Meeting with HSBC CEO

You are meeting with [insert name] of HSBC Continental Europe, in the margins of BNP Paribas’ Global Official Institutions Conference. [insert name] will accompany you in this meeting.

In your meeting, you can acknowledge HSBC’s contribution to the success of the EU funding programme in recent years, in particular via their performance in the primary and secondary markets for EU bonds. You can also note that the dealer provide the EU funding team with personalised and timely market updates, and supports the team with its investor outreach activities.

Role of the HSBC as primary dealer

Main message

- [insert message]

- Your meeting is a good opportunity to:
  - Thank HSBC for the valuable support they provided the EU when putting together the EU’s first investor survey (the survey went live on 7th June and will run until the 7th July);
- [insert additional points]
o Reiterate the strong budgetary backing for EU bonds, as reflected by the EU’s very high credit ratings and as underpinned by the membership contract between each MS and EU. Under this contract, each Member State is on call for its share of EU spending needs up to the Own Resource ceiling. This commitment means that the EU is always equipped to meet its payment obligations. It is important that investors focus on this bottom-line as the EU heads into challenging discussions on the annual budget for the remainder of the period 24-27.

On HSBC’s participation in the Primary Dealer Network:

• HSBC is a [insert name] and has made a strong contribution to the success of NGEU implementation to date. HSBC has been a member of the EU Primary Dealer Network since the Network’s inception in May 2021.

On HSBC’s support for EU investor outreach

• HSBC is a valued partner in our investor outreach activities,

EU bond allocations to HSBC

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Biography

Source: | LinkedIn
Contact(s) – briefing contribution: BUDG (DG) - [BUDG E3]
Annex 1: LTTs on Borrowing and Lending

On EU borrowing operations

- To finance NGEU the Commission implemented a new funding strategy modelled on the approach used by DE and other large euro-area sovereign issuers. The unified funding approach has been successful in raising the required funds as and when needed, on favourable rates for the amounts involved. As of 1 June 2023, almost EUR 200 billion has been raised under the unified funding approach to finance NextGenerationEU and MFA+ to Ukraine.

- This flexible and cost-efficient debt management system is now also being used to raise funds for Ukraine (EUR 18bn in 2023).

- This issuance programme has met with strong investor support (over 1,600 investors in 70 countries), reflecting the inherent creditworthiness of EU debt backed by the Union budget, the increasing liquidity of the programme and the predictable/sound execution of transactions. We have also launched a successful NGEU Green Bond programme which has raised over EUR 44bn to date.

- The Commission will issue its funding plan for H2 2023 by end of June.

- The Commission is continuing to build on the ecosystem of EU bonds and is currently working on putting in place mechanisms to facilitate further trading of EU-Bonds in the secondary market, and price discovery through appropriate platforms.

Interest rate costs

- As a result of the Russian invasion of Ukraine, and subsequent energy crisis, interest rates have risen sharply since the start of 2022, not only for the EU but for all (sovereign) issuers. Most of the rise in EU rates is explained by the general increase in rates, driven by monetary policy and affecting all sovereign and other issuers alike. EU rates have increased more than European sovereign issuers recently because the EU is not traded and priced the same way as sovereign debt.

- This means that interest rate costs of the EU are exceeding the original planning embedded in the MFF back in 2020 when markets were in a very different situation. The Commission is using the available flexibilities in the budget to address these needs.

- The evolution of costs is constantly monitored and factored into the Commission budgetary planning. However, providing precise estimates is not possible due to the inherent uncertain nature of these costs (due varying disbursement amounts and future interest rates). Estimates in the draft budget 2024 are based on information available at the moment of adoption— further precision will be added during the conciliation process through Q3/Q4 2023. For the same reason, costs beyond 2024 are even less predictable given the longer time horizons which amplify uncertainty.

On the investor survey:

- On 7 June, the EU has invited the investor community to participate in its inaugural investor survey.
The survey aims to gather information from the global investor community with the goal of identifying and addressing questions on the EU’s borrowing activities and its status as an issuer.

The survey runs until 7th July. The Commission will publish a summary of responses received.

**On ECA report on debt management operations:**

- The Commission welcomes the ECA report on debt management (published on 12th June), which provides a comprehensive review of the set up and management of EU’s funding operations to date, accompanied by useful recommendations for future actions.

