There is still doubt as to whether the Capital Requirements Directive IV will call for Tier II instruments to incorporate 'point of non-viability' language into bond documentation, which will provide for the debt to be either written off or converted into equity when the institution is threatened with insolvency, as looks increasingly likely, or whether this requirement will be statutory. Were the contractual requirement to be implemented, it would add a considerable risk premium to Tier II issuance.

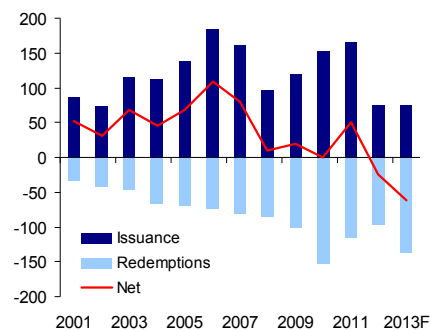
There is also a lack of clarity on other related regulatory issues, such as whether it will be left to regulators to decide when a bank reaches the 'point of non-viability' or whether there will merely be the function of objective rules. Once things become clearer, supply of Tier II debt should receive a considerable fillip, given the backlog that has built up.

Figure 20. € Tier II Issuance



Source: Citi Research, Dealogic

Figure 21. € Covered Issuance



Source: Citi Research, Dealogic

Covering Up?

Covered bond issuance in 2012, at €75bn, was the lowest annual total since 2002. 2013 looks no different (Figure 21). We expect €75bn of covered supply again this year, bringing the net figure to -€61bn, the lowest net number on record.

However, this should not obscure the fact that total financial issuance should shrink by a smaller amount. The estimated overall net total for unsecured and covered financial issuance this year of -€164bn is less negative than the -€205bn seen in 2012, and highlights a decline in the pace of bank deleveraging.

Many banks are growing concerned about increased encumbrance ratios, and with insufficient new collateral being created, especially given the decline in ratings, covered bond issuance has been in decline. Although we expect spreads to mostly remain resilient over the course of the year, the increased volume of covered bond redemptions (€136bn in 2013 vs €98bn in 2012) should be more supportive for unsecured issuance than covered itself, in our view, as issuers take advantage of the relative cheapness of unsecured to gain funding without tying up collateral.

Much of the contraction we expect is likely to come from Spain, which has €25bn of benchmark covered bonds maturing. Many Spanish banks are set to continue to be reliant on the ECB for funding, and, given the decline in the value of property on Spanish bank balance sheets, several covered bond issuers are already near the legal minimum of a 25% overcollateralization level.

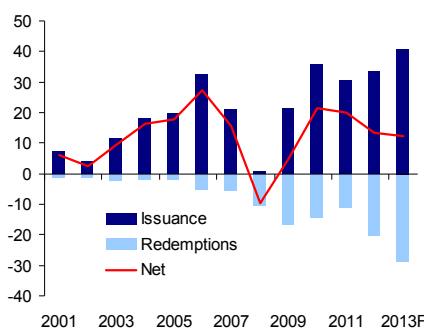
Covered bond issuance in € more generally will suffer from the increased availability of covered bond structures in other currencies and from the higher volume of private placements in our view.

Hello to high yield

We expect HY issuance this year to see a 20% increase in gross terms to €41bn (Figure 22). The bank-to-bond trend that we are seeing in investment grade credit is all the more relevant for high yield, as lower-rated corporates feel the brunt of banks' increasingly restrictive lending practices.

Given the heavy redemption schedule in HY over the next three years, much of the issuance we expect to see in 2013 should be either re-financing or pre-financing. There are two key uncertainties for our forecasts this year. The first is the degree to which banks' lending policies will push even more companies into the bond markets. Whilst banks' restrictive lending practices have limited the supply of credit, European leveraged loan volumes have shrunk considerably less than their investment grade counterparts, recording a 13% drop year-on-year, as compared to 41% for investment grade according to Dealogic figures. Should leveraged loan volumes contract this year at a higher rate, this would provide an additional impetus for HY issuance.

Figure 22. € HY Issuance



Source: Citi Research, Dealogic

Figure 23. EUR-USD 5yr Basis Swap
Bp



Source: Citi Research, Bloomberg

The second is the quantity of LBO-driven issuance. Although the LBO creation that drove up HY supply volumes in the past is still lacklustre, and we expect it to remain so given the dearth of willing equity sponsors, there will nonetheless be a considerable amount of re-financing for leveraged deals that took place pre-crisis.

