

European CLOs emerge as gilt-y pleasure for US investors amid record b-wic volume

by Michelle D'souza

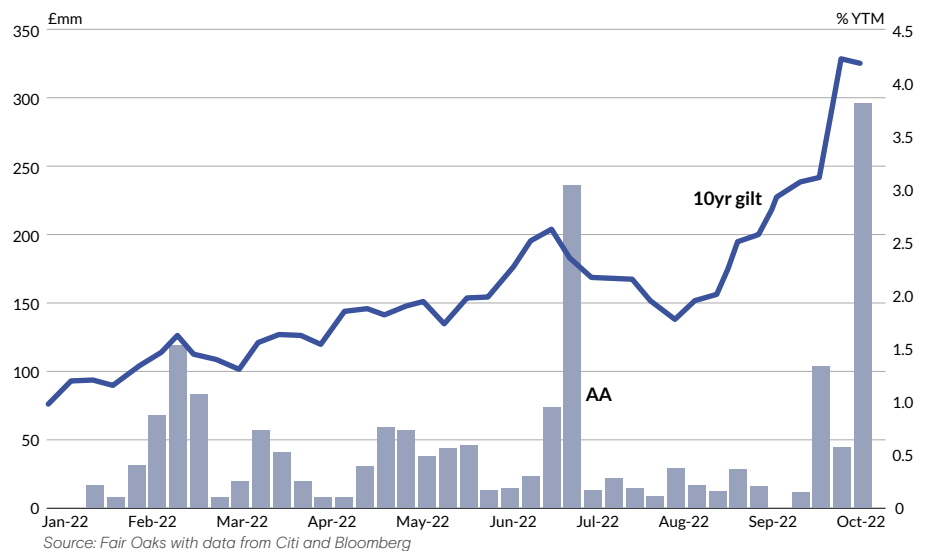
European CLO b-wics have flooded the market this week with sources indicating elevated supply on Wednesday and Thursday resulted in some of the busiest days on record.

Officials at Bank of America, led by European CLO trading head Andrew Goldstone, tell *Creditflux* their weekly trading volume approached €1 billion. In a positive sign for the market, there is strong investor demand, with BofA able to cross many of the bonds it bought to the buy side. Sources say much of the demand is coming from US investors.

According to one trader, at least €540 million of European CLO paper was on the auction block on Wednesday and, as *Creditflux* goes to press, around €600 million was auctioned on Thursday.

Trading volume largely stems from the price of UK gilts falling, with UK asset managers and real money accounts liquidating parts of their structured credit portfolios, sources say. The resulting price drops caused contagion across the market, causing other CLO investors to sell based on the ensuing volatility.

€AA weekly BWIC volumes vs 10yr UKT YTM



According to one CLO investor: "A lot of UK asset managers oversee liability-driven investing mandates from defined contribution pension schemes and these are through swaps. But these swaps are

mark-to-market instruments, so every time the deals go up, the pension funds have to post more collateral."

Quarter-end may have been another reason for some of the selling in the

market, according to a third CLO investor.

“Some of the hedge funds we saw selling aren’t keen to show losses at quarter end on assets which may or may not be part of the core strategy,” he says. “If you have a long-short credit fund, do you want to show single B CLO exposure down 10 points?”

The plethora of European CLO tranches has been lapped up by investors based in the US, sources say. This appears to be the latest example of US interest in euro-denominated paper, with *Creditflux* reporting yesterday that a Golub mid-market US CLO featured a euro tranche.

BofA trades almost €1 billion

For some traders, this has been a record week.

BofA’s Goldstone tells us BofA’s European CLO desk “traded more than €600 million today (29 September) across 60 plus tickets, which brought our weekly trading volume close to €1 billion traded. The majority of trading was crossed to end buyers.”

European CLO triple A, double As and single A paper dominated, but sources say that has been met with some “pretty tremendous client demand” at the same time so it’s been an interesting trading dynamic.

Fair Oaks Capital portfolio manager Barry Povey agrees.

“LDI-driven flows can be potentially identified in double A b-wic volumes (given the increased concentration of the investor base in this tranche),” Povey says. “Market

colour suggests the spike in volumes in June/July and late-September may have also been partly the result of LDI related cash needs following rate rises.”

Spreads have been somewhat erratic given the huge swathes of supply, but triple As have largely been clearing in 275bp-325bp discount margin range, compared to the 200bp area in primary. Double As have been a little bit more range bound but 350-450bp for most profiles, which is a touch wide of primary.

Single As are in the high 400s to low 600s depending on the cash price, triple Bs in the low 600s to mid-high 700s depending on profile, while double Bs have been 1,000s-1,200s. Single Bs have not been as liquid, but are in the 1,600-1,800 range.

Equity CLO b-wics, meanwhile, are scarce.

One large European CLO investor says secondary paper looks particularly attractive.

“If I have a choice today between buying a discounted secondary piece of triple A or double A paper in the market versus buying in primary at close to par and five or six weeks to settlement, secondary becomes an interesting option,” he says.

Another investor says now is an interesting time for anyone not looking at CLOs to take a look given better relative value across other products or even CLOs in the US due to the supply demand imbalance.

€540m

Estimated total European CLO paper on the auction block on 28 September