FOCUS · The euro area: corporate bond issuances are starting 2017 in good shape

The international corporate bond markets have looked very strong in the last few years. The euro area is a case in point: bonds issued by non-financial firms totalled 1.04 trillion euros in the period 2013-2015 compared with 0.86 trillion in 2010-2012 and 0.52 trillion in 2004-2006. This boom in bonds did not change in 2016, as shown by the 0.39 trillion issued up to November, a figure that is higher than the volume recorded for the whole of 2015. Both demand and supply conditions suggest this upward pattern in issuance in the euro area will continue in 2017.

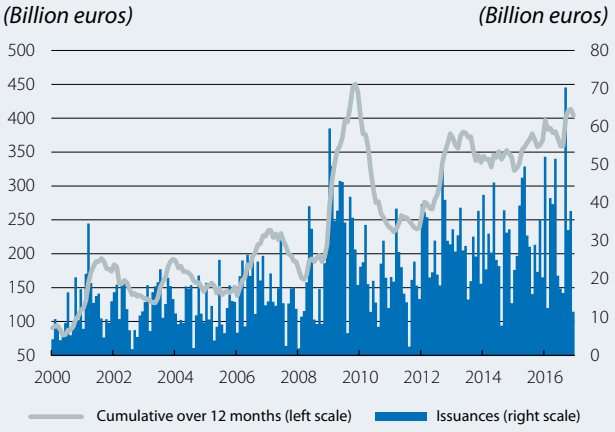
This strong demand for corporate bonds is likely to continue thanks to the inestimable help of the central banks. Since 2009, monetary policies of ultra-low (and even negative) interest rates have boosted the demand for bonds at an international level and numerous investors have been tempted to search for yield in assets such as corporate bonds. In the case of the euro area, this has been a key factor in the success of a market that, historically, had tended to play a second fiddle to public debt, the stock market and bank loans. This process has been accentuated with the implementation of unconventional monetary policies. The start-up of the ECB's corporate bond purchase programme last spring revitalised the rate of issuances, which had slowed down in the early months of 2016. Although they may diminish slightly, these forces will continue to boost bonds in 2017. Firstly because the ECB's sovereign and corporate bond purchase programmes will continue as before. Secondly because 2017 will more than likely be the first year that issuers and investors will glimpse the start of tapering in the euro area, reducing monetary stimuli. Given this situation, companies are likely to intensify their use of the capital markets before financing costs go up. This now takes us to the supply conditions.

The trend in corporate balance sheets and companies' «capital allocation policies» also favour continued and decisive use of the bond market. Regarding corporate balance sheets, although it should be admitted that listed European companies may not have completed their particular deleveraging, it is nevertheless undeniable that this process is very much in an advanced stage. Moreover, corporate balance sheets are remarkably solid and corporate debt default is very contained, around 2%. All this suggests that the rate of corporate bond issuances will not slacken, especially as the debt maturing in 2017 does not seem too extreme.

Current trends in «capital allocation policies» seem to back up this positive view of the primary corporate bond market. Broadly speaking, companies can employ their financial resources (both those generated internally and also those obtained externally by taking out loans or by issuing shares and bonds) in five ways: investing in capital (capex), through mergers and acquisitions with other companies (M&A), by repaying debt or by distributing their resources to shareholders via dividends or share buybacks. The likely moderation in capex and the reluctance of companies in the euro area to carry out share buybacks do not suggest an increase in bond issuances. However, both dividend payments and especially a resurgence in M&A will certainly be powerful drivers. For some quarters now it has been noted that European companies are resorting to inorganic growth strategies, which tend to involve more bond issuances, especially if we remember that, historically, mergers and acquisitions have become the main destination for resources among the five areas mentioned above (now with a share of around 40%).

In summary, the euro area's primary bond market will continue to enjoy tailwinds in 2017.

Euro area: corporate bond issuances *



Note: ** Senior debt issuances with maturities over two years of non-financial corporations established in the euro area.*
Source: *CaixaBank Research, based on Bloomberg data.*