A further question for € HY issuance volumes this year is the extent to which European corporates will launch high yield issues in \$. The \$15bn of HY issuance by European corporates this year is the highest figure on record, and we expect to see the high volumes continue in 2013. However, given the relative improvement in conditions in the European market over the past few months, as reflected in the compression of spreads between US and European HY indices, we think that € will be the currency of choice for most European issuers in 2013. This trend will be augmented by the fact that the basis swap is now considerably less negative than it has been in the past (Figure 23), giving European names less incentive to launch issues in USD.

However, the HY market will be particularly susceptible to the volatility we are expecting in Europe this year. We believe there is a non-negligible chance that large Spanish corporates will be downgraded below investment grade, and should this happen, the volume of new HY debt flooding the market would almost certainly impact demand for new issues denominated in €, and would therefore increase the proportion of deals done by European corporates in \$.

Sterling Supply

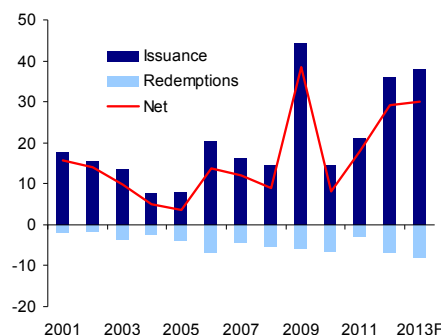
Figure 24. GBP Corporate Supply, 2013 Projections, £bn

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	Covered	15	17	13%	1	16

Source: Citi Research, Dealogic

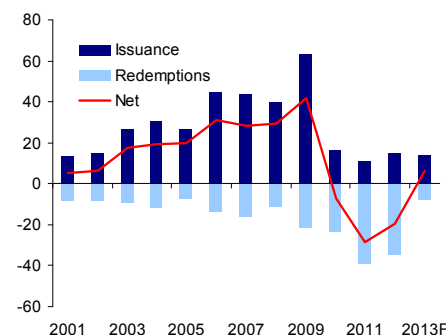
Sterling unsecured financial issuance in 2013 will be subject to many of the same pressures experienced by that in euros. Once again, we expect elevated non-financial issuance (Figure 25), at £38bn (compared to £36bn in 2012), with an expansion in the gross figure relative to last year due to the attraction of sterling issuance for overseas borrowers. We expect unsecured financial issuance, however, to be more muted (Figure 26). The £14bn we expect is slightly below the £15bn seen in 2012.

Figure 25. £ Non-Financial Issuance
£bn



Source: Citi Research, Dealogic

Figure 26. £ Unsecured Financial Issuance
£bn



Source: Citi Research, Dealogic

Bank deleveraging against a backdrop of economic stagnation and negative credit growth has diminished the incentive for bank issuance. However, given the depleted maturity schedule, the £14bn of issuance that we do expect would push the net figure into positive territory for the first time since 2009.

The frequently opportunistic nature of sterling financial issuance renders the total hard to predict, and, as opposed to European banks, we expect UK banks to continue their preference towards covered issuance in light of the elevated differential in spread levels from unsecured debt, thanks to UK regulators' more aggressive stance on bail-in. We thus expect to see a repeat of 2012's elevated issuance total for covered bonds, with £17bn to be issued compared to £15bn this year.

The key uncertainty for all of our sterling forecasts is the degree to which non-UK names choose to issue in the UK. The natural need for funding from UK issuers is relatively steady and, as opposed to the heavy pace of € redemptions over the next two years, the maturity profile of sterling-denominated debt is relatively light. There is only £23bn of £-denominated non-financial debt coming due over the next three years, so pre-funding should only play a limited role in determining the issuance total over 2012.

An average of 41% of the total figure for £-denominated non-financial issuance over the last ten years has come from issuers outside of the UK, and we expect at least a similar ratio to be maintained this year, with a total of £38bn to be issued, relative to £36bn in 2012.

The total figure this year is thus highly dependent on how US and European swap curves play out relative to those in GBP – the steeper US curves of late have incentivised international corporates to issue in sterling and, should they remain this way we are likely to continue to see a continued trend of international names launching sterling issues. Given the UK's high proportion of pension and insurance investors, the receptiveness of the market to long-dated issues will continue and this will serve as a key attraction for overseas investors in our view.

Appendix A-1

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