- In particular, the Commission welcomes ECA’s conclusion that the Commission quickly developed a debt management system which allowed the funds required for NextGenerationEU to be borrowed in a timely fashion and at borrowing costs reflecting the Commission’s market position. We also welcome the conclusion that Commission met all key regulatory requirements concerning debt portfolio and risk management.

- [Also Bruegel has recently written a paper on the NGEU funding operations, saying that “to issue efficiently such a large amount of EU debt, the European Commission quickly built a comprehensive borrowing strategy, based on the best practices of major EU issuers, using a mixture of syndicated transactions and auctions and relying on a large primary dealer network.”]

- The Commission takes also good note of ECA’s recommendation, namely ECA’s recommendation for: (i) establishing a separate middle-office function; (ii) reinforcing the role of the Chief Risk Officer; (iii) implementing a workforce strategy; (iv) formulating clear debt management objectives and related report; and (v) ensuring consistency on internal documentation.

- The Commission is already working to make them happen.
Annex 2: Market conditions and performance of EU bonds over May 2023

Summary

• May started with Fed and ECB hiking interest rates by 25bp each

• Later in the month, markets exhibited a broader risk-off mood exacerbated by: US debt ceiling negotiations, consistently higher levels of inflation, recessionary threats and less positive demand figures out of re-opened China. As a result, there was a flight to quality, leading to a reduction of bond yields as investors sought to reallocate from risky assets to bonds.

• As a consequence of a month of two halves, the European Government Bond yields thus initially rose strongly, to only decline sharply towards the end of the month, ending the month almost unchanged.

• The interest rate on the German 10yr bond, a market benchmark, was quoted at around 2.310% at the beginning of May, while it ended the month at 2.28% (around 26bp lower than its intra-month peak). For EU bonds, while intra-month swings were as high as 23bp (in April it was around 35bp), the interest rate on 10yr EU bonds decreased by around 2bp over the month of May, resulting in a rate of 2.964% at the end of the month.

• During May, the EU successfully syndicated a EUR 3bn tap of its December 2029 bond combined with a EUR 4bn November 2042 tap. With demand outstripping supply by more than 14x for Nov-29 and 13x for Dec-42, the EU continues to have strong market access throughout the entire curve.

General market background:

• In the US, the Fed delivered a well-anticipated 25bp rate hike. While any kind of information about the likely future course of monetary policy was removed from Fed official statement, as upcoming steps will be data dependent, Fed Chair Powell firmly pushed back on near-term interest rate cuts.

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Later in the month, markets exhibited a broader risk-off mood exacerbated by key global events: US debt ceiling negotiations (which have caused US to be put “on watch” by Fitch), consistently higher inflation prints, recessionary threats (Germany GDP), less positive macroeconomic figures out of re-opened China. The combination of these factors led to flight to quality and to a reduction of bond yields.

As a consequence of the month of two halves, the European Government Bond yields initially rose strongly, before ending the month almost unchanged.

For example, the German 10yr yield was quoted at around 2.310% at the beginning of May, picked at around 2.537% and ended the month at 2.28%. At the same time short end rates increased relative to long end rates, driven by expected interest rate hikes due to sticky inflation and expectations for compressed future growth in the longer term.

Figure 1: The 10-year German government bond rate, a widely used benchmark for EUR interest rates.

Despite markets adjusting to recent macroeconomic data in volatile manner, the EU continued to make good progress on its funding plan, issuing around EUR 13.4bn of long term funding in the month of May across one auction and one bond syndication.

Data should be interpreted with care, as many factors beyond the control of the European Commission can impact the metrics, e.g. issuance of new reference bonds, amendments of our issuance plans and of the issuance plans of our peer issuers, seasonal effects and the outright market environment.
The secondary market has been seen absorbing well the recent supply with buying and selling activity both from intermediary traders and real-money accounts.

Finally, it is noted that while market volatility is persistent as investors’ decisions are strongly driven by various economic data prints trying in order to gauge upcoming moves from central banks, the EU continues to have solid market access. This is evidenced by the investors support to EU transactions, comprising of auctions and syndications.

Figure 2: Evolution of 10yr yield for the EU and selected SSA issuers
Figure 3: Evolution of 5yr yield for EU, Germany and France

Figure 4: Evolution of 10yr yield for EU, Germany and France

Figure 5: Evolution of 30yr yield for EU, Germany and France