CHF-denominated bonds: seizing the opportunities this attractive market has to offer

Bonds denominated in Swiss francs are becoming more attractive, with the number of first-time issuers discovering the benefits of the Swiss bond market increasing.

Since 2007, flexible investors and a transparent secondary market have been responsible for increasing the volume of new issues on the Swiss franc bond market, to the equivalent of more than EUR 61 billion. In particular, bonds issued by industrial companies and financial institutions have shown continuous growth.

Over the past two years, more than 30 first-time issuers have taken advantage of this development. Adecco, for example, one of the world’s largest providers of HR services, entered the market with an 8.4-year, CHF 100 million bond, and HeidelbergCement placed a CHF 150 million bond with a maturity of six years. These are just two recent examples of successful CHF bond issues.

The strong performance of the CHF bond market is no coincidence: Switzerland is a major economic centre in the heart of Europe, with its own currency. It enjoys an excellent reputation as a safe haven among many investors. Most CHF bonds are settled through SIX Swiss Exchange and not over the counter, as is common practice in most other countries. Transparency regulations are tight: there are no exceptions from the reporting requirement for secondary-market turnover, which must be reported to the exchange and published on a regular basis – thereby providing market participants with the information they require to make investment decisions with more confidence.

Furthermore, the minimum issue volume for bonds to be included in key indices is as low as CHF 100 million – triggering demand from pension funds and asset managers. For issuers, CHF bonds are a long-term financing option, given their average maturity of 6.8 years.

A special feature of the CHF bond market is the share of public sector issuers, which is significantly lower than in other bond markets. Following a more stringent fiscal policy adopted by the Swiss Confederation, its cantons and municipalities, the aggregate volume of outstanding public bonds has continuously declined over the past six years, to EUR 5.7 billion in 2012. The market share of foreign and Swiss issuers is almost equal, making it easy for issuers based outside Switzerland to position themselves well.
The low interest rate environment requires investors to compromise on quality

For Swiss franc investors, quality has always been an important issue. Their focus is on issues with a first-class rating, from economically and politically stable regions like Scandinavia or the EU core countries. But now the tables have turned: it has become increasingly difficult for investors to generate reasonable returns.

In 2010, when five-year swap rates were still at around 2.5%, pension funds and insurance companies needed a spread of 150 basis points to generate a coupon of 4%. Now, at an underlying yield of 0.50%, the coupon requires a spread of 350 basis points, forcing investors to lower their demands on quality.

This trend becomes clear when comparing corporate issue ratings of the past years. While in 2009 55% of all issues were rated AA, in 2012 less than 50% received this grade. During the same period, the share of BBB-rated issuers rose from less than 15% to over 40%.

National and international corporate issues have been – and continue to be – very popular, as they meet investor demands for regional and sector diversification. They also usually offer higher yields than bank bonds.

To ensure that Swiss-franc investors are willing to compromise on quality and include lower-rated issues in their portfolios, there is an increased need for issuers to be transparent, as their business models will be critically analysed and more closely scrutinised.

Advantages for issuers: a broader investor base and more flexibility

One of the main advantages Switzerland offers for issuers is its investor base. Insurance companies, pension funds and private wealth managers from Switzerland invest large parts of their portfolios in their home currency. To be included in their investment universe requires regular issuance and a reliable secondary market curve; issuers also need to hold investor roadshows on a regular basis. Thanks to a low absolute interest rate level, even bonds at the long and ultra-long end of the maturity spectrum can be successfully placed. Often, issuers also benefit from funding advantages compared to their home currency.

With a relatively small minimum size for benchmark transactions of CHF 100 million, the Swiss market offers significant leeway in terms of issue volume.
Commerzbank expands its franchise in Switzerland

Commerzbank has been present in the Swiss market since 1985, and has advised Swiss corporate clients from Germany for decades. Our Zurich branch was established in 2003, and focuses on corporate banking covering the complete range of services for corporate clients including: corporate finance, strategic financing including debt and equity capital markets, M&A, hedging strategies for currencies, interest rates and commodities exposures, international payments services and cash management solutions.

Our Team: experience and expertise
Roland King, Head of DCM Bonds Switzerland, has over 30 years experience in the CHF market. He has held various positions on the trading and sales desks of a number of financial institutions, and has been instrumental in the successful placing of numerous issues.

Stefan Bösl is responsible for the cooperation between Commerzbank and Basler Kantonalbank in the area of CHF bonds. He has gained experience in fixed-income sales, origination and syndication, working for UniCredit and Bayerische Landesbank before joining Commerzbank.

Most recently, he has been focused on the origination of benchmark bonds for financial institutions and agency issuers in German-speaking countries.

Christian Haux joined Commerzbank from Credit Suisse to help build the CHF franchise on the trading side. He has worked in different positions in credit trading, structured product sales, and repo trading.

Martin Sauser has been active in the CHF market for more than 25 years and is especially well-connected in sales. He also has a wealth of experience in trading and syndication. Prior to Commerzbank he held various positions at Bank Sarasin & Cie., Société Générale and Basler Kantonalbank.

Contact
Roland King,
Head of DCM Bonds Switzerland

Tel. +41 44 563 6997
roland.king@commerzbank.com

Commerzbank AG
Corporates & Markets
Zürich Branch
Address: Utoquai 55, 8034 Zurich